The Narraganset Electric Company

Financial Statements

For the years ended March 31, 2011 and March 31, 2010

THE NARRAGANSETT ELECTRIC COMPANY

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Report of Independent Auditors

To the Stockholders and Board of Directors of
Narragansett Electric Company:

In our opinion, the accompanying balance sheets and related statements of income, of comprehensive income, of retained earnings, of capitalization and of cash flows present fairly, in all material respects, the financial position of Narragansett Electric Company (the "Company") at March 31, 2011 and 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 28, 2011

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS

(in thousands of dollars, except per share and number of shares data)	**March 31,**	
	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	**$ 11,861**	$ 13,149
Restricted cash	**47,108**	68,443
Accounts receivable	**217,017**	217,830
Allowance for doubtful accounts	**(36,481)**	(33,679)
Accounts receivable from affiliates, net	**-**	5,756
Unbilled revenues	**69,688**	60,408
Gas storage, at average cost	**14,564**	17,795
Materials and supplies, at average cost	**7,478**	8,576
Derivative contracts	**483**	1,218
Regulatory assets	**25,807**	40,810
Prepaid and other current assets	**58,720**	99,090
Current deferred income tax assets	**16,230**	3,447
Total current assets	**432,475**	502,843
Property, plant, and equipment, net	**1,631,204**	1,435,116
Deferred charges		
Regulatory assets	**262,344**	287,237
Goodwill	**724,810**	724,810
Derivative contracts	**1,022**	94
Other deferred charges	**11,880**	12,187
Total deferred charges	**1,000,056**	1,024,328
Total assets	**$ 3,063,735**	$ 2,962,287

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

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS

(in thousands of dollars, except per share and number of shares data)	March 31,	
	2011	2010
LIABILITIES AND CAPITALIZATION		
Current liabilities		
Accounts payable	**$ 125,238**	$ 104,871
Accounts payable to affiliates, net	**23,467**	-
Current portion of long-term debt	**1,375**	1,375
Intercompany money pool	**24,000**	70,975
Taxes accrued	**7,620**	5,823
Customer deposits	**8,892**	7,856
Interest accrued	**4,170**	2,601
Regulatory liabilities	**463**	821
Derivative contracts	**25,947**	41,211
Other current liabilities	**67,584**	43,794
Total current liabilities	**288,756**	279,327
Deferred credits and other liabilities		
Regulatory liabilities	**214,191**	213,251
Deferred income tax liabilities	**228,257**	184,372
Derivative contracts	**2,109**	11,089
Postretirement benefits and other reserves	**156,206**	191,317
Environmental remediation costs	**126,182**	121,449
Other deferred liabilities	**65,729**	41,873
Total deferred credits and other liabilities	**792,674**	763,351
Capitalization		
Common stock, par value $50 per share, issued and outstanding 1,132,487 shares	**56,624**	56,624
Cumulative preferred stock, par value $50 per share, issued and outstanding 49,089 shares	**2,454**	2,454
Additional paid-in capital	**1,353,559**	1,353,559
Retained earnings	**59,996**	17,598
Accumulated other comprehensive losses	**(94,667)**	(116,340)
Total stockholder's equity	**1,377,966**	1,313,895
Long-term debt	**604,339**	605,714
Total capitalization	**1,982,305**	1,919,609
Total liabilities and capitalization	**$ 3,063,735**	$ 2,962,287

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF INCOME

(in thousand of dollars)	Years Ended March 31,	
	2011	2010
Revenues		
Electric services	**$ 882,949**	$ 879,069
Gas services	**482,179**	464,325
Total operating revenues	**1,365,128**	1,343,394
Operating expenses		
Electricity purchased for resale	**447,620**	478,213
Gas purchased for resale	**308,761**	300,528
Contract termination charges from affiliates	**5,060**	14,725
Operations and maintenance	**350,050**	346,417
Depreciation and amortization	**69,053**	66,205
Amortization of regulatory assets	**1,993**	1,993
Other taxes	**87,937**	87,533
Total operating expenses	**1,270,474**	1,295,614
Operating income	**94,654**	47,780
Other income and (deductions)		
Interest on long-term debt	**(35,528)**	(6,718)
Other interest, including affiliate interest	**(1,877)**	(4,357)
Other income	**1,916**	2,563
Total other deductions	**(35,489)**	(8,512)
Income taxes		
Current	**(895)**	(72,063)
Deferred	**17,552**	91,770
Total income taxes	**16,657**	19,707
Net income	**$ 42,508**	$ 19,561

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS

(in thousands of dollars)	Years Ended March 31, 2011	Years Ended March 31, 2010
Operating activities		
Net income	**$ 42,508**	19,561
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**69,053**	66,205
Amortization of regulatory assets	**1,993**	1,993
Provision for deferred income taxes	**17,552**	91,770
Other non-cash items	**27,264**	(21,687)
Net prepayments and other amortizations	**181**	161
Net environmental payment	**(7,846)**	(5,950)
Changes in operating assets and liabilities:		
Accounts receivable, net	**(3,204)**	51,962
Gas storage and materials	**4,329**	(6,984)
Accounts payable and accrued expenses	**1,338**	(17,307)
Prepaid taxes and accruals	**58,427**	(67,807)
Accounts payable and receivable affiliates, net	**29,223**	(8,337)
Treasury lock settlement	**-**	(10,213)
Other, net	**21,487**	10,222
Net cash provided by operating activities	**262,305**	103,589
Investing activities		
Capital expenditures	**(223,374)**	(154,681)
Change in restricted cash	**21,335**	23,237
Other, including cost of removal	**(13,094)**	(13,243)
Net cash used in investing activities	**(215,133)**	(144,687)
Financing activities		
Dividends paid on preferred stock	**(110)**	(110)
Dividend paid to Parent	**-**	(320,000)
Debt issuance costs	**-**	(3,250)
Payments on long-term debt obligation	**(1,375)**	(1,375)
Proceeds from long-term debt	**-**	550,000
Changes in intercompany moneypool	**(46,975)**	(188,650)
Net cash (used in) provided by financing activities	**(48,460)**	36,615
Net decrease in cash and cash equivalents	**(1,288)**	(4,483)
Cash and cash equivalents, beginning of year	**13,149**	17,632
Cash and cash equivalents, end of year	**$ 11,861**	13,149
Supplemental information		
Interest paid	**$ 38,028**	$ 8,265
Taxes (refunded from) paid to Parent	**$ (59,089)**	$ 6
Capital-related accruals included in accounts payable	**$ 20,598**	$ 3,595

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF COMPREHENSIVE INCOME

(in thousand of dollars)	**Years Ended March 31,**	
	2011	2010
Net Income	**$ 42,508**	$ 19,561
Other comprehensive income (loss), net of taxes		
Unrealized gains on investments	**147**	444
Unrealized gains (losses) on hedges	**483**	(6,585)
Change in pension and other postretirement obligations	**21,151**	8,654
Reclassification adjustment for losses included in net income	**(108)**	(93)
Change in other comprehensive income	**21,673**	2,420
Total comprehensive income	**64,181**	21,981
Related tax (expense) benefit		
Unrealized gains on investments	**(79)**	(239)
Unrealized gains (losses) on hedges	**(260)**	3,546
Change in pension and other postretirement obligations	**(11,389)**	(4,660)
Reclassification adjustment for losses included in net income	**58**	50
Total tax expenses	**$ (11,670)**	$ (1,303)

STATEMENTS OF RETAINED EARNINGS

(in thousand of dollars)	**Years Ended March 31,**	
	2011	2010
Retained earnings, beginning of year	**$ 17,598**	$ 318,147
Net income	**42,508**	19,561
Dividends paid on preferred stock	**(110)**	(110)
Dividend paid to Parent	**-**	(320,000)
Retained earnings. end of year	**$ 59,996**	$ 17,598

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CAPITALIZATION

(in thousands of dollars, except per share and number of shares data)			March 31,	
	2011	2010	**2011**	2010
Stockholder's equity	**Shares Issued and Outstanding**		**Amounts**	
Common stock, $50 par value	**1,132,487**	1,132,487	**$ 56,624**	$ 56,624
Cumulative preferred stock, $50 par value	**49,089**	49,089	**2,454**	2,454
Additional paid-in capital			**1,353,559**	1,353,559
Retained earnings			**59,996**	17,598
Accumulated other comprehensive losses			**(94,667)**	(116,340)
Total stockholder's equity			**$ 1,377,966**	$ 1,313,895
Long-term debt	**Interest Rate**	**Maturity Date**	**Amounts**	
Unsecured notes:				
Senior Note	4.534%	March 15, 2020	**$ 250,000**	$ 250,000
Senior Note	5.638%	March 15, 2040	**300,000**	300,000
First mortgage bonds:				
FMB Series S	6.820%	April 1, 2018	**14,464**	14,464
FMB Series N	9.630%	May 30, 2020	**10,000**	10,000
FMB Series O	8.460%	September 30, 2022	**12,500**	12,500
FMB Series P	8.090%	September 30, 2022	**7,500**	8,125
FMB Series R	7.500%	December 15, 2025	**11,250**	12,000
Total long-term debt			**605,714**	607,089
Long-term debt due within a year			**1,375**	1,375
Total long-term debt, excluding current portion			**604,339**	605,714
Total capitalization			**$ 1,982,305**	$ 1,919,609

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

The Narragansett Electric Company (the "Company", "we", "us" and "our") is a retail distribution company providing electric service to approximately 489,000 customers and gas service to approximately 249,000 customers in 38 cities and towns in Rhode Island. The Company's service area covers approximately 99% of Rhode Island.

The Company 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 in New England and New York State. NGUSA is an indirectly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

B. Basis of Presentation

The Company's accounting policies conform to accounting principles generally accepted in the United States of America ("GAAP") including the accounting principles for rate-regulated entities, and are in accordance with the accounting requirements and ratemaking practices of the applicable regulatory authorities.

The accounts of the Company are maintained in accordance with the Uniform System of Accounts prescribed by the regulatory bodies having jurisdiction.

The preparation of financial statements in conformity with 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 could differ from those estimates.

C. Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC"), the Rhode Island Public Utilities Commission ("RIPUC") and the Rhode Island Division of Public Utilities and Carriers ("Division') provide the final determination of the rates the Company charges our customers. In certain cases, the actions of the FERC, the RIPUC, or the Division would result in an accounting treatment different from that used by non-regulated companies to determine the rates the Company charges our customers. In this case, the Company is required to defer the recognition of costs (a regulatory asset) or the recognition of obligations (a regulatory liability) if it is probable that, through the rate-making process, there will be a corresponding increase or decrease in future rates.

In the event the Company determines that its net regulatory assets are not probable of recovery, the Company would be required to record an after-tax, non-cash charge against income for any remaining regulatory assets and liabilities. The impact could be material to the Company's reported financial condition and results of operations.

D. Revenue Recognition

Revenues are based on billing rates authorized by the RIPUC. The Company follows the policy of accruing the estimated amount of revenues for electricity and gas delivered but not yet billed ("unbilled revenues"), to match costs and revenues more closely. The unbilled revenues at March 31, 2011 and March 31, 2010 were approximately $69.7 million and $60.4 million, respectively. The Company records revenue in an amount management believes to be recoverable pursuant to provisions of approved tariffs, settlement agreements and state legislation. The Company defers for future recovery from or refund to electric and gas customers the difference between revenue and expenses from energy conservation programs, standard offer service, transmission service, and contract termination charges ("CTC").

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

The gas distribution business is influenced by seasonal weather conditions. Annual revenues are principally realized during the heating season (November through April) as a result of the large proportion of heating sales in these months. Accordingly, results of operations are most favorable in the first calendar quarter of the year, followed by the fourth calendar quarter. Operating losses are generally incurred in the second and third calendar quarters.

During the years ended March 31, 2011 and March 31, 2010, 57% and 51% of the Company's revenue from the sale and delivery of electricity was derived from residential customers, 37% and 41% from commercial customers, and 6% and 8% from industrial customers, respectively.

During the years ended March 31, 2011 and March 31, 2010, 70% of the Company's revenue from the sale and delivery of natural gas was derived from residential customers, 26% from commercial customers, and 4% from industrial customers.

E. Property, Plant and Equipment

Property, plant, and equipment are 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 and Allowance for Funds Used during Construction ("AFUDC"). 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 is retired, its original cost, together with cost of removal, less salvage, is charged to accumulated depreciation.

F. Goodwill

Goodwill represents the excess of the purchases price of a business combination over the fair value of the tangible and intangible assets acquired, net of the fair value of liabilities assumed and the fair value of any non-controlling interest in the acquisition. The Company tests goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist.

The goodwill impairment analysis is comprised of two steps. In the first step, the Company compares the fair value of each reporting unit to its carrying value. The Company can consider both an income-based approach using projected discounted cash flows and a market-based approach using valuation multiples of comparable companies to determine fair value. The Company's estimate of fair value of each reporting unit is based on a number of subjective factors including: (i) the appropriate weighting of valuation approaches (income-based approach and market-based approach), (ii) estimates of the future revenue and cash flow, (iii) discount rate for estimated cash flows, (iv) selection of peer group companies for the market-based approach, (v) required levels of working capital, (vi) assumed terminal value, (vii) the time horizon of cash flow forecasts and (viii) control premium.

If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to the unit, goodwill is not considered impaired and no further analysis is required to be performed. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value, then a second step is performed to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The Company utilizes a discounted cash flow approach incorporating its most recent business plan forecasts together with a projected terminal year calculation in the performance of the annual goodwill impairment test. Critical assumptions used in the Company's analysis include a discount rate of 5.9% and a terminal year growth rate of 2.4% based upon expected long-term average growth rates. Within its calculation of forecasted returns, the Company made certain assumptions with respect to the amount of pension and environmental costs to be recovered in future periods. Should the Company not continue to receive the same level of recovery in these areas, the result could be a reduction in fair value of the Company, which in turn could give rise to an impairment of goodwill. Our forecasts assume long-term recovery and rate of returns that are in line with historical levels within the utility industry. The resulting fair value of the annual analysis determined that no adjustment of the goodwill carrying value was required at March 31, 2011 and March 31, 2010.

G. Cash and Cash Equivalents

The Company classifies short-term investments that are highly liquid and have maturities of three months or less at the date of purchase as cash equivalents. These short-term investments are carried at cost which approximates fair value.

H. Restricted Cash

Restricted cash consists primarily of collateral paid to our counterparties for the outstanding derivative contracts. Deposits are also recorded for property, health insurance, and worker's compensation. At March 31, 2011 and March 31, 2010, $20 million and $11 million, respectively, was required by the Independent System Operator ("ISO") to be on deposit.

I. Income and Excise Taxes

Federal 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 Company's balance sheets that have been included in previous tax returns or are expected to be included in future tax returns.

We report our collections and payments of excise taxes on a gross basis. Revenues include the collection of excise taxes, while operating taxes include the related expenses. For the years ended March 31, 2011 and March 31, 2010 excise taxes paid were $45.5 million and $45.6 million, respectively.

J. Comprehensive Income (Loss)

Comprehensive income (loss) is the change in the equity of a company, not including those changes that result from stockholder transactions. While the primary component of comprehensive income (loss) is reported net income or loss, the other components of comprehensive income (loss) consists of unrealized gains and losses associated with certain investments held as available for sales, changes in pension and other postretirement obligations and deferred gains and losses associated with hedging activity.

K. Employee Benefits

The Company follows certain 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 balance sheet as a net liability or asset and required an offsetting adjustment to accumulated other comprehensive income in stockholders' equity upon implementation or, in the case of regulated enterprise, to regulatory assets or liabilities. Consistent with past practice and as required by the guidance, the Company values its pension and other postretirement benefits other than pension ("PBOP") assets using the year-end market value of those assets. Benefit obligations are also measured at year-end.

L. Fair Value Measurements

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

M. Gas in Storage and Materials

Gas in storage is recorded initially at average weighted cost and is expensed when delivered to customers as gas purchased for resale. Materials 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 materials and supplies.

Per current accounting guidance, the Company is required to re-value storage and materials at the lower of cost or market. However, per rate orders in effect as issued by the RIPUC, the Company is permitted to pass through the cost of gas purchased for resale directly to the rate payers along with any applicable authorized delivery surcharge adjustments. Therefore, the value of gas in storage never falls below the cost to the Company. Gas costs passed through to the rate payers are subject to periodic regulatory approval and are reported periodically to the RIPUC. The Company files gas cost reports to RIPUC on an annual basis.

N. Change in Accounting Estimates

The Company calculates its gas distribution bad debt reserve on its customer accounts receivable based on the bad debt write-offs compared to actual billed sales and transportation revenues (with a six month lag). All receivables over 360 days past due are 80% reserved. Certain identified "at risk" customers are 100% reserved. As of March 31, 2011, there were no "at risk" customers identified. Economic conditions and other factors are considered in addition to the historic write-off rate. The Company reduced the write-off rate for the year ended March 31, 2011, for improved economic conditions which were evidenced by improved collection patterns for overdue receivables. The aggregate effect of these changes in the methodology for calculating the bad debt reserve resulted in a pre-tax benefit of $1.5 million.

O. Recent Accounting Pronouncements

In the preceding twelve months, the Financial Accounting Standard Board ("FASB") has issued numerous updates to GAAP. The Company has evaluated various guidelines and has either 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:

Prospective Accounting Pronouncements

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 the 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 and appropriate disclosures are included in these accounts.

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 Company evaluated its variable interests and investment, and 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.

O. Reclassifications

Certain reclassifications have been made to conform prior periods' data to the current presentation. For the year ended March 31, 2010, the amortization of regulatory assets was included as a component of investing activities which has now been included under operating activities. These reclassifications had no effect on the Company's results of operations.

Note 2. Rates and Regulatory

The following table presents the Company's regulatory assets and regulatory liabilities at March 31, 2011 and March 31, 2010:

	March 31,	
(in thousands of dollars)	**2011**	2010
Current regulatory assets included in accounts receivable:		
Rate adjustment mechanisms	**$ 16,671**	$ 18,023
Current regulatory assets:		
Regulatory contracts	**25,807**	40,810
Current regulatory liabilities in other current liabilities:		
Rate adjustment mechanisms	**(50,264)**	(22,244)
Current regulatory liabilities:		
Regulatory contracts	**(463)**	(821)
Total current regulatory assets, net	**(8,249)**	35,768
Non current regulatory assets:		
Unamortized losses on reacquired debt	**5,179**	5,932
Regulatory tax asset	**12,302**	12,770
Environmental response fund	**131,837**	124,216
2003 VERO deferral	**6,906**	9,417
Postretirement benefits	**86,287**	101,226
Gas future - gas supply	**3,526**	6,477
NEG & KeySpan cost to achieve	**7,500**	8,217
Regulatory contracts	**2,109**	11,089
Other	**6,698**	7,893
Total non-current regulatory assets	**262,344**	287,237
Non current regulatory liabilities:		
Revaluation - Pension and PBOP	**(25,841)**	(27,896)
Environmental response costs	**(9,033)**	(15,419)
Storm cost reserves	**(21,520)**	(18,006)
Regulatory contracts	**(1,022)**	(94)
Cost of removal	**(154,136)**	(146,849)
Other	**(2,639)**	(4,987)
Total non-current regulatory liabilities	**(214,191)**	(213,251)
Total non-current regulatory assets, net	**48,153**	73,986
Net regulatory assets	**$ 39,904**	$ 109,754

The regulatory items above are not included in the utility rate base.

Rate Matters

In June 2009, the Company filed an application for an increase of $75.3 million in electric base distribution rates. which it later adjusted to $57.8 million. In February 2010, RIPUC approved an overall increase in base distribution revenue of approximately $23.5 million based upon a 9.8% rate of return on equity and a 42.75% equity ratio. The Company's new rates went into effect on March 1, 2010 retroactive to January 1, 2010. The RIPUC approved recovery of the increase in revenue generated by the new rates for January and February 2010 over a 13 month period. On April 21, 2010 the Company filed a petition for writ of certiorari with the Rhode Island Supreme Court appealing the RIPUC's decision.

During May 2010, Rhode Island enacted decoupling legislation that provides for the annual reconciliation of the revenue requirement allowed in the Company's base distribution rate case to actual revenue billed by the electric and gas business. The Company filed a proposal to implement revenue decoupling for both electric and gas in October 2010 for which a RIPUC decision is expected during July 2011. The new law also provides for submission and approval of an annual infrastructure spending plan without having to file a full base rate case. In December 2010, the Company filed with RIPUC both the electric and gas plans, subsequently revised in the first quarter of 2011, and included a request for incremental electric revenue of approximately $3.4 million and incremental gas revenue of $2.1 million. The electric plan includes 2012 capital investment and other maintenance costs of approximately $3.4 and the gas plan includes capital investment resulting in a revenue requirement of $1.8 million. Both plans were approved by RIPUC in March 2011.

NEP operates the transmission facilities of its New England affiliates as a single integrated system and reimburses the Company for the cost of its transmission facilities in Rhode Island, including a return on those facilities. In turn, these costs are allocated among transmission customers in New England in accordance with the tariff agreement. In December 2008, the FERC approved the agreement and the Company entered into a settlement whereby, the Company is compensated for its actual monthly transmission costs with its authorized return on equity ranging from 11.14% to 12.64%. In December 2009, NEP filed with the FERC a proposed amendment to the Company's formula rate revenue requirements which decreased the Company's compensation for its electric transmission facilities by approximately $0.1 million. In March 2010, the FERC issued an order establishing hearing and settlement procedures for this filing and made the new rates effective January 1, 2010. In March 2011, NEP filed an uncontested settlement agreement with the FERC resolving all issues raised by the Massachusetts Attorney General in this proceeding.

In September 2008, the Company, NEP, and Northeast Utilities jointly filed an application with the FERC to recover financial incentives for the New England East-West Solution ("NEEWS"), pursuant to the FERC's Transmission Pricing Policy Order, Order No. 679. NEEWS, estimated to cost a total of $2.1 billion, consists of a series of inter-related transmission upgrades identified in the New England Regional System Plan and is being undertaken to address a number of reliability problems in the tri-state area of Connecticut, Massachusetts, and Rhode Island. The Company's share of the NEEWS-related transmission investment is approximately $0.6 billion and NEP's share is approximately $0.2 billion. The Company is fully reimbursed for its transmission revenue requirements on monthly basis by NEP through NEP's Tariff No. 1. Effective as of November 18, 2008, the FERC granted for NEEWS (1) an incentive ROE of 12.89% (125 basis points above the approved base ROE of 11.64%), (2) 100% construction work in progress ("CWIP") in rate base and (3) recovery of plant abandoned for reasons beyond the companies' control. Parties opposing the NEEWS incentives have sought rehearing of the FERC order. We cannot predict the outcome of this attempt for a rehearing.

In August 2010, the Company made its annual Distribution Adjustment Charge ("DAC") filing. The DAC was established to provide for the recovery and reconciliation of the costs of identifiable special programs, as well as to facilitate the timely rate recognition of incentive provisions. The prior DAC rate returns approximately $4.1 million to customers. In October 2010, the RIPUC approved the updated proposed DAC rate that resulted in recovery of $3.2 million from customers for the period November 2010 through October 2011.

The Company is allowed recovery of all of its electric and gas commodity costs through a fully reconciling rate recovery mechanism.

Renewable Energy

In 2009, Rhode Island passed a law promoting the development of renewable energy resources through long-term contracts for the purchase of capacity, energy, and attributes. In March 2010, the Company filed its proposed timetable and method of execution of annual long-term contract solicitations, which was approved by RIPUC in June 2010, with some modifications. The law also required the Company to negotiate a contract for an electric generating project fueled by landfill gas from the Rhode Island Central Landfill. The project, referred to as the Town of Johnston Project, is a combined cycle power plant with an average output of 32 MW for which the Company entered into a contract with Rhode Island LFG Genco, LLC in June 2010. The Division of Public Utilities and Carriers issued a certification on July 1, 2010, and filed the contract with the RIPUC in July 2010.

The 2009 legislation also required the Company to solicit proposals for a small scale renewable energy generation project of up to eight wind turbines with an aggregate nameplate capacity of up to 30 MW to benefit the Town of New Shoreham that also includes a transmission cable to be constructed between Block Island and the mainland of Rhode Island. In October 2009, the Company entered into a 20 year Power Purchase Agreement ("PPA") with Deepwater Wind Block Island LLC and in December 2009, the Company filed the PPA with the RIPUC. In March 2010, the RIPUC voted to reject the PPA due to pricing issues, which resulted in certain legislative amendments to specifically authorize the Company to enter into an amended PPA with Deepwater, to establish a new standard of review, and to provide for a reduction in the initial fixed price under the prior PPA if certain cost savings could be achieved. In August 2010, the RIPUC approved the amended PPA, and certain parties have appealed the RIPUC's decision. In May 2011, the Rhode Island Supreme Court heard oral argument of the Deepwater appeal and a decision is expected by August 2011.

The Rhode Island legislation permits the Company to recover all costs incurred under such contracts and permits the Company to recover remuneration equal to 2.75% of the actual annual payments made under the long-term contracts for those projects that are commercially operating.

In November 2010, the Company filed a settlement reached on its 2011 Energy Efficiency ("EE") plan with the Energy Efficiency Resources Management Council ("Council"). The EE plan, endorsed by the Council, includes the portfolio of electric and gas energy efficiency programs to be approved by the RIPUC along with the associated budgets and the electric and gas EE program charges, effective January 1, 2011. In December 2010, the RIPUC approved the electric energy efficiency program and the proposed EE budget of approximately $54 million. The RIPUC denied the proposed gas EE program charge and in January 2011, the Company filed a revised gas EE program plan conforming to the $0.15 per dth rate with a budget of approximately $4.5 million, which was approved by RIPUC in February 2011. Pursuant to 2011 legislation, on June 15, 2011, the Company requested an increase in its gas EE program charge to allow for the expansion of its gas energy efficiency programs for the remainder of the calendar year. This request is pending before the RIPUC.

Other Regulatory Matters

In June 2009, the Company filed an initial application seeking authorization to issue and sell one or more series of new long-term debt. In December 2009, the Division Staff Advocacy Section approved a settlement with NGUSA authorizing an issuance of $550 million in new long-term debt by March 2010. The Company issued this debt on March 22, 2010 in two tranches. In March 2011 the Company notified the Division of its intent to seek permission for an additional issuance in an amount of $290 million.

In November 2008, FERC commenced an audit of NGUSA, including its service companies and other affiliates in the National Grid holding company system. The audit evaluated 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 financial statements of the Company.

Note 3. Employee Benefits

Summary

The Company sponsors a non-contributory defined benefit pension plan and PBOP plan (the "Plans") covering substantially all employees.

The pension plan is a non-contributory, tax-qualified 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 retirement 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 certain age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage.

Pension Benefits

The Company participates in the pension plans with certain other NGUSA subsidiaries. Pension plan assets are commingled and cannot be allocated to an individual company. Pension costs are allocated to the Company. At March 31, 2011 and March 31, 2010, the pension plans of NGUSA have a net underfunded obligation of $354.8 million and $420.7 million, respectively. The Company's net periodic pension cost for the years ended March 31, 2011 and March 31, 2010 was approximately $11.9 million and $10.0 million, respectively.

The Company is subject to deferral accounting requirements for pension expenses associated with its regulated gas operation. Any rarities between actual pension costs and amounts used to establishes rates are deferred and collected from or refunded to customers in subsequent periods. There is no deferred mechanism for pension expenses associated with Company's regulated electric operations.

Defined Contribution Plan

The Company has a defined contribution pension plan (employee savings fund plan) that covers substantially all employees. Employer matching contributions of approximately $2.4 million was expensed for the years ended March 31, 2011 and March 31, 2010.

Postretirement Benefits Other than Pension

The Company participates in the PBOP plans with certain other NGUSA subsidiaries. PBOP costs are allocated to the Company. At March 31, 2011 and March 31, 2010, the PBOP plans of NGUSA have a net underfunded obligation of $401.6 million and $477.3 million, respectively. The Company's net periodic postretirement benefits cost for the years ended March 31, 2011 and March 31, 2010 was approximately $11.9 million and $10.7 million, respectively.

The Company is subject to deferral accounting requirements for PBOP expenses associated with its regulated gas operation. Any rarities between actual PBOP costs and amounts used to establishes rates are deferred and collected from or refunded to customers in subsequent periods. There is no deferred mechanism for PBOP expenses associated with Company's regulated electric operations.

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. For the year ended March 31, 2010, the consequential reduction in the deferred tax asset balance resulted in a net charge to the income statement of approximately $7.9 million. This was partially offset by the reversal of a regulatory liability, net of related taxes, which reduced the net impact by approximately $0.1 million.

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 have 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 are made. An employee who accepted 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 VERO is completed and the Company has accrued approximately $11 million which has been deferred for recovery from electric sales customers as part of the synergy savings and cost to achieve calculations.

Note 4. Debt

Short-term

The Company has regulatory approval from the FERC to issue up to $400 million of short-term debt. The company has no short-term debt outstanding to third-parties as of March 31, 2011 and March 31, 2010, respectively.

Long-term

At March 31, 2011, the Company had outstanding of $55.7 million First Mortgage Bonds. Substantially all of the assets used in the gas business of the Company are subject to the lien of the mortgage indentures under which the first mortgage bonds have been issued. Interest rates ranged from 6.82% to 9.63%. Maturities range from April 2018 to December 2025. The First Mortgage Bonds have annual sinking fund requirements totaling approximately $1.4 million.

In connection with the acquisition of the Rhode Island gas assets of Southern Union Gas, the Company assumed the First Mortgage Bonds. The assumed debt may not exceed 60% of total capitalization or the rates on the debt will increase by 0.20%, and the debt may not exceed 70% of total capitalization or the bondholders may declare bonds due and payable. The Company is in compliance with this covenant.

Notes Payable

The Company had outstanding $550 million of unsecured long-term debt as of March 31, 2011. Pursuant to the Settlement Agreement, the Company issued debt on March 22, 2010 in two tranches. $250 million of 10-year unsecured bonds were issued at a coupon rate of 4.534% and $300 million of 30-year unsecured bonds were issued at a coupon rate of 5.638%. The debt is not registered under the U.S. Securities Act of 1933 ("Securities Act") and was sold in the United States only to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to certain non-U.S. persons in transactions outside the United States in reliance on Regulation S under the Securities Act.

The proceeds from the financing were used to: (i) replenish internally generated cash funds that were provided by retained earnings and were used to finance past capital investments in long-lived utility plant assets and refund long-term debt that was issued to finance those investments; (ii) fund future capital expenditures; (iii) term out existing short-term debt so that these financing resources can be made available for ongoing working capital needs, and: (iv) pay dividends. The payment of dividends resulted in a more optimal and cost efficient capital structure for the Company and leaves the Company with in an appropriate capital structure for the nature of its business and attendant risk profile.

On March 18, 2010, National Grid plc settled the derivative financial instrument that it had entered into in connection with such bond issuances for the purpose of locking-in the risk-free interest rate element of the bond issues. The $10.2 million on the "treasury lock" settlement will be amortized over the life of the bonds to match the corresponding rate treatment.
The aggregate maturities of long-term debt for the five years subsequent to March 31, 2011 are approximately:

(in thousands of dollars)	**Amount**
2012	$ 1,375
2013	1,375
2014	1,375
2015	1,375
2016	1,375
Thereafter	598,839
Total	$ 605,714

Note 5. Property, Plant and Equipment

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

(in thousands of dollars)	March 31,	
	2011	2010
Plant and machinery	**$ 2,097,870**	$ 1,973,687
Land and buildings	**87,397**	85,647
Assets in construction	**190,083**	83,742
Software and othe intangibles	**28,710**	28,691
Total	**2,404,060**	2,171,767
Accumulated depreciation and amortization	**(772,856)**	(736,651)
Property, plant and equipment, net	**$ 1,631,204**	$ 1,435,116

The Company has begun a project in West Farnum, Rhode Island on September 2010. The project requires the Company to install three new 345 KV line terminals and conversion of the existing five position 345 KV ring bus into an eight position, four bay, breaker and a half bus scheme. The Company incurred approximately $47.7 million during the year ended March 31, 2011 on the West Farnum Project, which is a part of "assets in construction" in the table above.

AFUDC

The Company capitalizes AFUDC as part of construction costs. AFUDC represents an allowance for the cost of funds used to finance construction includes a debt and an equity component. AFUDC is capitalized in "property, plant and equipment" with offsetting credits to "other interest, including affiliates interest" for the debt component and "other income" for the equity component. This method is in accordance with an established FERC rate-making practice under which the Company is permitted to recover prudently incurred capital costs through its ultimate inclusion in rate base and in the provision for depreciation. The composite AFUDC rate was 7.5% and 1.7% for the years ended March 31, 2011 and March 31, 2010, respectively. AFUDC capitalized during the years ended March 31, 2011 and March 31, 2010 was $1.4 million and nil, respectively

Depreciation

Depreciation expense is determined using the straight-line method. The depreciation rates are based on periodic studies of the estimated useful lives of the assets and the estimated cost to remove them, net of salvage value.

The provisions for depreciation, as a percentage of weighted average depreciable property, and the weighted average service life, in years, for the years ended March 31, 2011 and March 31, 2010, are presented in the table below:

	2011		2010	
	Provision	**Service Life**	Provision	Service Life
Asset Category:				
Electric	**3.2%**	**31**	3.3%	30
Gas	**3.1%**	**32**	3.0%	33

Note 6. Income Taxes

Following is a summary of the components of federal income tax expenses (benefits):

	Years Ended March 31,	
(in thousands of dollars)	**2011**	2010
Components of federal income taxes:		
Current tax benefit		
Federal	**$ (895)**	$ (72,063)
Total current tax benefit	**(895)**	(72,063)
Deferred tax expenses		
Federal	**18,070**	92,314
Total deferred tax expense	**18,070**	92,314
Investment tax credits [1]	**(518)**	(544)
Total income tax expense	**$ 16,657**	$ 19,707

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

Income tax expense for 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:

	Years Ended March 31,	
(in thousands of dollars)	**2011**	2010
Computed tax	**$ 20,851**	$ 13,744
Increases (reductions) including those attributable to flow-through of certain tax adjustments:		
Intercompany tax allocation	**(2,000)**	-
Audit and related reserve movements	**(1,396)**	(700)
Investment tax credit	**(518)**	(544)
Medicare subsidy, including the Patient Protection and Affordable Care Act effect, net	**-**	6,818
Other items - net	**(280)**	389
Total	**(4,194)**	5,963
Federal income taxes	**$ 16,657**	$ 19,707

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 postemployment benefits ("OPEB") and other employee benefits	**$ 58,978**	$ 62,851
Reserve - environmental	**44,011**	41,435
Regulatory liabilities - other	**24,686**	5,708
Allowance for uncollectible account	**12,746**	11,766
Other items	**13,456**	6,421
Total deferred tax assets[1]	**153,877**	128,181
Property related differences	**(280,558)**	(225,244)
Regulatory assets - environmental	**(43,350)**	(38,448)
Regulatory assets - pension and OPEB	**(22,470)**	(27,009)
Property taxes	**(10,538)**	(10,525)
Other items	**(7,240)**	(5,614)
Total deferred tax liabilities	**(364,156)**	(306,840)
Net accumulated deferred income tax liability	**(210,279)**	(178,659)
Investment tax credit	**(1,748)**	(2,266)
Net accumulated deferred income tax liability and investment tax credit	**(212,027)**	(180,925)
Current portion of net deferred tax asset	**16,230**	3,447
Non-current portion of net deferred income tax liability and investment tax credit	**$ (228,257)**	$ (184,372)

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

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

The Company adopted the provisions of the FASB guidance which clarified the accounting and disclosure of uncertain tax position in the financial statement. 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.

With the application of this FASB guidance, as of March 31, 2011 and March 31, 2010, the Company's unrecognized tax benefits totaled $36.3 million and $19.0 million, respectively, none of which would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in "other deferred liabilities" on the balance sheets.

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	**$ 19,013**	$ -
Gross increases related to prior year	**9,449**	15,099
Gross increases related to current year	**7,810**	3,914
Ending balance	**$ 36,272**	$ 19,013

As of March 31, 2011 and March 31, 2010, the Company has for accrued interest related to unrecognized tax benefits of $0.4 million and nil, respectively. During the years ended March 31, 2011 and March 31, 2010, the Company recorded interest expense of $0.3 million and nil, 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.

Federal income tax returns have been examined and all issues have been agreed between the Internal Revenue Service ("IRS") and the NGHI consolidated filing group through March 31, 2004. During the year ended March 31, 2011, the NGHI consolidated group settled all agreed IRS audit adjustment related to the years ended March 31, 2005 through March 31, 2007.

The Company is in the process of appealing certain disputed issues with the IRS Office of Appeals relating to its tax return for March 31 2005 to March 31, 2007. The Company does not anticipate a change in its unrecognized tax positions in the next 12 months as a result of filing the appeals. However, the Company's tax sharing agreement may result in a change to allocated tax as a result of current and future audits or appeals. The years ended March 31, 2008 to March 31, 2011 remains subject to examination by the IRS.

Note 7. Derivative Contracts

Physical Derivatives

Current accounting guidance for derivative instruments establishes criteria that must be satisfied in order for option contracts, forward contracts with optionality features, or contracts that combine a forward contract and a purchased option contract to qualify as normal purchase and normal sales. Certain contracts for the physical purchase of natural gas do not qualify for this exception. Because these contracts are for the purchase of natural gas sold to regulated firm gas sales customers, the accounting for these contracts follows the accounting guidance for rate-regulated enterprises. The fair value of these derivatives at March 31, 2011 and March 31, 2010 was a liability of $0.6 million and $0.9 million, respectively.

The following are commodity volumes associated with those derivative contracts as of March 31, 2011:

(in thousands)		
Physicals	Gas (dths)	967
Financials	Gas swaps (dths)	14,081
	Gas futures (dths)	18,240
Total	**Gas (dths)**	**33,288**

Financial Derivatives

The Company is exposed to certain risks relating to its ongoing business operations, primarily commodity price risk. Financial and physical forward contracts on gas and electricity are entered into to manage this price risk and reduce the cash flow variability associated with the Company's forecasted purchases and sales of natural gas and electricity associated with the gas and electric operations. Our strategy is to minimize fluctuations in gas and electric sales prices to our regulated customers. The accounting for these derivative instruments follows the accounting guidance for rate-regulated enterprises. Therefore, the fair value of these derivatives is recorded as a current or deferred asset or liability, with offsetting positions recorded as regulatory assets or regulatory liabilities on the balance sheets. As these derivative contracts are eligible for rate regulated accounting treatment, changes in fair value have no income statement impact. Gains or losses upon settlement of these contracts are initially deferred and then refunded to or collected from our firm gas sales customers consistent with regulatory requirements.

Currently the Company utilizes New York Mercantile Exchange ("NYMEX") gas futures and gas swaps. The fair value of the gas derivative instruments at March 31, 2011 and March 31, 2010 was a net liability of $25.9 million and $50.1 million, respectively.

Other Derivative Instruments

Additionally the company employs a small number of derivative instruments related to storage optimization. These financial derivative instruments do not qualify for hedge accounting treatment. The fair value of these contracts at March 31, 2011 was a liability of $0.1 million. At March 31, 2010 these contracts was immaterial. We use market quoted forward prices to value these contracts.

The following table presents the Company's derivative contract assets and (liabilities) on the balance sheets:

Fair Values of Derivative Instruments - Balance Sheets					
	Asset Derivatives			Liability Derivatives	
(in thousands of dollars)	**March 31, 2011**	March 31, 2010		**March 31, 2011**	March 31, 2010
Regulated contracts					
Gas contracts:					
Gas purchase contract - current assets	**$ -**	$ 432	Gas purchase contract - current liability	**$ (562)**	$ (1,420)
Gas futures contract - current asset	**380**	-	Gas futures contract - current liability	**(9,744)**	(17,421)
Gas swaps contract - current asset	**84**	389	Gas swaps contract - current liability	**(15,500)**	(21,969)
Subtotal current assets	**464**	821	Subtotal current liabilities	**(25,806)**	(40,810)
Gas futures contract - deferred assets	**928**	93	Gas futures contract - deferred liability	**(1,376)**	(4,282)
Gas swaps contract - deferred asset	**94**	1	Gas swaps contract - deferred liability	**(733)**	(6,807)
Subtotal deferred assets	**1,022**	94	Subtotal deferred assets	**(2,109)**	(11,089)
Subtotal regulated contracts	**1,486**	915	Subtotal regulated contracts	**(27,915)**	(51,899)
Non-regulated contracts					
Gas contracts:					
Gas purchase contract - current assets	**-**	80	Gas purchase contract - current liability	**(24)**	(21)
Gas swaps contract - current assets	**19**	317	Gas swaps contract - current liability	**(117)**	(380)
Subtotal non-regulated contracts	**19**	397	Subtotal non-regulated contracts	**(141)**	(401)
Total	**$ 1,505**	$ 1,312	Total	**$ (28,056)**	$ (52,300)

The following table presents the change in value and the asset and (liability) balances of the Company's derivative contracts. The change in fair value of the regulated contracts exactly corresponds to offsetting regulatory assets and liabilities. As a result, the changes in fair value of derivative contracts and their offsetting regulatory assets and liabilities had no impact on the Income Statement. The change in value of the non-regulated contracts had an impact on Income statement, and is included in "other income".

Fair Values of Derivative Instruments - Statements of Income			
(in thousands of dollars)	YTD Movement	**March 31, 2011**	March 31, 2010
Regulated contracts			
Gas contracts:			
Gas purchase contract - regulatory asset	$ 858	**$ (562)**	$ (1,420)
Gas futures contract - regulatory asset	10,583	**(11,120)**	(21,703)
Gas swap contract - regulatory asset	12,543	**(16,233)**	(28,776)
Subtotal regulatory assets	23,984	**(27,915)**	(51,899)
Gas purchase contract - regulatory liability	(432)	**-**	432
Gas futures contract - regulatory liability	1,215	**1,308**	93
Gas swap contract - regulatory liability	(212)	**178**	390
Subtotal regulatory liabilities	571	**1,486**	915
Subtotal regulated contracts	24,555	**(26,429)**	(50,984)
Non-regulated contracts			
Gas contracts:			
Gas purchase - other income	(83)	**(24)**	59
Gas swap - other income	(35)	**(98)**	(63)
Subtotal non-regulated contracts	(118)	**(122)**	(4)
Total	**$ 24,437**	**$ (26,551)**	**$ (50,988)**

Credit and Collateral

Derivative contracts are primarily used to manage exposure to market risk arising from changes in commodity prices and interest rates. In the event of non-performance by a counterparty to a derivative contract, the desired impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively managed by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support. In instances where the counterparties' credit quality has declined, or credit exposure exceeds certain levels, we may limit our credit exposure by restricting new transactions with counterparties, requiring additional collateral or credit support and negotiating the early termination of certain agreements. As of March 31, 2011 and March 31, 2010, the Company has paid $19.3 million and $45.6 million, respectively, to its counterparties as collateral associated with outstanding derivative contracts. This amount has been recorded as restricted cash, with offsetting positions on the balance sheet.

The aggregate fair value of all of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position at March 31, 2011, for which the Company does not require to post any collateral in the normal course of business, is $6.3 million. If the Company's credit rating were to be downgraded by one notch, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three notches, it would be required to post $6.8 million additional collateral to its counterparties.

Note 8. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following is the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

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

The Company's Level 2 fair value derivative instruments primarily consist of over-the-counter ("OTC") gas swaps and forward physical gas deals where market data for pricing inputs is observable. Derivative assets and liabilities utilizing Level 2 inputs include non-exchanged-based financial contracts (e.g. OTC gas financial swap) and standard North American Energy Standards Board physical gas supply contracts. Level 2 pricing inputs are obtained from the NYMEX and Intercontinental Exchange ("ICE"), except cases when ICE publishes seasonal averages or there were no transactions within the last seven days. During periods prior to December 31, 2010 Level 2 pricing inputs were obtained from the NYMEX and Platts M2M (industry standard, non-exchange-based editorial commodity forward curves) when it can be verified by available market data from ICE based on transactions within the last seven days. Level 2 derivative instruments may utilize discounting based on quoted interest rate curve as well as have a liquidity reserve calculated based on a bid/ask spread. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 0.95 or higher.

Level 3 fair value derivative instruments primarily consist of our gas OTC forwards, options, and physical gas transactions where pricing inputs are unobservable, as well as other complex and structured transactions. Complex or structured transactions can introduce the need for internally-developed models based on reasonable assumptions. Industry-standard valuation techniques, such as the Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries, are used for valuing such instruments. The value is categorized as Level 3. Level 3 is also applied in cases when forward curves are internally developed, extrapolated or derived from market observable curve with correlation coefficients less than 0.95, or optionality is present, or non-economical assumptions are made. The internally developed forward curves have a high level of correlation with Platts M2M curves.

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

The following table presents assets and liabilities measured and recorded at fair value on the Company's balance sheet on a recurring basis and their level within the fair value hierarchy as of March 31, 2011:

(in thousands of dollars)				
Derivative contracts	Level 1	Level 2	Level 3	Total
Assets	$ 1,308	$ 197	$ -	$ 1,505
Liabilities	(11,120)	(16,350)	(586)	(28,056)
Total derivative net liabilities	(9,812)	(16,153)	(586)	(26,551)
Available for sale securities				
Assets	1,553	2,050	-	3,603
Total available for sale securities	$ 1,553	$ 2,050	$ -	$ 3,603

Year to Date Level 3 Movement Table

The following table presents the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis during the year ended March 31, 2011:

(in thousands of dollars)		
Balance at March 31, 2010	$	(923)
Transfers into Level 3		-
Transfers out of Level 3		-
Total gains or losses		-
included in earnings (or changes in net assets)		143
included in regulatory assets and liabilities		517
Purchase		(323)
Sales		-
Balance at March 31, 2011	$	(586)
The amount of realized gains and (losses) included in net income attributed to the change in unrealized gains and (losses) related to derivative assets and liabilities at March 31, 2011	$	-

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 balance sheets reflect the long-term debt at carrying value. The fair value of this debt at March 31, 2011 and March 31, 2010 was $644.1 million and $613.3 million, respectively.

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

Note 9. Accumulated Other Comprehensive Income (Loss)

(in thousands of dollars)	Unrealized Gain on Available for Sale Securities	Postretirement liability	Hedging	Total Accumulated Other Comprehensive Losses
March 31, 2009 balance, net of tax	$ 48	$ (118,808)	$ -	$ (118,760)
Other comprehensive income (losses):				
Unrealized gains on securities	444	-	-	444
Hedging activities	-	-	(6,585)	(6,585)
Change in postretirement benefits	-	8,654	-	8,654
Reclassification adjustment for loss included in net income	(93)	-	-	(93)
March 31, 2010 balance, net of tax	399	(110,154)	(6,585)	(116,340)
Other comprehensive income (losses):				
Unrealized gains on securities	147	-	-	147
Hedging activities	-	-	483	483
Change in postretirement benefits	-	21,151	-	21,151
Reclassification adjustment for loss				-
included in net income	(108)	-	-	(108)
March 31, 2011 balance, net of tax	$ 438	$ (89,003)	$ (6,102)	$ (94,667)

Note 10. Commitments and Contingencies

Electricity and Gas Supply, Storage and Pipeline Commitments

The Company's electricity and gas distribution subsidiaries have entered into various contracts for electricity and gas delivery, storage and supply services. Certain of these contracts require payment of annual demand charges in the aggregate amount of approximately $505.4 million. The Company and its electricity and gas distribution subsidiaries are liable for these payments regardless of the level of services required from third parties. Such charges are currently recovered from utility customers as gas and electricity costs.

The Company's commitments under these long-term contracts, as of March 31, 2011, are summarized in the table below.

(in thousands of dollars)		
Years ended March 31,		
2012	$	290,308
2013		82,645
2014		23,112
2015		16,506
Thereafter		92,827
Total	**$**	**505,398**

The Company's subsidiaries purchases any additional energy needed to meet load requirements and can purchase from other independent power producers ("IPPs"), other utilities, energy merchants or on the open market through the New York Independent System Operator ("NYISO") or the Independent System Operator for New England ("ISO-NE") at market prices.

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.

Hazardous Waste

The normal ongoing operations and historic activities of the Company are subject to various federal, state and local environmental laws and regulations. Like many other industrial companies, the Company generates hazardous waste. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without fault, even if the activities were lawful when they occurred.

The United States Environmental Protection Agency ("EPA"), the Massachusetts Department of Environmental Protection ("DEP"), and the Rhode Island Department of Environmental Management ("DEM") have alleged that the Company is a potentially responsible party ("PRP") under state or federal law for a number of sites at which hazardous waste is alleged to have been disposed. The Company's most significant liabilities relate to former manufactured gas plant ("MGP") facilities formerly owned by the Blackstone Valley Gas and Electric Company and the Rhode Island gas distribution assets of New England Gas. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA, DEM and DEP.

The RIPUC approved a settlement agreement that provide for rate recovery of remediation costs of former MGP sites and certain other hazardous waste sites located in Rhode Island. Under that agreement, qualified costs related to these sites are paid out of a special fund established on the Company's books. Rate-recoverable contributions of approximately $3 million are added annually to the fund along with interest and any recoveries from insurance carriers and other third parties. Under the agreement, costs are amortized over a ten year period and subject to an annual cap linked to gas usage.

The Company believes that obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial condition due to rate recovery. At March 31, 2011 and March 31, 2010, the Company's total reserves for estimated environmental activities were approximately $126.2 million and 121.4 million, respectively. The Company has also reflected a regulatory asset of $131.8 million and $124.2 million, respectively, at March 31, 2011 and March 31, 2010. Those reserves may need to be materially increased in the future if new sites are identified or currently unknown contamination is discovered, if other potentially responsible parties fail to pay their share, or if there are changes in laws or policies, or the enforcement thereof, relating to the investigation or remediation of those sites.

Note 11. Related Party Transactions

Moneypool

The Company participates with NGUSA and certain affiliates in a system moneypool. The moneypool is administered by the NGUSA service company as the agent for the participants. Short-term borrowing needs are met first by available funds of the moneypool participants. Borrowings from the moneypool bear interest at the higher of (i) the monthly average rate for high-grade, 30-day commercial paper sold through dealers by major corporations as published in The Wall Street Journal, or (ii) the monthly average rate then available to moneypool depositors from an eligible investment in readily marketable money market funds or the existing short-term investment accounts maintained by moneypool depositors or the NGUSA service company during the period in question. In the event neither rate is one that is permissible for a transaction because of constraints imposed by the state regulatory commission having jurisdiction over a utility participating in the transaction, the rate is adjusted to a permissible rate as determined under the requirements of the state regulatory commission. Companies that invest in the moneypool share the interest earned on a basis proportionate to their average monthly investment in the moneypool. Funds may be withdrawn from or repaid to the moneypool at any time without prior notice. At March 31, 2011 and March 31, 2010, the Company had short-term moneypool borrowings of $24.0 million and $71.0 million, respectively.

The average interest rate for the moneypool was 0.27% for the years ending March 31, 2011 and 2010.

Advances to/from Affiliates

Additionally, the Company engages in various transactions with NGUSA and its affiliates. Certain activities and costs, such as executive and administrative, financial (including accounting, auditing, risk management, tax and treasury/finance) human resources, information technology, legal and strategic planning are shared between the companies and allocated to each company appropriately. In addition, the Company has a tax sharing agreement with NGHI, a NGUSA affiliate, in filing consolidated tax returns. The Company's share of the tax liability is allocated resulting in a payment to or refund from the Company. At March 31, 2011, the Company had net accounts payable to affiliates of $23.5 million and at March 31, 2010, the Company had net accounts receivable from affiliates of $5.8 million, respectively, for these services.

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 $114.1 million and $113.1 million for the year ended March 31, 2011, and $67.4 million and $66.7 million for the year ended March 31, 2010, respectively.

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 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 $3.5 million and $2.5 million before taxes, and $2.3 million and $1.6 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 million by March 2012 primarily through the reduction of up to 1,200 positions. As of March 31, 2011, NGUSA had recorded approximately $66.8 million reserve for one-time employment termination benefits related to severance, payroll taxes, healthcare continuation, 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 12. Restrictions on Retained Earnings Available for Dividends on Common Stock

As long as any preferred stock is outstanding, certain restrictions on payment of dividends on common stock would come into effect if the "junior stock equity" was, or by reason of payment of such dividends became, less than 25% of "Total Capitalization." However, the junior stock equity at March 31, 2011 and March 31, 2010, was 69% and 68%, respectively, of total capitalization and goodwill as a portion of equity. Accordingly, none of the Company's retained earnings at March 31, 2011 and March 31, 2010 were restricted as to dividends on common stock under the foregoing provisions.

Note 13. Subsequent Events

In accordance with current authoritative accounting guidance, the Company has evaluated for disclosure subsequent events that have occurred up through June 28, 2011, the date of issuance of these financial statements. As of June 28, 2011, there were no subsequent events which required recognition or disclosure.