nationalgrid

Niagara Mohawk Power Corporation

Financial Statements

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

NIAGARA MOHAWK POWER CORPORATION

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Report of Independent Auditors

To the Stockholders and Board of Directors of
Niagara Mohawk Power Corporation:

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 Niagara Mohawk Power Corporation (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 30, 2011

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NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS

(in thousands of dollars, except per share and number of shares data)	March 31, 2011	March 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	**$ 10,379**	$ 9,616
Restricted cash	**19,096**	41,524
Accounts receivable	**659,759**	629,520
Allowance for doubtful accounts	**(216,182)**	(191,848)
Intercompany moneypool	**-**	98,596
Unbilled revenues	**180,038**	155,964
Gas in storage, at average cost	**6,072**	16,054
Materials and supplies, at average cost	**32,819**	30,174
Derivative contracts	**8,847**	1,168
Regulatory assets	**540,152**	667,015
Current deferred income tax assets	**110,572**	104,389
Prepaid and other current assets	**118,273**	301,518
Total current assets	**1,469,825**	1,863,690
Equity investments	**5,383**	5,495
Property, plant, and equipment, net	**6,488,940**	6,187,033
Deferred charges		
Regulatory assets	**1,705,735**	2,558,539
Goodwill	**1,289,132**	1,289,132
Derivative contracts	**99,209**	77,966
Other deferred charges	**57,845**	55,341
Total deferred charges	**3,151,921**	3,980,978
Total assets	**$ 11,116,069**	$ 12,037,196

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

NIAGARA MOHAWK POWER CORPORATION
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	**$ 216,332**	$ 230,229
Accounts payable to affiliates, net	**30,718**	113,747
Current portion of long-term debt	**-**	350,000
Taxes accrued	**175,478**	38,682
Customer deposits	**36,808**	36,887
Interest accrued	**30,800**	35,605
Regulatory liabilities	**73,756**	42,688
Intercompany moneypool	**165,804**	-
Derivative contracts	**31,215**	61,285
Other current liabilities	**96,671**	97,137
Total current liabilities	**857,582**	1,006,260
Deferred credits and other liabilities		
Regulatory liabilities	**1,098,684**	980,135
Asset retirement obligations	**8,892**	10,601
Deferred income tax liabilities	**1,551,812**	1,682,599
Postretirement benefits and other reserves	**502,412**	900,713
Environmental remediation costs	**448,752**	450,036
Derivative contracts	**1,293**	29,357
Other deferred liabilities	**481,049**	442,733
Total deferred credits and other liabilities	**4,092,894**	4,496,174
Capitalization		
Common stock, par value $1 per share, issued and outstanding 187,364,863 shares	**187,365**	187,365
Cumulative preferred stock, par value $100 per share, issued and outstanding 289,847 shares	**28,985**	28,985
Additional paid-in capital	**2,913,140**	2,913,140
Retained earnings	**637,420**	1,007,597
Accumulated other comprehensive loss	**(982)**	(1,928)
Total stockholder's equity	**3,765,928**	4,135,159
Long-term debt	**1,899,665**	1,899,603
Long-term debt to affiliates	**500,000**	500,000
Total capitalization	**6,165,593**	6,534,762
Total liabilities and capitalization	**$ 11,116,069**	$ 12,037,196

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF INCOME

(in thousands of dollars)	Years Ended March 31,	
	2011	2010
Operating revenues		
Gas distribution	**$ 749,111**	$ 732,848
Electric services	**3,276,325**	3,116,564
Total operating revenues	**4,025,436**	3,849,412
Operating expenses		
Gas purchased for resale	**376,112**	386,940
Electricity purchased	**978,031**	897,206
Operations and maintenance	**1,212,832**	1,076,231
Depreciation and amortization	**225,912**	225,137
Amortization of stranded costs and rate plan deferrals	**665,687**	638,831
Other taxes	**234,713**	231,973
Total operating expenses	**3,693,287**	3,456,318
Operating income	**332,149**	393,094
Other deductions		
Interest on long-term debt	**(68,653)**	(49,194)
Other interest, including affiliate interest	**(67,739)**	(42,371)
Other deductions	**(1,794)**	(12,827)
Total other deductions	**(138,186)**	(104,392)
Income taxes		
Current	**191,742**	(92,605)
Deferred	**(128,662)**	217,551
Total income taxes	**63,080**	124,946
Net income	**$ 130,883**	$ 163,756

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CASH FLOWS

(in thousands of dollars)	Years Ended March 31,	
	2011	2010
Operating activities:		
Net income	**$ 130,883**	$ 163,756
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**225,912**	225,137
Amortization of stranded costs and rate plan deferrals	**665,687**	638,831
(Benefit) provision for deferred income taxes	**(128,662)**	217,551
Income from equity investments	**112**	86
Allowance for funds used during construction	**(5,434)**	-
Other non-cash items	**116,706**	38,141
Net prepayments and other amortizations	**2,409**	2,204
Net pension and other postretirement expense	**(125,226)**	(80,209)
Environmental remediation payments	**(35,220)**	(38,429)
Changes in operating assets and liabilities:		
Accounts receivable, net	**(29,979)**	(2,569)
Materials, supplies, and gas in storage	**7,337**	28,072
Accounts payable and accrued expenses	**1,190**	(50,891)
Prepaid taxes and accruals	**351,099**	(312,711)
Accounts payable and receivable affiliates, net	**(85,426)**	46,554
Other, net	**996**	(261)
Net cash provided by operating activities	**1,092,384**	875,262
Investing activities:		
Capital expenditures	**(479,170)**	(476,839)
Change in intercompany moneypool	**98,596**	(98,596)
Restricted cash	**22,428**	(7,224)
Other, including cost of removal	**(48,219)**	(48,895)
Net cash used in investing activities	**(406,365)**	(631,554)
Financing activities:		
Dividends paid on common and preferred stock	**(501,060)**	(501,060)
Debt issuance cost	**-**	(5,559)
Payments on long-term debt	**(350,000)**	(350,000)
Proceeds from long-term debt	**-**	1,250,000
Change in intercompany moneypool	**165,804**	(650,600)
Net cash used in financing activities	**(685,256)**	(257,219)
Net increase (decrease) in cash and cash equivalents	**763**	(13,511)
Cash and cash equivalents, beginning of year	**9,616**	23,127
Cash and cash equivalents, end of year	**$ 10,379**	$ 9,616
Supplemental information:		
Interest paid	**$ 123,004**	$ 114,929
Income taxes (refunded from) paid to Niagara Mohawk Holdings Inc.	**$ (158,457)**	$ 47,665
Capital-related accruals included in accounts payable	**$ (19,892)**	$ 24,193

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF RETAINED EARNINGS

(in thousands of dollars)	Years Ended March 31,	
	2011	2010
Retained earnings, beginning of year	$ **1,007,597**	$ 1,344,901
Net income	**130,883**	163,756
Dividends paid on preferred stock	**(1,060)**	(1,060)
Dividend paid to Niagara Mohawk Holdings, Inc.	**(500,000)**	(500,000)
Retained earnings, end of year	$ **637,420**	$ 1,007,597

STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of dollars)	Years Ended March 31,	
	2011	2010
Net income	**$ 130,883**	$ 163,756
Other comprehensive income (loss), net of taxes:		
Unrealized gain on investments	**1,151**	3,200
Change in pension and other postretirement obligations	**343**	(314)
Reclassification adjustment for gains included in net income	**(548)**	(356)
Change in other comprehensive income	**946**	2,530
Total comprehensive income	**$ 131,829**	$ 166,286
Related tax (expense) benefit:		
Unrealized gain on investments	**$ (767)**	$ (2,133)
Change in pension and other postretirement obligations	**(229)**	209
Reclassification adjustment for gains included in net income	**366**	237
Total tax expense	**$ (630)**	$ (1,687)

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CAPITALIZATION

(in thousands of dollars, except per share and number of shares data)	March 31,		March 31,	
	2011	2010	**2011**	2010
	Shares issued and outstanding		**Amounts**	
Stockholder's Equity				
Common stock, $1 par value	**187,364,863**	187,364,863	**$ 187,365**	$ 187,365
Cumulative preferred stock, $100 par value				
3.40%	**57,524**	57,524	**5,753**	5,753
3.60%	**137,152**	137,152	**13,715**	13,715
3.90%	**95,171**	95,171	**9,517**	9,517
Additional paid-in capital			**2,913,140**	2,913,140
Retained earnings			**637,420**	1,007,597
Accumulated other comprehensive losses			**(982)**	(1,928)
Total common stockholder's equity			**3,765,928**	4,135,159
Long-term Debt	**Interest Rates**	**Maturity Date**		
Notes Payable				
Unsecured Senior Notes	4.88%	August 15, 2019	**750,000**	750,000
Unsecured Senior Notes	3.55%	October 1, 2014	**500,000**	500,000
State Authority Financing - Tax exempt				
NYSERDA Tax exempt [2]	5.15%	November 1, 2025	**75,000**	75,000
NYSERDA Tax exempt	Variable	October 1, 2013 - July 1, 2029	**575,065**	575,065
Total State Authority Financing			**1,900,065**	1,900,065
Intercompany Notes				
NM Holdings Note	3.72%	June 30, 2010	**-**	350,000
NM Holdings Note [1]	5.80%	November 1, 2012	**500,000**	500,000
Unamortized discounts			**(400)**	(462)
Total long-term debt			**2,399,665**	2,749,603
Long-term debt due within one year			**-**	350,000
Total long-term debt, excluding current portion			**2,399,665**	2,399,603
Total capitalization			**$ 6,165,593**	$ 6,534,762

(1) Currently callable with make-whole provision
(2) Fixed rate pollution control revenue bonds are callable at par

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

Niagara Mohawk Power Corporation (the "Company", "we", "us", and "our") was organized in 1937 under the laws of New York State and is engaged principally in the regulated energy delivery business in New York State. The Company provides electric service to approximately 1.6 million electric customers in the areas of eastern, central, northern and western New York and sells, distributes and transports natural gas to approximately 0.6 million gas customers in the areas of central, northern and eastern New York.

The Company is a wholly-owned subsidiary of Niagara Mohawk Holdings, Inc., which is wholly-owned by 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.

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") and the New York Public Service Commission ("NYPSC") provide the final determination of the rates we charge our customers. In certain cases, the actions of the FERC and NYPSC would result in an accounting treatment different from that used by non-regulated companies to determine the rates we charge our customers. In this case, the Company is required to defer the recognition of costs (a regulatory asset) or the recognition of obligations (regulatory liability) if it probable that, through the rate-making process, there will be a corresponding increase or decrease in future rates. The Company is also subject to certain regulations of in addition to the FERC.

In the event the Company determines that its net regulatory assets are not probable of recovery, it would no longer apply the principles of the current accounting guidance for rate regulated enterprises and would be required to record an after-tax, non-cash charge against income for any remaining regulatory assets and liabilities. The impact would be material to the Company's reported financial condition and results of operations.

D. Revenue Recognition

The Company bills its customers on a monthly cycle basis at approved tariffs based on energy delivered, a minimum customer service charge, and, in some instances, their demand on the electric system. Revenues are determined based on these bills plus an estimate for unbilled energy delivered between the cycle meter read date and the end of the accounting period. These amounts are billed to customers in the next billing cycle following the December month end. Total unbilled revenues at March 31, 2011 and March 31, 2010 were approximately $180 million and $156 million, respectively.

As approved by the NYPSC, the Company is allowed to pass through for recovery commodity-related costs. Additionally, a transmission revenue adjustment mechanism is in place that reconciles actual and forecast wholesale transmission revenue for pass back to, or recovery from, retail customers. The commodity adjustment clause and the transmission revenue adjustment mechanism have remained in effect under the Merger Rate Plan ("MRP") which became effective on January 31, 2002. Furthermore, the Company's revenue decoupling mechanism allows for annual adjustments to the Company's distribution rates as a result of the reconciliation between allowed revenue and billed revenue. Any difference between the allowed revenue and the billed revenue is recorded as a regulatory asset or liability.

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 year ended March 31, 2011, 53% of the Company's revenue from the sale and delivery of electricity was derived from residential customers, 36% from commercial customers, and 11% from industrial customers. During the year ended March 31, 2010, 55% of the Company's revenue from the sale and delivery of electricity was derived from residential customers, 35% from commercial customers, and 10% from industrial customers.

During each of the years ended March 31, 2011 and March 31, 2010, 80% of the Company's revenue from the sale and delivery of gas was derived from residential customers, 19% from commercial customers, and 1% from industrial customers.

E. 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 retirement 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 the cost of removal, less salvage, is charged to accumulated depreciation.

F. Goodwill

Goodwill represents the excess of the purchase price of a business combination over the fair value of 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 flows, (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 that 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 of health care claims deposits, New York State Department of Conservation securitization for certain site cleanup, mortgage lien release deposits, worker's compensation premium deposits and collateral for derivative transactions.

I. Income and Excise Taxes

Federal and state income taxes are recorded under the current accounting provisions for the accounting and reporting of income taxes. Income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

Deferred 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. Gas distribution revenues include the collection of excise taxes, while operating taxes include the related expense. Excise taxes collected and paid for the years ended March 31, 2011 and March 31, 2010 were $43 million and $34 million, respectively.

J. Other Comprehensive Income (Loss)

Comprehensive income (loss) is the change in the equity of a company, not including those changes that result from shareholder transactions. While the primary component of comprehensive income (loss) is reported net income or loss, the other primary component of comprehensive income (loss) is unrealized gains and losses associated with certain investments held as available for sale.

K. Derivatives

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

Firm Gas Sales Derivatives Instruments
We utilize derivative financial instruments to reduce cash flow variability associated with the purchase price for a portion of future natural gas and electricity purchases associated with our gas and electric distribution operations. Our strategy is to minimize fluctuations in firm gas and electricity sales prices to our regulated customers. Because these derivative instruments are being employed to reduce the variability of the purchase price of natural gas to be sold to regulated firm gas sales customers, the accounting for these derivative instruments is subject to the current accounting guidance on accounting for the effects of rate regulation. Therefore, changes in the market value of these derivatives have been recorded as a regulatory asset or regulatory liability on the balance sheets. Gains or losses on the settlement of these contracts are initially deferred and then refunded to or collected from our firm gas sales customers during the appropriate winter heating season consistent with regulatory requirements.

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

L. Employee Benefits

The Company follows the provisions of the 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 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.

M. 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

N. Storage and Materials

Storage and materials is comprised primarily of gas in storage and materials and supplies. 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 recorded when purchased and expensed as used or capitalized into specific capital additions as utilized. The Company's policy is to write off obsolete materials and supplies.

In accordance with current accounting guidance, the Company is required to re-value storage and materials at the lower of cost or market. However, based on rate orders in effect as issued by the NYPSC, 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 NYPSC. The Company files a monthly report with the NYPSC stating weighted average cost of gas and proposed costs to be recovered from the rate payers.

O. Power Purchase Agreements

The Company accounts for its power purchase agreements, which are not deemed to be derivatives or leases, as executory contracts. The Company assesses several factors in determining how to account for its power purchase contracts. These factors include: the term of the contract compared to the economic useful life of the facility generating the electricity; the involvement, if any, that the Company has in operating the facility; the amount of any fixed payments the Company must make, even if the facility does not generate electricity; and the level of control the Company has over the amount of electricity generated by the facility, and who bears the risk in the event the facility is unable to generate. These purchase power agreements are reflected in the "Accounts payable" line item on the balance sheets.

P. 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 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.

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.

Q. Reclassifications

Certain reclassifications have been made to conform prior periods' data to the current presentation. In addition, the Company determined that certain derivative contracts or discrete, separable components of derivative contracts do not qualify for hedge or derivative accounting and should therefore, be excluded from the balance sheet. The Company adjusted the prior period by decreasing the net derivative liabilities and net regulatory assets by $21.6 million in the accompanying balance sheet.

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

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:

(in thousands of dollars)	March 31,	
	2011	2010
Regulatory assets – current		
Rate adjustment mechanisms	**$ 50,974**	$ 72,225
Derivative contracts	**31,215**	61,285
Loss on reacquired debt	**2,794**	4,106
Merger rate plan stranded costs	**455,169**	529,399
Total current regulatory assets	**540,152**	667,015
Regulatory liabilities – current		
Derivative contracts	**(8,847)**	(1,168)
Rate adjustment mechanisms	**(64,909)**	(41,520)
Rate adjustment mechanisms, included in other current liabilities	**(4,050)**	(11,674)
Total current regulatory liabilities	**(77,806)**	(54,362)
Total current regulatory assets, net	**462,346**	612,653
Regulatory assets – non-current		
Merger rate plan stranded costs	**-**	453,956
Regulatory tax asset	**62,415**	78,865
Deferred environmental restoration costs	**551,374**	539,900
Pension and postretirement benefit plans	**603,610**	1,046,485
Storm costs	**173,067**	173,199
Derivative contracts	**1,293**	29,357
Transportation marketer credit	**117,505**	112,782
Loss on reacquired debt	**23,449**	26,243
Other	**173,022**	97,752
Total non-current regulatory assets	**1,705,735**	2,558,539
Regulatory liabilities – non-current		
Cost of removal reserve	**(418,196)**	(404,007)
Stranded costs and CTC related	**(82,697)**	(82,650)
Postretirement benefit	**(25,552)**	(25,552)
Medicare Act tax benefit deferral	**(1,108)**	(15,308)
Economic development fund	**(38,744)**	(38,688)
Unbilled gas revenue	**(25,248)**	(20,040)
Environmental insurance proceeds	**(4,741)**	(4,741)
Debt interest rate savings	**(92,534)**	(92,534)
Derivative contracts	**(99,209)**	(77,966)
Other	**(310,655)**	(218,649)
Total non-current regulatory liabilities	**(1,098,684)**	(980,135)
Total non-current regulatory assets, net	**607,051**	1,578,404
Net regulatory assets	**$ 1,069,397**	$ 2,191,057

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

Rate Matters

Electric Rate Case Filing

In January 2010, the Company filed an application with the NYPSC for the new electricity base rates, effective January 2011, which would terminate the MRP one year early. The Company filed for an increase in the base transmission and distribution revenue of $361.2 million based on a return on equity of 11.1% and equity ratio of 50.01% for rate year 2011. While the Company filed for a three-year rate case commencing January 1, 2011 through December 31, 2013, NYPSC staff responded to a one-year rate case and the Company adopted the one-year rate case in this proceeding. In January 2011, the NYPSC granted the request for an increase in revenue of approximately $112 million, including recovery of $40 million in competitive transition charges, with a 9.1% return on equity. The NYPSC gave the Company the option of receiving a 9.3% return on equity, which would result in a revenue requirement increase of approximately $119 million, if it agreed not to file another general rate case prior to January 1, 2012. In a correspondence dated January 31, 2011, the Company advised the NYPSC staff that it was accepting the option and filing tariffs to reflect a 9.3% return on equity. Of the increase granted, $50 million in revenue is due to temporary rates and is subject to the results of the NYPSC's audit of service company costs allocated to the Company. The NYPSC also established a fixed level of $29.7 million per year for the Company's costs associated with the site investigation and remediation ("SIR") of former manufactured gas plants ("MGPs") and other environmental sites. While the Company had previously recovered all prudently incurred SIR costs, for any annual spend above the fixed level, 80% will now be placed into a deferral account for recovery in a future rate case and the other 20% will be the responsibility of the Company. For any annual spend below the fixed level, a credit will be applied to the deferral account.

The NYPSC adopted the capital expenditures stipulation entered into between the Company, Department of Public Service ("DPS") Staff, and Multiple Intervenors in the rate case, which addresses, among other things, the Company's capital budget and investments for fiscal years 2011 and 2012. The amount of capital reflected in the Company's rates for calendar year 2011 is subject to refund to customers if the Company fails to invest at the levels agreed in the stipulation. In addition, the NYPSC approved the revenue decoupling stipulation entered into between the Company, DPS Staff, the New York Power Authority, and Pace/NRDC which allows for the implementation of a revenue decoupling mechanism whereby the Company's base rates are adjusted annually as a result of the reconciliation between allowed revenue and billed revenue.

Gas Rate Case Filing

In May 2009, the NYPSC approved a joint proposal that provides for a two-year rate plan, with an annual increase of $39.4 million with incremental adjustments in the second year to reflect changes in certain expenses based on an allowed return on equity of 10.2 % and a equity ratio of 43.7%. The joint proposal also includes a revenue decoupling mechanism, negative revenue adjustments for failure to meet certain service quality performance metrics and a commodity-related bad debt recovery mechanism that adjusts for fluctuations in commodity prices. The new rates went into effect on May 20, 2009. In April 2010, the Company filed to increase rates by approximately $13.9 million effective May 20, 2010 based on increases in certain costs. The NYPSC ordered the new rates to go into effect on a temporary basis and in August 2010, the NYPSC approved the rates on a permanent basis effective with the date of such order.

Transmission Rate Case Filing

In February 2008, the Company filed with the FERC a formula transmission rate for customers that take service under the NYISO tariff. The rate took effect on October 1, 2008 subject to refund. The FERC directed hearing and settlement judge proceedings to resolve the remaining contested issues in the proceeding. On April 6, 2009, the Company filed a settlement agreement which was accepted by the FERC by its order issued on June 22, 2009, and which resolved all issues in the proceeding. The settlement provided for an authorized return on equity of 11.5%. The effective date for the settlement was January 30, 2009 with a phase-in of the settlement rate over the period January 30 through June 30, 2009. In July 2009, the Company refunded to customers a total of $7.1 million, inclusive of FERC required interest, for amounts collected in excess of the settlement rates for the period of October 2008 through June 2009. Under the tariff, the Company is required to provide an annual informational filing to the FERC. Annual Update filings have been made in June of 2009 and 2010. In response thereto, certain parties raised issues with the Company's 2009 and 2010 filings. In February 2010, FERC accepted a proposed Stipulation and Agreement to modifying the calculation of the Long-Term Debt Cost of Capital Rate. In January 2011 the FERC accepted in an unpublished letter order the Company's negotiated settlement of the limited issues raised by the parties on the 2010 Annual Update filing, including removal from the formula rate a component reflecting the Temporary State Assessment under Section 18-a of the New York Public Service Law to prevent duplicate charging of that 18-a assessment to entities who are directly assessed or are otherwise exempt from such assessment. The 2011 Annual Update was filed in June 2011. The revenues resulting from the formula rate are charged to wholesale transmission customers and credited back to retail electric distribution customers through the Transmission Revenue Adjustment Clause mechanism.

Other Regulatory Matters

In February 2011, the NYPSC selected Overland Consulting Inc., a management consulting firm, to perform a management audit of National Grid's affiliate cost allocation, policies and procedures. The audit of these service company charges seeks to determine if any service company transactions have resulted in unreasonable costs to New York customers for the provision of delivery service. If potentially material levels of misallocated or inappropriate service company costs are discovered, at the direction of the NYPSC, the investigation will be expanded to prior years to determine if a material amount of misallocated or inappropriate costs under these service company contracts have been charged to the New York utilities. A report of this review to the NYPSC is anticipated in November 2011. At the present time we are not aware of any material misallocation of costs among our affiliates and we do not expect the audit to result in any material adjustment to our financial statements.

In February 2011, the NYPSC instituted a statewide investigation to review its policies regarding the funding mechanisms supporting SIR expenditures and directing the state's utilities to assist the Commission in developing a comprehensive record of: (1) the current and future scope of utility SIR programs; (2) the current cost controls in place by utilities and opportunities to improve such cost controls; (3) the appropriate allocation of costs among customers and potentially shareholders; and (4) methods for recovering costs appropriately borne by ratepayers in a way that minimizes the impact. The NYPSC has requested that the Administrative Law Judge provide a presentation of recommendations before the end of 2011.

In November 2010, FERC commenced an audit of the Company for the period from January 1, 2009 through December 31, 2009 to evaluate the Company's compliance with the FERC's: (1) Uniform System of Accounts for public utilities; (2) Form No. 1 Annual report requirements of major electric utilities; and (3) Form No. 3–Q, Quarterly financial report of electric utilities. The audit is currently ongoing. No formal findings have been communicated by the FERC to date.

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.

The Company made a filing in November 2007 proposing certain financial protections for the Company as required by the NYPSC in the order approving the KeySpan merger which was adopted by NYPSC in March 2008 which provide, among other things, a prohibition on the implementation of a class of preferred stock having one share (the "Golden Share"), subordinate to any existing preferred stock, the holder of which would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation, receivership or similar proceeding without the consent of the holder of such share of stock. In April 2010, the Company petitioned the NYPSC for authorization to issue its Golden Share to GSS Holdings, Inc. ("GSS") under the same arrangements as its sister utilities, The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York and KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island, made with GSS, which terms were filed with the NYPSC on November 19, 2009. On May 24, 2011, subject to the modifications that Niagara Mohawk amend its Certificate of Incorporation to provide for the issuance of the Golden Share and modify its Services and Indemnity Agreement with GSS to include a contractual obligation for GSS to vote the Golden Share in the best interests of New York State, the NYPSC authorized the issuance of a Golden Share by Niagara Mohawk to GSS

The Company received federal income tax refunds covering the tax years of 1991 through 1995 in the amount of $25.6 million, inclusive of $13.3 million of interest, from the Internal Revenue Service ("IRS") in March 2003 and August 2004. The Company made a filing with the NYPSC and proposed to credit $7.2 million to its customers and recorded the resulting regulatory liability and earnings impact in March 2009. The Company subsequently entered into a settlement with the parties in connection with certain adjustments which resulted in an additional $18.7 million credit to its customers**,** including approximately $7.3 million in carrying charges (through December 2009) due to the delay in filing the refund notice and $11.4 million in full settlement of all other outstanding issues. In March 2010, the Company made a supplemental filing to provide procedures put in place by the Company to ensure that all future income tax refunds would be timely noticed. In April 2010, the NYPSC issued an order adopting the submitted joint proposal. The Company will continue to accrue carrying charges for gas customers until such time as the deferred amounts are passed back to gas customers.

In October 2007, the Company filed a preliminary application with NYPSC regarding the implementation of the Follow-on Merger Credit associated with the acquisition of KeySpan Corporation ("KeySpan"). The Company indicated that the merger would result in the savings allocable to the Company of approximately $40 million for the period from September 2007 through December 2011. In the second quarter of 2008, the NYPSC issued its decision requiring a Follow-on Merger Credit of approximately $56 million, including $4 million of additional credit based on settlement between Multiple Intervenors, the Company and the NYPSC. In July 2010, the NYPSC adopted the terms of the joint proposal and directed the Company to record the proposed credits accordingly. The deferred gas credit will be in the Company's next general gas rate proceeding.

Capital Investment

In December 2007, the Company filed with the NYPSC a Petition for Special Ratemaking seeking authorization to defer for later rate recovery 50% of the revenue requirement impact during calendar year 2008 of specified capital programs and operating expenses that are directly associated with these programs. In the order approving the KeySpan merger, the NYPSC had found that the rate impacts associated with certain incremental investments during the remaining period of the MRP would be limited to not more than 50% of the total rate impact as ultimately determined by the NYPSC.

In September 2008, the NYPSC issued its order on the Company's December 2007 Petition for Special Ratemaking. The NYPSC stated that the Company's investment program could "conceptually" be considered incremental to the level of investment assumed in the MRP and therefore could be eligible for deferral. In April 2009 and then again in May 2010, the Company filed for authority to defer 2008 actual incremental capital and associated operating expenditures. In May 2010, the Company also filed a request for recovery of incremental investment in 2009 in another Petition for Special Ratemaking to the NYPSC. In May 2011, the Company also filed a request for recovery of incremental investment in 2010 in another Petition for Special Ratemaking to the NYPSC. The NYPSC has not yet ruled on these petitions.

Temporary State Assessment Pursuant to PSL Section 18-a

In June 2009, the Company made a gas and electric compliance filing with the NYPSC regarding the implementation of the Temporary State Energy & Utility Conservation Assessment. The NYPSC authorized recovery of the revenues required for payment of the Temporary State Assessment, including carrying charges, subject to reconciliation over five years, July 1, 2009 through June 30, 2014. In subsequent compliance filings in June 2010 and 2011, the Company noted that it intends to maintain its gas and electric Temporary State Assessment surcharges for the July 1, 2010 through June 30, 2011 and July 1, 2011 through June 30, 2012 recovery periods. At March 31, 2011, $11.7 million was deferred pending recovery; $30.0 million was recorded at March 31, 2010.

Note 3. Employee Benefits

Summary

The Company sponsors a non-contributory defined benefit pension plan and a PBOP plan. The Plans cover substantially all of the employees of the Company. The pension plan is a cash balance pension plan design and, under that design, pay-based credits are applied based on service time and interest credits are applied at rates set forth in the plan. For non-union employees, effective January 1, 2011, pay-based credits are based on a combination of service time and age. In addition, a large number of employees hired by the Company prior to July 1998 are cash balance design participants who receive a larger benefit if so yielded under pre-cash balance conversion final average pay formula provisions. Non-union employees hired by the Company between July 1, 1998 and December 31, 2010 and union employees hired on or after July 1, 1998 participate in the cash balance design provisions only.

PBOPs include 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.

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

The NYPSC's Statement of Policy requires that prior service costs and gains and losses be amortized over a 10-year period calculated on a vintage year basis.

Funding Policy

Funding policy is determined largely by the Company's rate agreements with the NYPSC and amounts recovered in rates. However, for the pension plan, the contribution for any year will not be less than the minimum amounts that are required under the Pension Protection Act of 2006.

Plan Assets

The target asset allocation for the benefit plans at March 31, 2011 and March 31, 2010 are:

	Pension		Non-union - PBOPs		Union - PBOPs	
	2011	2010	**2011**	2010	**2011**	2010
U.S. equities	**20%**	20%	**44%**	30%	**34%**	34%
Global equities (including U.S.)	**7%**	7%	**-**	-	**12%**	12%
Global tactical asset allocation	**10%**	10%	**-**	-	**17%**	17%
Non-U.S. equities	**10%**	10%	**26%**	20%	**17%**	17%
Fixed income	**40%**	40%	**30%**	50%	**20%**	20%
Private equity	**5%**	5%	**-**	-	**-**	-
Real estate	**5%**	5%	**-**	-	**-**	-
Infrastructure	**3%**	3%	**-**	-	**-**	-
	100%	100%	**100%**	100%	**100%**	100%

The percentage of the fair value of total plan assets at March 31, 2011 and March 31, 2010:

	Pension		Non-union - PBOPs		Union - PBOPs	
	2011	2010	**2011**	2010	**2011**	2010
U.S. equities	**22%**	23%	**45%**	31%	**35%**	36%
Global equities (including U.S.)	**8%**	9%	**-**	-	**12%**	11%
Global tactical asset allocation	**13%**	13%	**-**	-	**17%**	17%
Non-U.S. equities	**11%**	10%	**24%**	20%	**17%**	17%
Fixed income	**41%**	42%	**31%**	49%	**19%**	19%
Private equity	**3%**	-	**-**	-	**-**	-
Real estate	**2%**	3%	**-**	-	**-**	-
	100%	100%	**100%**	100%	**100%**	100%

The Company manages benefit plan investments to minimize the long-term cost of operating the plans, with a reasonable level of risk. Risk tolerance is determined as a result of a periodic asset/liability study which analyzes plan liabilities and plan funded status and results in the determination of the allocation of assets across equity and fixed income securities. Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across the various fixed income market segments. Small investments are also held in private equity, with the objective of enhancing long-term returns while improving portfolio diversification. For the PBOP plan, since the earnings on a portion of the assets are taxable, those investments are managed to maximize after tax returns consistent with the broad asset class parameters established by the asset allocation study. Investment risk and return are reviewed by NGUSA's investment committee on a quarterly basis.

The discount rate is the rate at which plan obligations can be settled. The discount rate assumption is based on rates of return on high quality fixed income investments in the market place as of each measurement date (typically March 31). Specifically, the NGUSA companies use the Hewitt Top Quartile Discount Curve along with the expected future cash flows from the retirement plans to determine the weighted average discount rate assumptions.

The estimated rate of return for various passive asset classes is based both on analysis of historical rates of return and forward looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of the long-term assumption. A small premium is added for active management and rebalancing of both equity and fixed income. The rates of return for each asset class are then weighted in accordance with the Plan's year end asset allocation, and the resulting long-term return on asset rate is then applied to the market-related value of assets.

Assumptions Used for Benefits Accounting

The following weighted average assumptions were used to determine the pension and PBOP benefit obligations and net periodic costs for the years ending March 31, 2011 and March 31, 2010:

	Pension Benefits			
	Benefit obligation		**Net periodic benefit cost**	
	2011	2010	**2011**	2010
Discount rate	**5.90%**	6.10%	**6.10%**	7.30%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%
Expected long-term rate of return on assets	**7.75%**	8.00%	**8.00%**	8.00%

	PBOP			
	Benefit obligation		**Net periodic benefit cost**	
	2011	2010	**2011**	2010
Discount rate	**5.90%**	6.10%	**6.10%**	7.30%
Expected long-term rate of return on asset				
Union	**7.75%**	8.00%	**8.00%**	7.75%
Non-union	**7.75%**	6.75%	**6.75%**	6.75%
Health care cost trend rate				
Initial rate - Pre 65	**8.50%**	8.50%	**8.50%**	8.50%
Initial rate - Post 65	**8.00%**	8.50%	**8.50%**	9.50%
Initial rate - Rx	**8.75%**	9.25%	**9.25%**	n/a
Ultimate rate	**5.00%**	5.00%	**5.00%**	5.00%
Year ultimate rate is reached - Pre 65	**2018**	2017	**2017**	2015
Year ultimate rate is reached - Post 65	**2017**	2017	**2017**	2016
Year ultimate rate is reached - Rx	**2019**	2019	**2019**	n/a

The Company participates in pension and PBOP plans with another NGUSA subsidiary. The expected contributions to the pension and PBOP plans during fiscal year 2012 are $110.5 million and $190.5 million, respectively. A portion of these contributions will be made by the Company.

Pension Benefits

The Company's net periodic benefit cost for the years ended March 31, 2011 and March 31, 2010 included the following components:

(in thousands of dollars)		**2011**		2010
Service cost	**$**	**23,718**	$	20,856
Interest cost		**69,312**		72,098
Expected return on plan assets		**(96,050)**		(84,800)
Amortization of unrecognized prior service cost		**4,764**		4,313
Amortization of unrecognized loss		**63,323**		47,835
Net periodic benefit costs before settlement		**65,067**		60,302
Settlement loss		**625**		132
Special termination benefits (VERO)*		**267**		2,514
Net periodic benefit cost	**$**	**65,959**	$	62,948

**Special termination benefits consist of costs related to Voluntary Early Retirement Offer ("VERO").*

The benefit obligation, assets and funded status of the pension plans cannot be presented separately for the Company as the Company participates in the Plan with an affiliated NGUSA Service Company.

The following table provides the total funded status at March 31 of the pension plans in which the Company participates:

(in thousands of dollars)		**2011**		2010
Change in benefit obligation:				
Benefit obligation at beginning of year	**$**	**(1,305,713)**	$	(1,103,561)
Service cost		**(28,643)**		(24,369)
Interest cost		**(75,883)**		(77,621)
Actuarial gain (loss)		**(23,257)**		(188,349)
Benefits paid		**108,421**		108,082
Settlements (lump sums)		**2,543**		612
Plan amendments		**(1,147)**		(14,966)
Special termination benefits (VERO)		**(1,095)**		(5,541)
Benefit obligation at end of year		**(1,324,774)**		(1,305,713)
Fair value of plan assets at beginning of year		**1,321,649**		929,816
Actual return (loss) on plan assets		**174,903**		302,008
Company contributions		**183,003**		198,519
Benefits paid		**(108,421)**		(108,082)
Settlements (lump sums)		**(2,543)**		(612)
Fair value of plan assets at end of year		**1,568,591**		1,321,649
Funded status	**$**	**243,817**	$	15,936

The accumulated benefit obligation for all defined benefit pension plans in which the Company participates was $1.2 billion for the years ended March 31, 2011 and March 31, 2010.

The following table details the amounts recognized in the Company's balance sheets.

(in thousands of dollars)		**2011**		2010
Amounts recognized in the Company's balance sheet consist of:				
Other current liabilities	**$**	**(460)**	$	(2,980)
Employee pension and other benefits	**$**	**261,458**	$	45,932

(in thousands of dollars)		**2011**		2010
Amounts recognized primarily in regulatory assets consist of:				
Net actuarial loss	**$**	**301,330**	$	407,670
Prior service cost		**38,153**		41,871
Net amount recognized	**$**	**339,483**	$	449,541

The estimated net actuarial loss and prior service cost for the defined benefit pension plans that will be amortized from regulatory assets and accumulated other comprehensive income (loss) into net periodic benefit cost during fiscal year 2012

is estimated to be $73 million and $5 million, respectively. The Company participates in the Plans with certain other NGUSA subsidiaries. A portion of these amounts will be recorded as expense by the Company.

The following payments are expected to be paid from the pension plans:

(in thousands of dollars)		**Pension Benefits**
2012	**$**	**106,852**
2013		**115,951**
2014		**118,481**
2015		**126,606**
2016		**131,843**
Thereafter		**667,059**

Defined Contribution Plan

The Company has a defined contribution pension plan (employee savings fund plan) that covers substantially all employees. Employer matching contributions of $7 million were expensed for the years ended March 31, 2011 and March 31, 2010.

Postretirement Benefit Plans Other than Pensions

The Company's total cost of PBOPs for the years ended March 31, 2011 and March 31, 2010 included the following components:

(in thousands of dollars)		**2011**		2010
Service cost	**$**	**16,371**	$	11,585
Interest cost		**81,691**		82,915
Expected return on plan assets		**(41,177)**		(28,251)
Amortization of unrecognized prior service cost		**12,964**		13,206
Amortization of unrecognized net loss		**44,212**		35,955
Net periodic benefit costs before settlement		**114,061**		115,410
Special termination benefits (VERO)*		**-**		82
Net periodic benefit cost	**$**	**114,061**	$	115,492

**Special termination benefits consist of costs related to VERO.*

The benefit obligation, assets and funded status of the PBOP plan cannot be presented separately for the Company as the Company participates in the Plan with another NGUSA subsidiary. The following table provides the PBOP plans' funded status and the amounts recognized in the NGUSA consolidated balance sheets at March 31:

(in thousands of dollars)		**2011**		2010
Change in benefit obligation:				
Benefit obligation at beginning of year	**$**	**(1,475,981)**	$	(1,255,018)
Service cost		**(18,906)**		(13,159)
Interest cost		**(85,581)**		(85,933)
Actuarial gain (loss)		**53,847**		(210,584)
Medicare Part D subsidy received		**(4,890)**		(4,600)
Benefits paid		**69,071**		85,761
Plan amendments		**7,277**		14,195
Healthcare reform amendment		**-**		(6,500)
Special termination benefits (VERO)		**(9)**		(143)
Benefit obligation at end of year		**(1,455,172)**		(1,475,981)
Fair value of plan assets at beginning of year		**531,377**		389,837
Actual return on plan assets		**80,695**		146,062
Company contributions		**138,065**		81,239
Benefits paid		**(69,071)**		(85,761)
Fair value of plan assets at end of year		**681,066**		531,377
Funded status	**$**	**(774,106)**	$	(944,604)

Amounts recognized in the Company's balance sheets consist of:

(in thousands of dollars)		**2011**		2010
Amounts recognized on the Company's Balance Sheet consist of:				
Other current liabilities	**$**	**(15,000)**	$	(4,600)
Employee pension and other benefits liability	**$**	**(725,812)**	$	(907,630)

(in thousands of dollars)		**2011**		2010
Amounts recognized primarily in regulatory assets:				
Net actuarial loss	**$**	**156,133**	$	288,167
Prior service cost		**43,283**		63,182
Deferred taxes on subsidy		**-**		(35,178)
Net amount recognized	**$**	**199,416**	$	316,171

The estimated net actuarial loss and prior service cost for the PBOP plans that will be amortized from regulatory assets into net periodic benefit cost during fiscal year 2012 is estimated to be $40 million and $12 million, respectively. The Company participates in the Plans with certain other NGUSA subsidiaries. A portion of these amounts will be recorded as expense by the Company.

As a result of the Medicare Act of 2003, the Company receives a federal subsidy for sponsoring a retiree healthcare plan that provides a benefit that is actuarially equivalent to Medicare Part D.

The following PBOP benefit payments expected to be paid and subsidies expected to be received from the U.S. Federal Government, which reflect expected future services, as appropriate, are:

(in thousands of dollars)		**Payments**		**Subsidies**
2012	**$**	**76,387**	**$**	**5,094**
2013		**79,845**		**5,712**
2014		**83,465**		**6,303**
2015		**86,843**		**6,911**
2016		**89,978**		**7,524**
2017-2021		**490,095**		**47,207**

A one-percentage point change in assumed health care cost trend rates would have the following effects:

(in thousands of dollars)		**2011**
Increase 1%		
Total of service cost plus interest cost	**$**	**16,680**
Postretirement benefit obligation		**190,087**
Decrease 1%		
Total of service cost plus interest cost		**(14,148)**
Postretirement benefit obligation		**(168,121)**

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 income statement of approximately $0 and $60.6 million for the years ended March 31, 2011 and March 31, 2010, respectively. This was offset by credits to the income statement arising from the release of associated regulatory liabilities, net of tax.

Workforce Reduction Program

In connection with National Grid plc's acquisition of KeySpan, National Grid plc and KeySpan offered 673 non-union employees a VERO in an effort to reduce the workforce. Eligible employees must have been working in a targeted area as of April 13, 2007 and be at least 52 years of age with seven or more years of service as of September 30, 2007. For eligible employees who have elected to accept the VERO offer, National Grid plc and KeySpan have the right to retain that employee for up to three years before VERO payments are made. An employee who accepts the VERO offer but elects to

terminate employment with National Grid plc or KeySpan prior to the three year period, without consent of National Grid plc or KeySpan, forfeits all rights to VERO payments. The VERO is completed and the Company has accrued $40 million which has been deferred for recovery from gas sales customers as part of the synergy savings and cost to achieve caculations.

Note 4. Debt

Short-term Debt

For the years ended March 31, 2011 and March 31, 2010, the Company has regulatory approval from the FERC to issue up to $1.0 billion of short-term debt

State Authority Financing Bonds

Substantially all of the Company's operating properties are subject to mortgage liens securing its mortgage debt. Several series of First Mortgage Bonds amounting to $650 million were issued to secure a like amount of tax-exempt revenue bonds issued by the New York State Energy Research and Development Authority ("NYSERDA"). Approximately $575 million of such securities bear interest at short-term adjustable interest rates (with an option to convert to other rates, including a fixed interest rate) ranging from 0.58% to 0.89%, for the twelve months ended March 31, 2011. The bonds are currently in the auction rate mode and are backed by bond insurance. The recent turmoil in the auction rate markets has led to widespread auction failures. In the case of a failed auction, the resulting interest rate on the bonds would revert to the maximum rate which depends on the current appropriate, short-term benchmark rate and the senior secured rating of the Company or the bond insurer, whichever is greater. The effect on interest expense has not been material at this time. The Company also has $75 million of 5.15% fixed rate pollution control revenue bonds issued through NYSERDA which are callable at par. Pursuant to agreements between NYSERDA and the Company, proceeds from such issues were used for the purpose of financing the construction of certain pollution control facilities at the Company's generation facilities (which the Company subsequently sold) or to refund outstanding tax-exempt bonds and notes.

Intercompany Notes

The Company has several intercompany long-term notes outstanding with Niagara Mohawk Holdings, the parent of the Company, in the amount of $500 million and $850 million at March 31, 2011 and March 31, 2010, respectively.

Notes Payable

In August 2009, the Company issued $750 million of unsecured long-term debt at 4.881% with a maturity date of August 15, 2019. Additionally, in September 2009 the Company issued $500 million of long-term debt at 3.553% with a maturity date of October 1, 2014. 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 an appropriate capital structure for the nature of its business and attendant risk profile.

The aggregate maturities of long-term debt for the five years subsequent to March 31, 2011, excluding capital leases, are approximately:

(in thousands of dollars)

Year Ended March 31,		
2012	$	-
2013		500,000
2014		45,600
2015		500,000
2016		100,000
Thereafter		1,254,465
Total	$	2,400,065

The current portion of capital lease obligations is reflected in the "other current liabilities" line item on the balance sheets and was approximately $0.6 million at March 31, 2011 and March 31, 2010. The non-current portion of capital lease obligations is reflected in the "other deferred liabilities" line item on the balance sheets and was approximately $1 million and $1.6 million at March 31, 2011 and March 31, 2010, respectively.

Note 5. 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:

	March 31,			
(in thousands of dollars)		**2011**		2010
Plant and machinery	**$**	**8,421,031**	$	8,023,829
Land and buildings		**495,396**		484,753
Assets in construction		**257,091**		267,811
Software and other intangibles		**86,574**		86,574
Total		**9,260,092**		8,862,967
Accumulated depreciation and amortization		**(2,771,152)**		(2,675,934)
Property, plant and equipment, net	**$**	**6,488,940**	$	6,187,033

AFUDC

The Company capitalizes AFUDC as part of construction costs. AFUDC represents an allowance for the cost of funds used to finance construction and includes a debt component and an equity component. AFUDC is capitalized in "Property, plant and equipment" with offsetting credits to "Other interest, including affiliate interest" for the debt component and "Other deductions" for the equity component. This method is in accordance with an established rate-making practice under which the Company is permitted to earn a return on, and the recovery of, prudently incurred capital costs through its ultimate inclusion in rate base and in the provision for depreciation. The composite AFUDC rate was 6.6% and 0.5% 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 $6.1 million and $0.3 million, respectively.

The Company's repair and maintenance costs are expensed as incurred unless they represent replacement of property to be capitalized.

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 Company performs depreciation studies to determine service lives of classes of property and adjusts the depreciation rates when necessary.

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

	2011		2010	
	Provision	**Service Life**	Provision	Service Life
Asset Category				
Electric	**2.7%**	**37**	2.7%	36
Gas	**2.3%**	**44**	2.3%	44
Common	**4.4%**	**23**	4.3%	23

Note 6. Income Taxes

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

	Years Ended March 31,	
(in thousands of dollars)	**2011**	2010
Components of federal and state income taxes:		
Current tax expense (benefit):		
Federal	**$ 175,448**	$ (83,425)
State	**16,294**	(9,180)
Total current tax expense (benefit)	**191,742**	(92,605)
Deferred tax expense (benefit):		
Federal	**(154,516)**	136,044
State	**27,980**	83,726
Total deferred tax (benefit) expense	**(126,536)**	219,770
Investment tax credits [(1)]	**(2,126)**	(2,219)
Total income tax expense	**$ 63,080**	$ 124,946

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

Income tax expense for 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	**$ 67,887**	$ 101,046
Increase (reduction) including those attributable to flow-through of certain tax adjustments:		
Intercompany tax allocation	**(29,800)**	(22,636)
State income tax, net of federal benefit	**28,778**	26,347
Temporary differences flowed through	**3,454**	980
Investment tax credit	**(2,126)**	(2,219)
Allowance for equity funds used during construction	**(1,902)**	-
Employee Stock Ownership Plan dividends	**(1,436)**	(1,371)
IRS audit and related reserve settlements	**-**	(26,211)
Medicare subsidy, including Patient Protection & Affordable Care Act, net	**-**	47,240
Other items, net	**(1,775)**	1,770
Total	**$ (4,807)**	$ 23,900
Federal and state income taxes	**$ 63,080**	$ 124,946

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
Regulatory liabilities - other	**$ 374,051**	$ 220,625
Pension, other post-employment benefits ("OPEB") and other employee benefits	**263,821**	428,913
Reserve - environmental	**188,925**	189,465
Allowance for uncollectible accounts	**91,012**	82,873
Future federal benefit on state taxes	**43,939**	42,314
Unbilled revenue	**12,348**	17,004
Other items	**3,642**	39,969
Total deferred tax assets[1]	**977,738**	1,021,163
Property related differences	**(1,378,701)**	(1,296,465)
Regulatory assets - pension and OPEB	**(474,406)**	(580,600)
Regulatory assets - environmental	**(223,907)**	(214,316)
Regulatory assets - merger rate plan stranded costs	**(154,647)**	(349,497)
Regulatory assets - storm costs	**(71,143)**	(72,917)
Other items	**(91,306)**	(58,584)
Total deferred tax liabilities	**(2,394,110)**	(2,572,379)
Net accumulated deferred income tax liability	**(1,416,372)**	(1,551,216)
Deferred investment tax credit	**(24,868)**	(26,994)
Net accumulated deferred income tax liability and investment tax credit	**$ (1,441,240)**	$ (1,578,210)
Current portion of net deferred tax asset	**110,572**	104,389
Non-current accumulated deferred income tax liability	**$ (1,551,812)**	$ (1,682,599)

[1] There was a valuation allowance of $11.6 million and nil at March 31, 2011 and March 31, 2010, respectively, for deferred tax assets relating to NYS state net operating losses of $276 million. As of March 31, 2011, the Company has approximately $160 million of state net operating losses ("NOL") which will expire between 2011 and 2029. The Company believes that it is more likely than not that the benefit from the state NOL carryforwards will not be realized. In recognition of this risk, the Company has provided a valuation allowance of $11.6 million on the deferred tax assets relating to the state NOL carryforwards.

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 liability for any potential assessments against the consolidated group.

The Company adopted the provisions of the FASB guidance which clarifies the accounting for uncertainty in income taxes recognized in the financial statements. This guidance provides that the financial effects of a tax position shall initially be recognized when it is more likely than not, based on the technical merits, that the position will be sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information.

As of March 31, 2011 and March 31, 2010, the Company's unrecognized tax benefits totaled $222.3 million and $185.4 million, respectively, of which none and $0.8 million, respectively, would impact the effective tax rate, if recognized. The unrecognized tax benefits are included in "other deferred liabilities" on the Company's 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	**$ 185,350**	$ 155,497
Gross increases related to prior year	**20,777**	-
Gross increases related to current year	**16,149**	102,781
Settlements with tax authorities	**-**	(72,928)
Ending balance	**$ 222,276**	$ 185,350

As of March 31, 2011 and March 31, 2010, the Company has accrued for interest related to unrecognized tax benefits of $15.7 million and $8.5 million, respectively. During the years ended March 31, 2011 and March 31, 2010, the Company recorded interest expense of $10.9 million and interest income of $20.6 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.

Federal income tax returns have been examined and all appeals and issues have been agreed with 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 reached an agreement with the IRS the contained a settlement of the majority of the income tax issues related to the years ending March 31, 2005 and March 31, 2007 as well as an acknowledgment that certain discrete items remained disputed.

The Company is in the process of appealing certain disputed issues with the IRS Office of Appeals relating to its tax returns for March 31, 2005 through March 31, 2007. The Company does not anticipate a change in its unrecognized tax positions in the next twelve 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 through 2011 remain subject to examination by the IRS.

New York State income tax returns have been examined and all issues have been agreed with the New York State Department of Revenue through March 31, 2005. During the year ended March 31, 2010, the State of New York began a new audit cycle covering the years ended March 31, 2006 through March 31, 2008. The years ended March 31, 2009 through March 31, 2011 remain subject to examination.

Note 7. Derivatives 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 $0.2 million and $0.7 million, respectively.

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 The New York Mercantile Exchange ("NYMEX") gas futures and swaps as well as NYMEX electric futures and over-the-counter ("OTC") swaps. The fair value of these derivative instruments at March 31, 2011 was a liability of $2.5 million and $22.6 million, respectively.

Prior to 2001 the Company owned 41% of the Nine Mile Point 2 nuclear power generation plant in upstate New York. As part of regulatory reform, the Company was required to divest its power generation assets in 2001 and Constellation Energy acquired the Company's share of the Nine Mile Point 2 nuclear power generation plant.

Pursuant to this divestiture, the Company agreed to purchase physical energy and capacity from the Nine Mile Point 2 nuclear generating station for a period of ten years, terminating in December 2011 (the "Nine Mile physical purchase contract"). The purchased power from this facility has been utilized to satisfy the Company's electricity customers in the upstate New York area for the duration of this contract. Upon expiration of the Nine Mile physical purchase contract, the Company will buy power from the NYISO as a replacement for the power previously purchased directly from the Nine Mile Point 2 nuclear power generation plant.

The Company also has entered into a Revenue Sharing Arrangement ("RSA") with Constellation Energy, covering a period of ten years from the expiration of the Nine Mile physical purchase contract. Pursuant to the RSA, the Company and Constellation Energy will share in the revenue that Constellation Energy earns on sales to the NYISO in proportion to the electric volumes that the Company had purchased under the Nine Mile physical purchase contract.

This contract has been determined to be a financial derivative instrument since a futures market has been established in upstate New York and although trading is relatively shallow, there is now a trend of market prices that can be used for modeling purposes. The value of this derivative at March 31, 2011 is $100.4 million. Since the power purchased under the RSA will be used to supply rate-regulated electric sales customers, the accounting for this derivative follows the current accounting guidance for rate-regulated enterprises noted above.

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

(in thousands)		
Physicals	Gas (dths)	10,725
	Gas swaps (dths)	8,710
	Gas options (dths)	4,160
	Electric swaps (Mwhs)	2,559
Financials	Electric options (Mwhs)	30,248
	Gas (dths)	**23,595**
Total	**Electric (Mwhs)**	**32,807**

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 futures fontract - current asset	**$ -**	$ -	Gas futures contract - current liability	**$ -**	$ -
Gas swaps contract - current asset	**220**	6	Gas swaps contract - current liability	**(2,522)**	(16,699)
Gas options contract - current asset	**92**		Gas options contract - current liability	**(97)**	-
Gas purchase contract - current asset	**1,151**	1,162	Gas purchase contract - current liability	**(942)**	(499)
Current asset	***1,463***	*1,168*	*Current liability*	***(3,561)***	*(17,198)*
Gas futures contract - deferred asset	**-**	-	Gas futures contract - deferred liability	**-**	-
Gas swaps contract - deferred asset	**33**	-	Gas swaps contract - deferred liability	**(238)**	-
Gas options contract - deferred asset	**6**	-	Gas options contract - deferred liability	**(9)**	-
Gas purchase contract - deferred asset	**-**	-	Gas purchase contract - deferred liability	**-**	-
Deferred asset	***39***	*-*	*Deferred liability*	***(247)***	*-*
Gas subtotal	***1,502***	*1,168*		***(3,808)***	*(17,198)*
Electric Contracts:					
Electric futures contract - current asset	**-**	-	Electric futures contract - current liability	**-**	(909)
Electric swaps contract - current asset	**2,801**	-	Electric swaps contract - current liability	**(27,654)**	(48,100)
Electric options contract - current asset	**4,583**	-	Electric options contract - current liability	**-**	-
Current asset	***7,384***	*-*	*Current liability*	***(27,654)***	*(49,009)*
Electric swaps contract - deferred asset	**3,344**	-	Electric swaps contract - deferred liability	**(1,046)**	(24,436)
Electric options contract - deferred asset	**95,826**	77,966	Electric options contract - deferred liability	**-**	
Deferred asset	***99,170***	*77,966*	*Deferred liability*	***(1,046)***	*(24,436)*
Electric subtotal	***106,554***	*77,966*		***(28,700)***	*(73,445)*
Total	**$ 108,056**	$ 79,134	Total	**$ (32,508)**	$ (90,643)

The following table presents the change in value and asset and (liability) balances of the Company's derivative contracts. The Company had no derivative contracts eligible for non-rate-regulated accounting treatment as of March 31, 2011 and March 31, 2010. 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 related regulatory assets and liabilities had no income statement impact.

Fair Values of Derivative Instruments

(in thousands of dollars)	Year to Date Movement	**March 31, 2011**	March 31, 2010
Regulated Contracts			
Gas Contracts:			
Gas swaps contract - regulatory asset	$ 13,939	**$ (2,760)**	$ (16,699)
Gas options contract - regulatory asset	(106)	**(106)**	-
Gas purchase contract - regulatory asset	(443)	**(942)**	(499)
Gas futures contract - regulatory liability	-	**-**	-
Gas swaps contract - regulatory liability	247	**253**	6
Gas options contract - regulatory liability	98	**98**	-
Gas purchase contract - regulatory liability	(11)	**1,151**	1,162
Gas subtotal	*13,724*	***(2,306)***	*(16,030)*
Electric Contracts:			
Electric futures contract - regulatory asset	909	**-**	(909)
Electric swaps contract - regulatory asset	43,836	**(28,700)**	(72,536)
Electric swaps contract - regulatory liability	6,145	**6,145**	-
Electric swaps contract - regulatory liability	22,443	**100,409**	77,966
Electric subtotal	*73,333*	***77,854***	*4,521*
Total	$ 87,057	**$ 75,548**	$ (11,509)

The aggregate fair value 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 post any collateral in the normal course of business, is $27.9 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 $28.1 million additional collateral to its counterparties.

Credit and Collateral

Derivative contracts are primarily used to manage exposure to market risk arising from changes in commodity prices and interest rates. In the event of non-performance by a counterparty to a derivative contract, the desired impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively managed by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support. In instances where the counterparties' credit quality has declined, or credit exposure exceeds certain levels, we may limit our credit exposure by restricting new transactions with counterparties, requiring additional collateral or credit support and negotiating the early termination of certain agreements. At March 31, 2011, the Company paid $0.1 million 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.

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 and power futures and swaps traded on the NYMEX. There is no liquidity or credit reserve associated with such trades, and no discounting as well. The Company currently has no level 1 assets or liabilities for our derivative contracts.

The Company's Level 2 fair value derivative instruments primarily consist of OTC gas swaps and forward physical gas deals where market data for pricing inputs is observable. Level 2 pricing inputs are obtained from 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 March 31, 2011, 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 liquidity reserve calculated based on bid/ask spread. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 0.95 or higher.
Level 3 fair value derivative instruments primarily consist of our gas OTC forwards, options, and physical gas transactions where pricing inputs are unobservable, as well as other complex and structured transactions. Complex or structured transactions can introduce the need for internally-developed models based on reasonable assumptions. Industry-standard valuation techniques, such as 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 curves 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:

Fair Value Measurement Level Summary Table

(in thousands of dollars)	Level 1	Level 2	Level 3	Total
Assets				
Derivative contracts	$ -	$ 7,080	$ 100,976	$ 108,056
Available for sale securities	17,860	6,912	-	24,772
Total assets	17,860	13,992	100,976	132,828
Liabilities				
Derivative contracts	-	(32,138)	(370)	(32,508)
Total liabilities	-	(32,138)	(370)	(32,508)
Net asset balance	$ 17,860	$ (18,146)	$ 100,606	$ 100,320

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	$ 78,565
Total gains and losses:	
included in regulatory assets and liabilities	22,339
Purchases	(298)
Balance at March 31, 2011	$ 100,606
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	$ -

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. There were no transfers between Level 1 and Level 2.

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 is $1,955 million.

Current accounting guidance on fair value measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Following is a description of the valuation methodologies used at March 31, 2011 for pension and other postretirement benefit assets measured at fair value. The pension and other postretirement benefit assets can be invested in any of the following categories.

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

Equity and preferred securities
Common stocks, preferred stocks, and real estate investment trusts are valued using the official close (for National Association of Securities Dealers Automated Quotations only), last trade, bid of the ask offer price reported on the active market on which the individual securities are traded.

Fixed income securities and future contracts
Fixed income securities, convertible securities, collateral received from securities lending (which include corporate debt securities, municipal fixed income securities, US Government and Government agency securities which are in turn comprised of government agency securities, government mortgage-backed securities, index linked government bonds, and state and local bonds), derivatives (except certain options traded on an exchange) and forward foreign exchange contracts (comprised of interest rate swaps, credit default swaps, index swaps, financial futures, and other derivatives), and investment of securities lending collateral (comprised of repurchase agreements, asset-backed securities, floating rate notes and time deposits) are valued with an institutional bid valuation or an institutional mid evaluation. A bid evaluation is an estimated price at which a dealer would pay for a security (typically in an institutional round lot). A mid evaluation is the average of the estimated price at which a dealer would sell a security and the estimated price at which a dealer would pay for a security (typically in an institutional round lot). Oftentimes, these evaluations are based on proprietary models which pricing vendors establish for these purposes. In some cases, there may be manual sources used when primary price vendors do not supply prices.

Private equity and real estate
Commingled equity funds, commingled special equity funds, limited partnerships, real estate, venture capital and other investments are valued using evaluations (a good faith opinion as to what a buyer in the marketplace would pay for a security – typically in an institutional round lot-in a current sale), based on proprietary models, or based on the net asset value.

The asset classes listed in the tables below may also be held in the following investment vehicles:

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

103-12 investment entities (entities whose legal structure is in the form of a financial services product such as a collective trust or a limited partnership and whose underlying assets include "plan assets" of two or more plans that are not members of a related group of employee benefit plans in accordance with Department of Labor Regulation 2520.103-12) are valued using financial information received from the investment trustee, advisor and/or general partner. This information is received monthly and is based on the value of underlying securities. For some 103-12 investments, the financial information is provided in the quarterly statements that are typically provided more than 30 days after quarter end. Because of this time lag, investment units for these 103-12 investment entities are valued as of the Plan year end using the available statement from the prior quarter end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The table depicted below sets forth by level, within the fair value hierarchy, the pension plan investments at fair value as of March 31, 2011:

(in thousands of dollars) Type	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 500	$ 34,922	$ -	$ 35,422
Equity	322,075	396,228	82,896	801,199
Fixed income securities	140,919	468,661	91,582	701,162
Futures contracts	90	-	-	90
Preferred securities	1,256	-	-	1,256
Real estate	-	-	29,462	29,462
Net assets at fair value	$ 464,840	$ 899,811	$ 203,940	$ 1,568,591

The table depicted below sets forth by level, within the fair value hierarchy, the retirement benefits other than pension plan investments at fair value as of March 31, 2011:

(in thousands of dollars) Type	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 103	$ 15,920	$ -	$ 16,023
Equity	156,322	308,735	10,462	475,519
Fixed income securities	109,031	53,517	26,610	189,158
Preferred securities	367	-	-	367
Net assets at fair value	$ 265,823	$ 378,172	$ 37,072	$ 681,067

The following table sets forth a summary of changes in the fair value of the pension plan's Level 3 investments for the year ended March 31, 2011:

(in thousands of dollars)	Equity	Fixed Income Securities	Real Estate	Total
Balance, beginning of year	$ 57,599	$ 71,218	$ -	$ 128,817
Realized gains	1,089	76	1	1,166
Unrealized gains at reporting date	9,357	6,811	3,121	19,289
Purchases, sales, issuance, and settlements (net)	14,851	13,477	26,340	54,668
Balance, end of year	$ 82,896	$ 91,582	$ 29,462	$ 203,940

The following table sets forth a summary of changes in the fair value of the retirement benefits other than pension plan's Level 3 investments for the year ended March 31, 2011:

(in thousands of dollars)	Equity	Fixed Income Securities	Total
Balance, beginning of year	$ 9,042	$ 25,163	$ 34,205
Realized gains (losses)	(17)	82	65
Unrealized gains at reporting date	1,777	3,077	4,854
Purchases, sales, issuance, and settlements (net)	(340)	(1,712)	(2,052)
Balance, end of year	$ 10,462	$ 26,610	$ 37,072

Note 9. Accumulated Other Comprehensive Income (Loss)

The following table details the components of accumulated other comprehensive income (loss) for the years ended March 31, 2011 and March 31, 2010:

(in thousands of dollars)	Unrealized Gains (Losses) On Available-for Sale Securities	Postretirement Benefit Liabilities	Total Accumulated Other Comprehensive Income (Loss)
March 31, 2009 balance, net of tax	$ (3,566)	$ (892)	$ (4,458)
Unrealized gain on securities	3,200	-	3,200
Change in pension and other postretirement obligations	-	(314)	(314)
Reclassification adjustment for gain included in net income	(356)	-	(356)
March 31, 2010 balance, net of tax	(722)	(1,206)	(1,928)
Unrealized gain on securities	1,151	-	1,151
Change in pension and other postretirement obligations	-	343	343
Reclassification adjustment for gain included in net income	(548)	-	(548)
March 31, 2011 balance, net of tax	$ (119)	$ (863)	$ (982)

Note 10. Commitments and Contingencies

Long-Term Contracts for the Purchase of Electric Power

The Company has several types of long-term contracts for the purchase of electric power. The Company is liable for these payments regardless of the level of service required from third parties. 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	$ 100,312

The Company purchases any additional energy needed to meet its load requirements and can purchase the electricity on the open market through the NYISO 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.

Environmental Matters

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's transmission and distribution businesses generate hazardous wastes. 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 U.S. Environmental Protection Agency ("EPA"), and New York Department of Environmental Conservation ("DEC"), as well as private entities, have alleged that the Company is a potentially responsible party under state or federal law for the remediation of numerous sites. The Company's most significant liabilities relate to former manufactured gas plant ("MGP") facilities formerly owned or operated by the Company. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA and DEC.

The Company believes that obligations imposed on the Company because of the environmental laws will not have a material result on its operations or financial condition because the Company's MRP provides for the continued application of deferral accounting for variations in spending from amounts provided in rates related to these environmental obligations. As a result, the Company has recorded a regulatory asset representing the investigation, remediation and monitoring obligations it expects to recover from ratepayers.

The Company is pursuing claims against other potentially responsible parties to recover investigation and remediation costs it believes are the obligations of those parties. The Company cannot predict the success of such claims. As of March 31, 2011 and March 31, 2010, the Company had accrued liabilities related to its environmental obligations of $448.8 million and $450.0 million, respectively. The high end of the range of potential liabilities at March 31, 2011, was estimated at $631.0 million.

Nuclear Contingencies

As of March 31, 2011 and March 31, 2010, the Company has a liability of $167.5 million and $167.3 million, respectively, in non-current liabilities for the disposal of nuclear fuel irradiated prior to 1983. In January 1983, the Nuclear Waste Policy Act of 1982 (the "Nuclear Waste Act") established a cost of $.001 per kilowatt-hour ("kWh") of net generation for current disposal of nuclear fuel and provides for a determination of the Company's liability to the DOE for the disposal of nuclear fuel irradiated prior to 1983. The Nuclear Waste Act also provides three payment options for liquidating such liability and the Company has elected to delay payment, with interest, until the year in which Constellation Energy Group Inc., which purchased the Company's nuclear assets, initially plans to ship irradiated fuel to an approved DOE disposal facility.

In March 2010, the DOE filed a motion with the Nuclear Regulatory Commission to withdraw the license application for a high-level nuclear waste repository at Yucca Mountain. In conjunction with this announcement, the US government announced that it has established a Blue Ribbon Commission to perform a comprehensive review and provide recommendations regarding the disposal of the nation's spent nuclear fuel and waste. Therefore, the Company cannot predict the impact that the recent actions of the DOE and the US government will have on our ability to dispose of the spent nuclear fuel and waste.

Asset Retirement Obligations

The Company has various asset retirement obligations associated with its gas distribution facilities. 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) legal requirements to cut (disconnect from the gas distribution system), purge (clean of natural gas and PCB contaminants) and cap gas mains within our gas distribution and transmission system when mains are retired in place; or dispose of sections of gas main when removed from the pipeline system; (ii) cleaning and removal requirements associated with storage tanks containing waste oil and other waste contaminants; and (iii) legal requirements to remove asbestos upon major renovation or demolition of structures and facilities. These obligations total $8.9 million and $10.6 million at March 31, 2011 and March 31, 2010, respectively.

Gas Supply, Storage and Pipeline Commitments

In connection with its regulated gas business, the Company has long-term commitments with a variety of suppliers and pipelines to purchase gas commodity, provide gas storage capability and transport gas commodity on interstate gas pipelines.

The table below sets forth the Company's estimated commitments at March 31, 2011 for each of the next five years and thereafter.

(n thousands of dollars)

Years Ended March 31,		
2012	$	122,559
2013		59,621
2014		56,946
2015		55,832
2016		54,634
Thereafter		22,614

The Company is liable for these payments regardless of the level of service required from third-parties.

Sales and Use Tax Contingencies

The Company is subject to periodic tax audits by federal and state authorities. In 2005, the Company was subject to a sales and use tax audit conducted by the State of New York for the audit period June 2001 through November 2005. The Company's sales and use tax for 2006 and subsequent years remain subject to examination by the state authorities. In June 2010, the State of New York completed its audit and the Company received an assessment based on which the Company reserved $24 million as other deferred liabilities at March 31, 2010. The Company actively disputed the findings of the audit report and has reached a tentative agreement for a favorable outcome which resulted in a decrease of $15.4 million in other deferred liabilities at March 31, 2011.

Note 11. Related Party Transactions

Moneypool

The Company participates with NGUSA and certain affiliates in a system money pool. The money pool 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 money pool bear interest at the higher of (i) the monthly average of the 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 of the 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. The average interest rate for the moneypool was 0.27% for the years ended March 31, 2011 and March 31, 2010. The Company had short-term moneypool borrowings debt of $165.8 million at March 31, 2011 and short-term moneypool investment of $98.6 million at March 31, 2010, from affiliated companies.

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 a net accounts receivable from affiliates of $30.7 million and at March 31, 2010, the Company had net accounts receivable from affiliates of $113.7 million, 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 $313.3 million and $200.3 million for the year ended March 31, 2011 and $159.8 million and $102.2 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 approximately $9.3 million and $8.5 million before taxes, and $6.0 million and $5.5 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 commenced on April 4, 2011 and targets annualized savings of $200.0 million by March 2012 primarily through the reduction of approximately 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, 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 of 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. Preferred Stock

The Company has certain issues of non-participating preferred stock which provide for redemption at the option of the Company. The Company did not redeem any shares of its preferred stock during the years ended March 31, 2011 and March 31, 2010.

Note 13. Restriction on Common Dividends

The indenture securing the Company's mortgage debt provides that retained earnings shall be reserved and held unavailable for the payment of dividends on common stock to the extent that expenditures for maintenance and repairs plus provisions for depreciation do not exceed 2.25% of depreciable property as defined therein. These provisions have never resulted in a restriction of the Company's retained earnings.

The Company is limited by the MRP, NYPSC orders, and FERC orders with respect to the amount of dividends the Company can pay. As long as the bond ratings on the least secure forms of debt issued by the Company and National Grid plc remain rated investment grade and do not fall to the lowest investment grade rating (with one or more negative watch downgrade notices issued with respect to such debt), the Company is allowed to pay dividends in an amount up to the pre-merger (between the Company and NGUSA) retained earnings balance plus any earnings subsequent to the merger, together with other adjustments that are authorized under the MRP and other applicable regulatory orders.

Note 14. Subsequent Events

In accordance with current authoritative accounting guidance, the Company has evaluated for disclosure subsequent events that have occurred up through June 30, 2011, the date of issuance of these financial statements. As of June 30, 2011, there were no subsequent events which required recognition or disclosure.