nationalgrid

National Grid Generation LLC and Subsidiaries

Consolidated Financial Statements

For the years ended March 31, 2016 and 2015

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES

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Independent Auditor's Report

To the Board of Directors
of National Grid Generation LLC

We have audited the accompanying consolidated financial statements of National Grid Generation LLC (the Company), which comprise the consolidated balance sheets as of March 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, cash flows, capitalization, and changes in member's equity for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Grid Generation LLC at March 31, 2016 and 2015, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

August 27, 2016

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NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2016	2015
Operating revenues	**$ 494,198**	$ 464,276
Operating expenses:		
Operations and maintenance	**186,902**	176,385
Depreciation and amortization	**52,691**	51,691
Other taxes	**190,412**	189,179
Total operating expenses	**430,005**	417,255
Operating income	**64,193**	47,021
Other income and (deductions):		
Interest on long-term debt	**(6,375)**	(7,220)
Other interest, including affiliate interest	**(25,196)**	(12,817)
Loss from equity investments	**(518)**	(1,515)
Other income, net	**3,085**	2,088
Total other deductions, net	**(29,004)**	(19,464)
Income before income taxes	**35,189**	27,557
Income tax expense	**23,207**	11,530
Net income	**$ 11,982**	$ 16,027

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

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,	
	2016	2015
Operating activities:		
Net income	**$ 11,982**	$ 16,027
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**52,691**	51,691
(Benefit from) provision for deferred income taxes	**(27,187)**	14,541
Bad debt expense	**1,126**	4,854
Loss from equity investments, net of dividends received	**518**	1,515
Decommissioning charges, net of payments	**(600)**	(14,595)
Amortization of debt discount and issuance costs	**1,816**	149
Share based compensation	**26**	20
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**9,327**	(7,619)
Inventory	**(279)**	(833)
Emission credits, net	**9,424**	(2,887)
Prepaid and accrued taxes	**50,482**	(18,208)
Accounts payable and other liabilities	**22,835**	36,663
Other, net	**1,535**	3,015
Net cash provided by operating activities	**133,696**	84,333
Investing activities:		
Capital expenditures	**(32,689)**	(37,844)
Affiliated money pool investing and receivables/payables, net	**258,596**	(52,795)
Investment in joint venture	**(1,160)**	(1,800)
Net cash provided by (used in) investing activities	**224,747**	(92,439)
Financing activities:		
Common stock dividends to Parent	**(250,000)**	-
Payments on long-term debt	**(203,575)**	-
Proceeds from long-term debt	**227,000**	-
Advances from KeySpan Corporation	**(131,868)**	-
Parent loss tax allocation	**-**	8,106
Net cash (used in) provided by financing activities	**(358,443)**	8,106
Net increase in cash and cash equivalents	**-**	-
Cash and cash equivalents, beginning of year	**-**	-
Cash and cash equivalents, end of year	**$ -**	$ -
Supplemental disclosures:		
Interest paid	**$ (19,597)**	$ (21,078)
Income taxes refunded (paid)	**11,245**	(4,778)
Significant non-cash items:		
Capital-related accruals included in accounts payable	**461**	2,867

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

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2016	2015
ASSETS		
Current assets:		
Accounts receivable, net of allowance of $1,746 and $3,047	**$ 4,473**	$ 5,484
Accounts receivable from affiliates	**6,009**	5,857
Intercompany money pool	**412,059**	651,654
Unbilled revenues, net of allowance of $1,656 and $2,558	**9,269**	18,711
Inventory	**61,841**	82,031
Prepaid taxes	**-**	12,485
Other	**-**	202
Total current assets	**493,651**	776,424
Equity investments	**927**	285
Property, plant and equipment, net	**692,809**	713,210
Other non-current assets	**11,737**	13,041
Total assets	**$ 1,199,124**	$ 1,502,960

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

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2016	2015
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 54,968**	$ 55,161
Accounts payable to affiliates	**200,121**	180,968
Taxes accrued	**59,429**	21,432
Interest accrued	**2,668**	7,379
Other	**4,731**	4,778
Total current liabilities	**321,917**	269,718
Other non-current liabilities:		
Asset retirement obligations	**15,962**	16,533
Deferred income tax liabilities, net	**126,733**	154,884
Emission credits reserve	**21,907**	32,952
Other	**63,447**	35,096
Total other non-current liabilities	**228,049**	239,465
Commitments and contingencies (Note 9)		
Capitalization:		
Member's equity	**356,153**	594,145
Long-term debt	**293,005**	267,764
Advances from KeySpan Corporation	**-**	131,868
Total capitalization	**649,158**	993,777
Total liabilities and capitalization	**$ 1,199,124**	$ 1,502,960

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

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION

(in thousands of dollars)

	Interest Rate	Maturity Date	March 31, 2016	March 31, 2015
Total member's equity			**$ 356,153**	$ 594,145
Long-term debt:				
State Authority Financing Bonds:				
Pollution Control Revenue Bonds - Series 1999A	Variable	October 1, 2028	**41,125**	41,125
Electric Facilities Revenue Bonds - Series 1997A	Variable	December 1, 2027	**24,880**	24,880
			66,005	66,005
Industrial Development Revenue Bonds:				
Nassau County Industrial Development Revenue Bonds[1]	5.25%	June 1, 2027	-	53,275
Suffolk County Industrial Development Revenue Bonds[1]	5.25%	June 1, 2027	-	75,000
			-	128,275
Promissory Notes to Parent:				
Pollution Control Revenue Bonds - Series 1985B[1]	5.15%	March 1, 2016	-	27,900
Electric Facilities Revenue Bonds - Series 1993B[1]	5.30%	November 1, 2023	-	29,600
Electric Facilities Revenue Bonds - Series 1994A[1]	5.30%	October 1, 2024	-	2,600
Electric Facilities Revenue Bonds - Series 1995A[1]	5.30%	August 1, 2025	-	15,200
			-	75,300
Promissory Notes to National Grid North America Inc.	3.13% - 3.25%	June 2027 - April 2028	**227,000**	-
Total debt			**293,005**	269,580
Unamortized debt discount			-	(1,816)
Long-term debt			**293,005**	267,764
Advances from KeySpan Corporation[1]	6.15%	June 30, 2016	-	131,868
Total capitalization			**$ 649,158**	$ 993,777

[1] On November 20, 2015, the Company redeemed this debt as disclosed in Note 6.

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

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN MEMBER'S EQUITY
(in thousands of dollars)

	Additional Paid-in Capital	Retained Earnings	Total
Balance as of March 31, 2014	**$ 459,051**	**$ 110,941**	**$ 569,992**
Net income	-	16,027	16,027
Parent loss tax allocation	8,106	-	8,106
Share based compensation	20	-	20
Balance as of March 31, 2015	**$ 467,177**	**$ 126,968**	**$ 594,145**
Net income	-	11,982	11,982
Share based compensation	26	-	26
Common stock dividends to Parent	(123,032)	(126,968)	(250,000)
Balance as of March 31, 2016	**$ 344,171**	**$ 11,982**	**$ 356,153**

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

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

National Grid Generation LLC ("the Company") is a New York limited liability company that owns and operates 53 electric generation units with approximately 4,100 megawatts of electric generation capacity located in Long Island. The Company, together with its wholly-owned subsidiaries, National Grid Glenwood Energy Center LLC ("Glenwood") and National Grid Port Jefferson Energy Center LLC ("Port Jefferson"), sell capacity, energy conversion, and ancillary services to the Long Island Power Authority ("LIPA").

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

Through its wholly-owned subsidiary, National Grid Generation Ventures LLC, the Company owns a 50% interest in Island Park Energy Center LLC, formed to construct, install, hold, own, protect, finance, manage, operate and maintain projects consisting of the repowering of the E.F. Barrett Steam Unit and Barrett CT Units all located in Nassau County, New York.

Additionally, National Grid Generation Ventures LLC owns a 50% interest in three LLCs (LI Solar Generation LLC, LI Energy Storage System LLC, and LI Peaker Generation LLC). These LLCs were formed to jointly respond to LIPA's Request for Proposals ("RFPs") for Generation, Energy Storage and Demand Response Resources and to jointly develop, construct, install, hold, own, protect, finance, manage, operate and maintain the respective RFP projects (none were awarded) or future proposals for similar projects.

The Company uses the equity method of accounting for its investments in affiliates when it has the ability to exercise significant influence over the operating and financial policies, but does not control the affiliates. The Company's share of the earnings or losses of such affiliates is included as loss from equity investments in the accompanying consolidated statements of income.

The Company earns all of its revenue from contracts with LIPA based upon an agreement with LIPA (the "Power Supply Agreement" or "PSA") which provides for the sale of all capacity and requested energy from its oil and gas-fired generating facilities. In addition, Glenwood and Port Jefferson have 25-year Power Purchase Agreements (the "PPAs") with LIPA to sell capacity, energy conversion, and ancillary services to LIPA. Glenwood and Port Jefferson each own plants designed to produce 79.9 megawatts of electricity.

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Company has evaluated subsequent events and transactions through August 27, 2016, the date of issuance of these consolidated financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the consolidated financial statements as of and for the year ended March 31, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing consolidated financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of

contingent assets and liabilities included in the consolidated financial statements. Actual results could differ from those estimates.

Revenue Recognition

Revenues are recognized for sales of capacity and energy to LIPA under terms of the PSA, with rates approved by the Federal Energy Regulatory Commission ("FERC"). Please see Note 9, "Commitments and Contingencies" for additional information on the PSA. The Company records unbilled revenues for the estimated amount of energy delivered from the bill date to the end of the accounting period.

Income Taxes

Federal and state 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 consolidated financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses, and general business credit carryforwards.

The effects of tax positions are recognized in the consolidated financial statements when it is more likely than not that the position taken, or expected to be taken, in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. 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.

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary determines its current and deferred taxes based on the separate return method, modified by benefits-for-loss allocation pursuant to a tax sharing agreement between NGNA and its subsidiaries. To the extent that the consolidated return group settles cash differently than the amount reported as realized under the benefit-for-loss allocation, the difference is accounted for as either a capital contribution or as a distribution.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined taking into account historical collection and write-off experience and management's assessment of collectability from LIPA. The collectability of receivables is continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies and emission credits. Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2016 or 2015. Emission credits are comprised of sulfur dioxide, nitrogen oxide ("NO_X"), and carbon dioxide credits. Emission credits are valued at the lower of weighted average cost or market and are held primarily for consumption or may be sold to third-party purchasers.

The Company had materials and supplies of $38.6 million and $38.4 million and emission credits of $23.2 million and $43.7 million at March 31, 2016 and 2015, respectively.

Property, Plant and Equipment

Property, plant and equipment is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of property, plant and equipment is capitalized. The capitalized

cost of additions to property, plant and equipment includes costs such as direct material, labor and benefits, and capitalized interest.

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates. The average composite rates for the years ended March 31, 2016 and 2015 were 2.9% and 3.4%, respectively. The average service life for each of the years ended March 31, 2016 and 2015 was 39 years.

When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant and equipment. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value.

The Company has various asset retirement obligations primarily associated with its electric generation activities. Generally, our largest asset retirement obligations relate to: (i) cleaning and removal requirements associated with storage tanks containing waste oil and other waste contaminants; (ii) legal requirements to remove asbestos upon major renovation or demolition of structures and facilities; and (iii) waste water treatment pond removal.

The following table represents the changes in the Company's asset retirement obligations:

	Years Ended March 31,	
	2016	2015
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 16,533**	$ 19,766
Accretion expense	**782**	1,014
Liabilities settled	**(1,382)**	(11,265)
Liabilities incurred in the current year	**29**	-
Revaluations to present values of estimated cashflows	**-**	7,018
Balance as of the end of the year	**$ 15,962**	$ 16,533

At March 31, 2015 the Company carried out a revaluation study that resulted in an upward revaluation in estimated costs related to the asset retirement obligations. These increases were due to changes in remediation cost and enhanced asset replacement programs.

Employee Benefits

The Company follows the accounting guidance for multi-employer accounting to record pension and postretirement benefits other than pension ("PBOP") expenses. Under multi-employer accounting, expenses are allocated to the Company and the liability is recorded at the Parent. The Company makes required contributions to the plan.

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2016

The new accounting guidance that was adopted for fiscal year 2016 had no material impact on the results of operations, cash flows, or financial position of the Company.

Presentation of Financial Statements – Balance Sheet Classification of Deferred Taxes

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, "Balance Sheet Classification of Deferred Taxes." The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance be classified as non-current in the balance sheets; the new guidance does not change the existing requirement of prohibiting the offsetting of deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The Company early adopted this guidance, retrospectively, effective April 1, 2015.

Accounting Guidance Not Yet Adopted

The Company is currently evaluating the impact of recently issued accounting guidance on the presentation, results of operations, cash flows, and financial position of the Company.

Leases

In February 2016, the FASB issued a new lease accounting standard, ASU 2016-02, "Leases (Topic 842)." The key objective of the new standard is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, a dual model has been retained, with leases to be designated as operating leases or finance leases. Expenses will be recognized on a straight-line basis for operating leases, and a front-loaded basis for finance leases. For non-public entities, the new standard is effective for periods beginning after December 15, 2019, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients.

Revenue Recognition

In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers – Deferral of the Effective Date." The new standard defers by one year the effective date of ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)." The underlying principle of "Revenue from Contracts with Customers" is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to, in exchange for those goods or services. The new guidance must be adopted using either a full retrospective approach or a modified retrospective approach. For non-public entities, the new guidance is effective for periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2016.

Further, in March 2016, the FASB issued ASU 2016-08, which clarifies the implementation guidance on principal versus agent considerations. In May 2016, the FASB issued ASU 2016-12, providing additional clarity on various aspects of Topic 606, including a) Assessing the Collectibility Criterion and Accounting for Contracts That Do Not Meet the Criteria for Step 1, b) Presentation of Sales Taxes and Other Similar Taxes Collected from Customers, c) Noncash Consideration, d) Contract Modifications at Transition, e) Completed Contracts at Transition, and f) Technical Correction. The effective date and transition requirements for the amendments in these updates are the same as the effective date and transition requirements of ASU 2014-09.

Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." The new guidance requires that inventory be measured at the lower of cost and net realizable value (other than inventory measured using "last-in, first out" and the "retail inventory method"). The new guidance, which must be applied prospectively, is effective for non-public entities for periods beginning after December 15, 2016, with early adoption permitted.

Intangibles – Goodwill and Other – Internal-Use Software, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued ASU 2015-05 "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The amendments provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. In addition, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. For non-public entities, the new guidance is effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016, with early adoption permitted.

Presentation of Financial Statements – Balance Sheet Classification of Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." The new guidance requires that debt issuance costs related to term loans, be presented in the balance sheets as a direct deduction from the carrying value of debt. The new guidance, which requires retrospective application, is effective for periods beginning after December 15, 2015, with early adoption permitted.

Consolidation

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." The new guidance eliminates entity specific consolidation guidance for limited partnerships. It also revises other aspects of the consolidation analysis, including how kick-out rights, fee arrangements and related parties are assessed. The new guidance, which requires either modified retrospective or full retrospective basis application, is effective for periods beginning after December 15, 2016, with early adoption permitted.

Presentation of Financial Statements – Going Concern, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued amendments on reporting about an entity's ability to continue as a going concern in ASU 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205 - 40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The amendments provide guidance about management's responsibility to evaluate whether there is substantial doubt surrounding an entity's ability to continue as a going concern. If management concludes that substantial doubt exists, the amendments require additional disclosures relating to management's evaluation and conclusion. The amendments are effective for the annual reporting period ending after December 15, 2016 and interim periods thereafter.

3. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes property, plant and equipment at cost along with accumulated depreciation and amortization:

	March 31,	
	2016	2015
	(in thousands of dollars)	
Plant and machinery	**$ 1,620,139**	$ 1,610,925
Land and buildings	**317,678**	305,512
Assets in construction	**23,526**	24,077
Software and other intangibles	**8,353**	7,958
Total property, plant and equipment	**1,969,696**	1,948,472
Accumulated depreciation and amortization	**(1,276,887)**	(1,235,262)
Property, plant and equipment, net	**$ 692,809**	$ 713,210

4. FAIR VALUE MEASUREMENTS

The Company's consolidated balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2016 and 2015 was $293 million and $440.2 million, respectively.

All other financial instruments in the accompanying consolidated balance sheets such as accounts receivable, accounts payable, and the intercompany money pool are stated at cost, which approximates fair value.

5. EMPLOYEE BENEFITS

The Company participates with certain other KeySpan subsidiaries in qualified and non-qualified non-contributory defined benefit plans (the "Pension Plans") and a PBOP plan (together with the Pension Plans (the "Plans")), covering substantially all employees.

The Pension Plans provide union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives.

The PBOP plan provides 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.

During the years ended March 31, 2016 and 2015, the Company made contributions of approximately $15.2 million and $9.7 million, respectively, to the Plans. The difference between the amount of expense allocated to the Company and the amount of contributions made by the Company is included in accounts payable to affiliates in the accompanying consolidated balance sheets.

The Plans' assets are commingled and cannot be allocated to an individual company. The Plans' costs are first directly charged to the Company based on the Company's employees that participate in the Plans. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. Pension and PBOP expense are included within operations and maintenance expense in the accompanying consolidated statements of income.

KeySpan's unfunded obligations at March 31, 2016 and 2015 are as follows:

	March 31,	
	2016	2015
	(in thousands of dollars)	
Pension	**$ 979,081**	$ 1,005,558
PBOP	**946,860**	985,669
	$ 1,925,941	$ 1,991,227

The Company's net pension and PBOP expenses directly charged and allocated from affiliated service companies, net of capital, for the years ended March 31, 2016 and 2015 are as follows:

	Years Ended March 31,	
	2016	2015
	(in thousands of dollars)	
Pension	**$ 17,703**	$ 13,436
PBOP	**10,123**	7,479
	$ 27,826	$ 20,915

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For each of the years ended March 31, 2016 and 2015, the Company recognized an expense in the accompanying consolidated statements of income of $0.3 million for matching contributions.

Other Benefits

At March 31, 2016 and 2015, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported of $5.9 million.

6. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to March 31, 2016 are as follows:

(in thousands of dollars) Years Ending March 31,	
2017	$ 17,730
2018	17,870
2019	17,870
2020	17,870
2021	17,870
Thereafter	203,795
Total	$ 293,005

Debt Authorizations

Since January 12, 2015, the Company had regulatory approval from the FERC to issue up to $250 million of short-term debt. The authorization is effective for a period of two years and expires on January 11, 2017. The Company had no short-term debt outstanding to third-parties as of March 31, 2016 or 2015.

Authority Financing Bonds

At March 31, 2016 and 2015, $41.1 million of 1999 Series A Pollution Control Revenue Bonds due October 1, 2028 were outstanding.

The Company also has outstanding $24.9 million of variable rate 1997 Series A Electric Facilities Revenue Bonds due December 1, 2027 at March 31, 2016 and 2015. These bonds are backed by a standby letter of credit and reimbursement agreement which includes a percent of indebtedness covenant that cannot exceed 70%. During the years ended March 31, 2016 and 2015, the Company was in compliance with this covenant.

Industrial Development Revenue Bonds

At March 31, 2015, the Company had outstanding $128.3 million of 5.25% tax-exempt bonds due June 1, 2027. Of this amount, $53.3 million was issued through the Nassau County Industrial Development Authority for the construction of the Glenwood electric-generation peaking plant and the balance of $75 million was issued by the Suffolk County Industrial Development Authority for the Port Jefferson electric-generation peaking plant. KeySpan fully and unconditionally guaranteed the payment obligations of its subsidiaries with regard to these tax-exempt bonds. On November 20, 2015, the Company redeemed the $128.3 million of Industrial Development Revenue Bonds and KeySpan was relieved of all related guarantee obligations.

Promissory Notes

The Parent had issued promissory notes to LIPA representing an amount equivalent to certain Authority Financing Notes. These notes were extinguished through a “Settlement and Release” agreement with LIPA dated December 31, 2013, which took effect March 28, 2014. The “Settlement and Release” had no effect on $75.3 million of these notes which the Parent had allocated to the Company, and which were outstanding at March 31, 2015. The notes consisted of $27.9 million, 5.15% notes due March 1, 2016 and $47.4 million, 5.30% notes with maturities ranging from November 1, 2023 to August 1, 2025.

On November 20, 2015, the Company redeemed the $75.3 million of promissory notes to Parent.

Advance from Parent

At March 31, 2015, a $131.9 million advance due to the Parent remained outstanding, and was due to mature in June 2016. The interest rate of this advance was 6.15%. On November 20, 2015, the Company redeemed the $131.9 million advance due to the Parent.

Intercompany Loans

On November 20, 2015, Genco entered into multiple intercompany loans with NGNA totaling $227 million, composed of a $165 million intercompany loan with an interest rate of 3.25% due to mature on April 30, 2028 and a $62 million intercompany loan with an interest rate of 3.13% due to mature on June 1, 2027. The intercompany loans have an annual sinking fund requirement totaling $18 million. These intercompany loans are included in long-term debt in the accompanying consolidated balance sheets.

Restrictions on Payment of Dividends

The Company is obligated to meet certain non-financial covenants pursuant to the participation agreement with New York State Energy Research and Development Authority. During the years ended March 31, 2016 and 2015, the Company was in compliance with all such covenants.

Pursuant to FERC regulations, payment of dividends would not be permitted if, after giving effect to such payment of dividends, member's equity becomes less than 30% of total capitalization. At March 31, 2016 and 2015 member's equity was 54.9% and 59.8% of total capitalization, respectively. Under these provisions, none of the Company's retained earnings at March 31, 2016 or 2015 were restricted as to payment of dividends.

On November 20, 2015, the Company paid a dividend of $250 million to the Parent.

7. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2016	2015
	(in thousands of dollars)	
Current tax expense (benefit):		
Federal	**$ 28,302**	$ (5,975)
State	**22,092**	2,964
Total current tax expense (benefit)	**50,394**	(3,011)
Deferred tax expense (benefit):		
Federal	**(21,775)**	14,300
State	**(5,412)**	241
Total deferred tax expense (benefit)	**(27,187)**	14,541
Total income tax expense	**$ 23,207**	$ 11,530

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2016 and 2015 are 65.9% and 41.8%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended March 31,	
	2016	2015
	(in thousands of dollars)	
Computed tax	**$ 12,316**	$ 9,645
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**2,327**	2,084
NYS audit and related reserve movemements, net of federal benefit	**8,515**	-
Other items, net	**49**	(199)
Total	**10,891**	1,885
Total income tax expense	**$ 23,207**	$ 11,530

The Company is included in the NGNA and subsidiaries consolidated federal income tax return and New York unitary state income tax return beginning with the fiscal year ended March 31, 2016. The Company has joint and several liability for any potential assessments against the consolidated group.

During the period there was no material change in the Company's deferred tax liability for the decrease in the tax rate from 7.1% to 6.5% applicable to New York entities beginning with the fiscal year ended March 31, 2017. Likewise there was no material change in the Company's deferred tax liability for the increase in the Metropolitan Transportation Authority surcharge from 25.6% to 28%.

Deferred Tax Components

	March 31,	
	2016	2015
	(in thousands of dollars)	
Deferred tax assets:		
Allowance for doubtful accounts	**$ 4,539**	$ 2,422
Future federal benefit on state taxes	**11,186**	8,394
Net operating losses	**15,009**	12,569
Reserves not currently being deducted	**12,203**	5,373
Other items	**12,735**	12,129
Total deferred tax assets [1]	**55,672**	40,887
Deferred tax liabilities:		
Property related differences	**151,332**	145,155
Property taxes	**31,073**	30,734
Other items	**-**	19,882
Total deferred tax liabilities	**182,405**	195,771
Deferred income tax liabilities, net	**$ 126,733**	$ 154,884

[1] The Company established a valuation allowance for deferred tax assets in the amount of $10 thousand related to expiring charitable contribution carryforwards at March 31, 2016. There was no valuation allowance for deferred tax assets at March 31, 2015.

As a result of retrospective adoption of ASU 2015-17, the Company adjusted its current portion of deferred income tax liabilities and non-current deferred income tax liabilities, net by $43.3 million as of March 31, 2015.

Net Operating Losses

The following table presents the amounts and expiration dates of net operating losses as of March 31, 2016:

Expiration of net operating losses:	Federal	NYS	New York City
		(in thousands of dollars)	
3/31/2033	$ 36,879	$ -	$ -
3/31/2034	206	-	-
3/31/2035	3,040	32,556	166
3/31/2036	1,158	1,227	-

Unrecognized Tax Benefits

As of March 31, 2016 and 2015, the Company's unrecognized tax benefits totaled $21 million and $7.7 million, respectively, of which $8.5 million and none, respectively, would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying consolidated balance sheets.

The following table presents changes to the Company's unrecognized tax benefits:

	Years Ended March 31,	
	2016	2015
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 7,657**	$ 4,231
Gross increases - tax positions in prior periods	**13,099**	3,444
Gross decreases - tax positions in prior periods	**(62)**	(396)
Gross increases - current period tax positions	**324**	378
Balance as of the end of the year	**$ 21,018**	$ 7,657

As of March 31, 2016 and 2015, the Company has accrued for interest related to unrecognized tax benefits of $14.9 million and $0.4 million, respectively. During the years ended March 31, 2016 and 2015, the Company recorded interest expense of $14.5 million and $0.6 million, respectively. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income, net in the accompanying consolidated statements of income. No tax penalties were recognized during the years ended March 31, 2016 or 2015.

It is reasonably possible that other events will occur during the next twelve months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, the Company does not believe any such increases or decreases would be material to its results of operations, financial position, or cash flows.

The Company is included in NGNA and subsidiaries' administrative appeal with the Internal Revenue Service ("IRS") related to the issues disputed in the examination cycles for the years ended August 24, 2007, March 31, 2008, and March 31, 2009. During the period the IRS commenced its next examination cycle which includes income tax returns for the years ended March 31, 2010 through March 31, 2012. The examination is not expected to conclude until December 2017. The income tax returns for the years ended March 31, 2013 through March 31, 2016 remain subject to examination by the IRS.

The Company was included in the KeySpan and subsidiaries New York State ("NYS") combined corporate income tax returns for the periods ended December 31, 2003 through March 31, 2008. The state of New York is in the process of examining the NYS income tax return for KeySpan and subsidiaries for the period starting January 1, 2003 through March 31, 2008. In August 2015, NYS issued a preliminary audit report which seeks to de-combine the Company from the KeySpan and subsidiaries combined NYS income tax return. The Company has established a reserve of $8.5 million, net of federal benefit, related to this audit. The income tax returns for the years ended March 31, 2009 through March 31, 2016 remain subject to examination by the state of New York.

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

Jurisdiction	**Tax Year**
Federal	August 24, 2007
New York	December 31, 2003
New York City	December 31, 2003

8. ENVIRONMENTAL MATTERS

Ordinary business operations subject the Company to various federal, state, and local laws, rules, and regulations dealing with the environment, including air, water, and hazardous waste. The Company's business operations are regulated by various federal, regional, state, and local authorities, including the U.S. Environmental Protection Agency ("EPA"), the New York State Department of Environmental Conservation ("DEC"), the New York City Department of Environmental Protection, and the Nassau and Suffolk County Departments of Health.

Except as set forth below, no material proceedings relating to environmental matters have been commenced or, to the Company's knowledge, are contemplated by any federal, state, or local agency against the Company and the Company is not a defendant in any material litigation with respect to any matter relating to the protection of the environment. The Company believes that its operations are in substantial compliance with environmental laws and that requirements imposed by environmental laws are not likely to have a material adverse impact on the Company's financial position or results of operations.

Air

The Company's generating facilities are subject to increasingly stringent emissions limitations under current and anticipated future requirements of the EPA and the DEC. In addition to efforts to improve both ozone and particulate matter air quality, there has been an increased focus on greenhouse gas emissions in recent years. The Company's previous investments in low NO_x boiler combustion modifications, the use of natural gas firing systems at its steam electric generating stations, and the compliance flexibility available under cap and trade programs have enabled the Company to achieve its prior emission reductions in a cost-effective manner. These investments include the installation of enhanced NO_x controls and efficiency improvement projects at certain of the Company's Long Island based electric generating facilities. The total cost of these improvements was approximately $103 million, all of which have been placed in service as of the date of this report; a mechanism for recovery from LIPA of these investments has been established. The Company has developed a compliance strategy to address anticipated future requirements and is closely monitoring the regulatory developments to identify any necessary changes to its compliance strategy. At this time, the Company is unable to predict what effect, if any, these future requirements will have on its consolidated financial position, results of operations, and cash flows.

Water

Additional capital expenditures associated with the renewal of the surface water discharge permits for the Company's steam electric power plants have been required by the DEC pursuant to Section 316 of the Clean Water Act to mitigate the plants' alleged cooling water system impacts to aquatic organisms. Final permits have been issued for Port Jefferson and Northport. Capital improvements have been completed at Port Jefferson and are in the engineering phase for Northport. The Company continues to engage in discussions with the DEC regarding the nature of capital upgrades or other mitigation measures necessary to reduce any impacts at E.F. Barrett. Total capital costs for these improvements at Northport and E.F. Barrett are estimated to be approximately $76 million. Costs associated with these capital improvements are reimbursable from LIPA under the PSA.

9. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

The Company has various capital commitments related to the construction of property, plant and equipment. The Company's commitments under these long-term contracts for the years subsequent to March 31, 2016 are summarized in the table below:

(in thousands of dollars) Years Ending March 31,		
2017	$	30,213
2018		42,268
2019		68,005
2020		49,491
2021		37,935
Thereafter		-
Total	$	227,912

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, individually or in the aggregate, to its business or likely to result in a material adverse effect on its results of operations, financial position, or cash flows.

On September 29, 2014, a jury rendered a verdict in favor of a worker for asbestos-related injuries involving his limited work as a subcontractor at one of the Company's Long Island power plants during its construction in the 1960's and early 1970's. The Company believes that this jury verdict is not supported by the facts or law and that it has strong legal and factual arguments to overturn this decision on the merits on appeal. The Company's cost and expenses related to asbestos litigation are subject to reimbursement pursuant to the PSA more fully described below. Although it is not possible to predict the outcome, the Company does not believe that resolution of this matter will be material to its financial position or results of operations.

Power Supply Agreement

Effective May 28, 2013, the Company provides services to LIPA under an amended and restated PSA. Under the PSA, the Company has a revenue requirement of $418.6 million, a return on equity of 9.75% and a capital structure of 50% debt and 50% equity. The PSA has a term of fifteen years, provided LIPA has the option to terminate the agreement as early as April 2025 on two years advance notice. The Company accounts for the PSA as an operating lease.

The PSA provides potential penalties to the Company if it does not maintain the output capability of the generating facilities, as measured by annual industry-standard tests of operating capability, plant availability, and efficiency. These penalties may total $4 million annually. Although the PSA provides LIPA with all of the capacity from the generating facilities, LIPA has no obligation to purchase energy from the generating facilities and can purchase energy on a least-cost basis from all available sources consistent with existing transmission interconnection limitations of the transmission and distribution system. The Company must, therefore, operate its generating facilities in a manner such that the Company can remain competitive with other producers of energy. To date, the Company has dispatched to LIPA and LIPA has accepted the level of energy generated at the agreed to price per megawatt hour. Under the terms of the PSA, LIPA is obligated to pay for capacity at rates that reflect recovery of an agreed level of the overall cost of maintaining and operating the generating facilities, including recovery of depreciation and return on its investment in plant. A monthly variable maintenance charge is billed for each unit of energy actually acquired from the generating facilities. The billings to LIPA under the PSA do not include a provision for fuel costs, as such fuel is owned by LIPA.

Included in unbilled revenues is an allowance for doubtful accounts of $1.7 million and $2.6 million related to unbilled carrying charges on employee benefit-related items at March 31, 2016 and 2015, respectively.

10. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

NGUSA and its affiliates provide various services to the Company, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, and treasury/finance), human resources, information technology, legal, and strategic planning, that are charged between the companies and charged to each company.

The Company records short-term receivables from, and payables to, certain of its affiliates in the ordinary course of business. The amounts receivable from, and payable to, its affiliates do not bear interest and are settled through the intercompany money pool. A summary of net outstanding accounts receivable from affiliates and accounts payable to affiliates is as follows:

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2016	2015	**2016**	2015
	(in thousands of dollars)			
KeySpan Corporation	**$ -**	$ -	**$ 190,921**	$ 176,466
KeySpan Engineering Services	**6,009**	5,856	**-**	-
NGUSA Service Company	**-**	-	**2,136**	1,844
Other	**-**	1	**7,064**	2,658
Total	**$ 6,009**	$ 5,857	**$ 200,121**	$ 180,968

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool in which it participates. The Company is a participant in the Unregulated Money Pool and can both borrow and invest funds. Borrowings from the Unregulated Money Pool bear interest in accordance with the terms of the Unregulated Money Pool Agreement. As the Company fully participates in the Unregulated Money Pool rather than settling intercompany charges with cash, all changes in the intercompany money pool balance and accounts receivable from affiliates and accounts payable to affiliates balances are reflected as investing or financing activities in the accompanying consolidated statements of cash flows. In addition, for the purpose of presentation in the consolidated statements of cash flows, it is assumed all amounts settled through the intercompany money pool are constructive cash receipts and payments, and therefore are presented as such.

The Unregulated Money Pool is funded by operating funds from participants. Collectively, NGUSA and KeySpan have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Unregulated Money Pool, if necessary. The Company had short-term intercompany money pool investments of $412.1 million and $651.7 million at March 31, 2016 and 2015, respectively. The average interest rates for the intercompany money pool were 0.7% and 0.3% for the years ended March 31, 2016 and 2015, respectively.

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 allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, and total transmission and distribution expenditures. Lastly, when a specific cost/causation principle is not determinable, costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment, and operations and maintenance expense.

Net charges from the service companies of NGUSA to the Company for the years ended March 31, 2016 and 2015 were $274.7 million and $236.4 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the United Kingdom) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected in these consolidated financial statements. The estimated effect on net income would be $1.4 million and $2.2 million before taxes and $0.8 million and $1.3 million after taxes, for the years ended March 31, 2016 and 2015, respectively, if these amounts were allocated to the Company.