



Brooklyn Union Gas Company
d/b/a National Grid New York
Consolidated Financial Statements
For the years ended March 31, 2015 and 2014

BROOKLYN UNION GAS COMPANY

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Independent Auditor's Report

To the Board of Directors of
The Brooklyn Union Gas Company

We have audited the accompanying consolidated financial statements of The Brooklyn Union Gas Company (the "Company"), which comprise the consolidated balance sheets as of March 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, cash flows, capitalization, and changes in shareholders' 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 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 The Brooklyn Union Gas Company at March 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

August 12, 2015

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BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2015	2014
Operating revenues	\$ 1,518,784	\$ 1,624,557
Operating expenses:		
Purchased gas	586,113	662,944
Operations and maintenance	433,353	447,294
Depreciation and amortization	90,979	85,238
Other taxes	190,192	200,689
Total operating expenses	1,300,637	1,396,165
Operating income	218,147	228,392
Other income and (deductions):		
Interest on long-term debt	(48,918)	(49,022)
Other interest, including affiliate interest	1,849	(6,384)
Income from equity investments	16,995	16,439
Other deductions, net	(4,292)	(2,201)
Total other deductions, net	(34,366)	(41,168)
Income before income taxes	183,781	187,224
Income tax expense	74,354	79,592
Net income	\$ 109,427	\$ 107,632

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2015	2014
Net income	\$ 109,427	\$ 107,632
Other comprehensive income (loss):		
Unrealized (losses) gains on securities from equity investments	(85)	298
Total other comprehensive (loss) income	(85)	298
Comprehensive income	\$ 109,342	\$ 107,930
Related tax (expense) benefit:		
Unrealized (losses) gains on securities from equity investments	\$ 59	\$ (208)
Total tax (expense) benefit	\$ 59	\$ (208)

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,	
	2015	2014
Operating activities:		
Net income	\$ 109,427	\$ 107,632
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	90,979	85,238
Regulatory amortizations	38,867	38,289
Provision for deferred income taxes	60,457	60,254
Bad debt expense	8,526	3,266
Loss (income) from equity investments, net of dividends received	4,345	(919)
Allowance for equity funds used during construction	-	(722)
Amortization of debt discount	2,249	2,280
Net postretirement benefits expense (contributions)	16,339	(9,041)
Net environmental remediation payments	(42,577)	(27,698)
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenues	106,450	(118,456)
Inventory	(5,819)	5,057
Regulatory assets and liabilities, net	(13,461)	(36,819)
Derivative contracts	7,019	(4,109)
Prepaid and accrued taxes	(11,835)	(16,313)
Accounts payable and other liabilities	(1,555)	24,173
Other, net	4,428	(3,751)
Net cash provided by operating activities	373,839	108,361
Investing activities:		
Capital expenditures	(358,248)	(249,600)
Proceeds from sale of assets	-	13,877
Affiliated money pool investing and receivables/payables, net	(38,010)	(2,945)
Cost of removal	(20,676)	(27,495)
Insurance proceeds applied to capital expenditures	1,418	2,830
Other	3,379	(50)
Net cash used in investing activities	(412,137)	(263,383)
Financing activities:		
Affiliated money pool borrowing and receivables/payables, net	(2,233)	164,488
Parent loss tax allocation	17,461	-
Net cash provided by financing activities	15,228	164,488
Net (decrease) increase in cash and cash equivalents	(23,070)	9,466
Cash and cash equivalents, beginning of year	26,899	17,433
Cash and cash equivalents, end of year	\$ 3,829	\$ 26,899
Supplemental disclosures:		
Interest paid	\$ (48,952)	\$ (61,303)
State income taxes paid	(2,972)	(17,021)
Taxes refunded from Parent	5,477	6,130
Significant non-cash items:		
Capital-related accruals included in accounts payable	39,930	21,445

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,829	\$ 26,899
Accounts receivable	391,807	450,120
Allowance for doubtful accounts	(30,942)	(29,120)
Other receivable	-	19,005
Accounts receivable from affiliates	793	12,349
Intercompany money pool	118,055	79,993
Unbilled revenues	87,257	123,093
Inventory	61,192	55,373
Regulatory assets	16,429	20,892
Derivative contracts	5,013	3,171
Current portion of deferred income tax assets, net	26,722	20,941
Prepaid taxes	39,759	39,898
Other	9,204	15,776
Total current assets	729,118	838,390
Equity investments	72,416	76,905
Property, plant and equipment, net	3,227,937	2,906,584
Other non-current assets:		
Regulatory assets	1,184,939	1,102,498
Goodwill	1,451,141	1,451,141
Derivative contracts	-	7,124
Other	19,877	21,817
Total other non-current assets	2,655,957	2,582,580
Total assets	\$ 6,685,428	\$ 6,404,459

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2015	2014
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	\$ 126,122	\$ 103,098
Accounts payable to affiliates	61,236	132,074
Taxes accrued	13,068	8,344
Customer deposits	28,764	31,961
Interest accrued	10,952	12,055
Regulatory liabilities	71,074	54,425
Intercompany money pool	394,472	337,371
Derivative contracts	13,046	8,429
Other	20,046	41,588
Total current liabilities	738,780	729,345
Other non-current liabilities:		
Regulatory liabilities	372,695	379,939
Asset retirement obligations	13,567	12,205
Deferred income tax liabilities, net	857,989	796,742
Postretirement benefits	182,188	104,585
Environmental remediation costs	542,411	532,123
Derivative contracts	951	3,831
Other	77,972	73,617
Total other non-current liabilities	2,047,773	1,903,042
Commitments and contingencies (Note 12)		
Capitalization:		
Shareholders' equity	2,858,375	2,731,572
Long-term debt	1,040,500	1,040,500
Total capitalization	3,898,875	3,772,072
Total liabilities and capitalization	\$ 6,685,428	\$ 6,404,459

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2015	2014
Total shareholders' equity			\$ 2,858,375	\$ 2,731,572
Long-term debt:	Interest Rate	Maturity Date		
<i>Notes payable - Senior Unsecured Note</i>	5.60%	November 29, 2016	400,000	400,000
<i>Gas facilities revenue bonds:</i>				
1993A and 1993B	6.37%	April 1, 2020	75,000	75,000
1997	Variable	December 1, 2020	125,000	125,000
1996	5.50%	January 1, 2021	153,500	153,500
2005A	4.70%	February 1, 2024	82,000	82,000
2005B	Variable	June 1, 2025	55,000	55,000
1991A and 1991B	6.95%	July 1, 2026	100,000	100,000
1991D	Variable	July 1, 2026	50,000	50,000
			640,500	640,500
Long-term debt			1,040,500	1,040,500
Total capitalization			\$ 3,898,875	\$ 3,772,072

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)		Retained Earnings	Total
				Equity Investments	Total Accumulated Other Comprehensive Income (Loss)		
Balance as of March 31, 2013	\$ -	\$ -	\$ 2,614,795	\$ (410)	\$ (410)	\$ 9,257	\$ 2,623,642
Net income	-	-	-	-	-	107,632	107,632
Other comprehensive income							
Unrealized gains on securities from equity investments, net of \$208 tax expense	-	-	-	298	298	-	298
Total comprehensive income							107,930
Balance as of March 31, 2014	\$ -	\$ -	\$ 2,614,795	\$ (112)	\$ (112)	\$ 116,889	\$ 2,731,572
Net income	-	-	-	-	-	109,427	109,427
Other comprehensive loss							
Unrealized losses on securities from equity investments, net of \$59 tax benefit	-	-	-	(85)	(85)	-	(85)
Total comprehensive income							109,342
Parent loss tax allocation	-	-	17,461	-	-	-	17,461
Balance as of March 31, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,632,256</u>	<u>\$ (197)</u>	<u>\$ (197)</u>	<u>\$ 226,316</u>	<u>\$ 2,858,375</u>

The Company had 100 shares of common stock authorized, issued and outstanding, with a par value of \$0.01 per share and 1 share of preferred stock, authorized, issued and outstanding, with a par value of \$1 per share at March 31, 2015 and 2014.

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

BROOKLYN UNION GAS COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Brooklyn Union Gas Company d/b/a National Grid New York (the "Company") distributes natural gas to approximately 967,000 retail customers and transports natural gas to approximately 262,000 customers in the boroughs of Brooklyn and Staten Island and two-thirds of the borough of Queens, all in New York City.

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, North East Transmission Co., Inc. ("NETCO"), the Company owns a 19.4% interest in Iroquois Gas Transmission System L.P. ("Iroquois"), which owns a 375-mile pipeline that transports Canadian gas supply daily to markets in the northeastern United States. Through another wholly-owned subsidiary, the total interest in Iroquois under KeySpan's common control is 20.4%. Because this interest provides KeySpan and its subsidiaries the ability to exercise significant influence over the operating and financial policies of Iroquois, the Company accounts for its interest under the equity method of accounting. The Company's share of the earnings or losses of the affiliate is included as income from equity investments in the accompanying consolidated statements of income.

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), including the accounting principles for rate-regulated entities for the regulated business of the Company. The consolidated financial statements reflect the ratemaking practices of the applicable regulatory authorities. All intercompany balances and transactions have been eliminated in consolidation.

The Company has evaluated subsequent events and transactions through August 12, 2015, 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, 2015.

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.

Regulatory Accounting

The New York Public Service Commission ("NYPSC") regulates the rates the Company charges its customers. In certain cases, the rate actions of the NYPSC can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. Regulatory assets and liabilities are amortized to the consolidated statements of income consistent with the treatment of the related costs in the ratemaking process. Iroquois' transmission assets are regulated by the Federal Energy Regulatory Commission ("FERC") and its rates are filed with the FERC.

Revenue Recognition

Revenues are recognized for gas distribution services provided on a monthly billing cycle basis. The Company records unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the accounting period.

With respect to base distribution rates, the NYPSC has approved a Revenue Decoupling Mechanism ("RDM"), which applies only to the Company's firm residential heating sales and transportation customers. The RDM requires the Company to adjust its base rates annually to reflect the over or under recovery of the Company's targeted base distribution revenues from the prior year (May-April).

The Company's tariff includes a cost of gas adjustment factor which requires an annual reconciliation of recoverable gas costs and revenues. Any difference is deferred pending recovery from, or refund to, customers.

The gas distribution business is influenced by seasonal weather conditions, and, therefore, the Company's 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.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2015 and 2014 were \$35.9 million and \$52.6 million, respectively.

The state of New York imposes on corporations a franchise tax that is computed as the higher of a tax based on income or a tax based on capital. To the extent the Company's state tax based on capital is in excess of the state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying consolidated financial statements.

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 company determines its current and deferred taxes based on the separate return method. The Company settles its current tax liability or benefit each year with NGNA pursuant to a tax sharing arrangement between NGNA and its subsidiaries. Tax benefits attributable to the tax attributes of other group companies and allocated by NGNA are treated as capital contributions.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates fair value.

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 based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. 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 accounts are disconnected and/or terminated and the balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies as well as gas in storage. 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, 2015 or 2014.

Gas in storage is stated at weighted average cost and the related cost is recognized when delivered to customers. Existing rate orders allow the Company to pass directly through to customers the cost of gas purchased, along with any applicable authorized delivery surcharge adjustments. Gas costs passed through to customers are subject to regulatory approvals and are reported periodically to the NYPSC.

The Company had materials and supplies of \$11.5 million and \$13.4 million and gas in storage of \$49.7 million and \$42 million at March 31, 2015 and 2014, respectively.

Derivative Contracts

The Company uses derivative contracts to manage commodity price risk. All derivative contracts are recorded in the accompanying consolidated balance sheets at their fair value. All commodity costs, including the impact of derivative contracts, are passed on to customers through the Company's gas cost adjustment mechanism. Therefore, gains or losses on the settlement of these contracts are initially deferred and then refunded to, or collected from, customers consistent with regulatory requirements.

The Company's accounting policy is to not offset fair value amounts recognized for derivative contracts and related cash collateral receivable or payable with the same counterparty under a master netting agreement, and to record and present the fair value of the derivative contract on a gross basis, with related cash collateral recorded within restricted cash and special deposits in the accompanying consolidated balance sheets. There was no related cash collateral as of March 31, 2015 or 2014.

Fair Value Measurements

The Company measures derivatives at fair value. 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:

- 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; and

- 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.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

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 an allowance for funds used during construction ("AFUDC").

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 and are approved by the NYPSC. The average composite rates for the years ended March 31, 2015 and 2014 were 2.5% and 2.6%, respectively. The average service life for each of the years ended March 31, 2015 and 2014 was 54 years.

Depreciation expense includes a component for estimated future cost of removal which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of \$194.4 million and \$181.3 million at March 31, 2015 and 2014, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the consolidated statements of income as non-cash income in other deductions, net, and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of zero and \$0.7 million and AFUDC related to debt of \$0.3 million and \$0.8 million for the years ended March 31, 2015 and 2014, respectively. The average AFUDC rates for the years ended March 31, 2015 and 2014 were 0.3% and 3.2% respectively.

Goodwill

The Company tests goodwill for impairment annually on January 1, and when events occur or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. Goodwill is tested for impairment using a two-step approach. The first step compares the estimated fair value of the Company with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is considered not impaired. If the carrying value exceeds the estimated fair value, then a second step is performed to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The fair value of the Company was calculated in the annual goodwill impairment test for the year ended March 31, 2015 utilizing both income and market approaches.

- To estimate fair value utilizing the income approach, the Company used a discounted cash flow methodology incorporating its most recent business plan forecasts together with a projected terminal year calculation. Key assumptions used in the income approach were: (a) expected cash flows for the period from April 1, 2015 to March 31, 2020; (b) a discount rate of 5.2%, which was based on the Company's best estimate of its after-tax weighted-

average cost of capital; and (c) a terminal growth rate of 2.25%, based on the Company's expected long-term average growth rate in line with estimated long-term U.S. economic inflation.

- To estimate fair value utilizing the market approach, the Company followed a market comparable methodology. Specifically, the Company applied a valuation multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA"), derived from data of publicly-traded benchmark companies, to business operating data. Benchmark companies were selected based on comparability of the underlying business and economics. Key assumptions used in the market approach included the selection of appropriate benchmark companies and the selection of an EBITDA multiple of 11, which the Company believes is appropriate based on comparison of its business with the benchmark companies.

The Company determined the fair value of the business using 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment of the goodwill carrying value was required at March 31, 2015 or 2014.

Prior to 2015, the Company utilized an annual impairment assessment date of January 31. Management has determined that the use of January 1 as its annual impairment assessment date is preferable to January 31 because it facilitates a more timely evaluation in advance of the Company's fiscal year end of March 31. The movement of the date has not resulted in a substantive change in the timing of recording any potential impairment.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant and equipment, primarily associated with the Company's gas distribution facilities. 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 following table represents the changes in the Company's asset retirement obligations:

	Years Ended March 31,	
	2015	2014
	<i>(in thousands of dollars)</i>	
Balance as of the beginning of the year	\$ 12,205	\$ 11,514
Accretion expense	732	691
Revaluations to present values of estimated cash flows	<u>630</u>	<u>-</u>
Balance as of the end of the year	<u><u>\$ 13,567</u></u>	<u><u>\$ 12,205</u></u>

At March 31, 2015 the Company carried out a revaluation study that resulted in a net 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.

Accretion expense is deferred as part of the Company's asset retirement obligation regulatory asset as management believes it is probable that such amounts will be collected in future rates.

Employee Benefits

The Company participates with other KeySpan subsidiaries in defined benefit pension plans and postretirement benefit other than pension ("PBOP") plans for its employees, administered by the Parent. The Company recognizes its portion of the pension and PBOP plans' funded status in the accompanying consolidated balance sheets as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The pension and PBOP plans' assets are commingled and cannot be allocated to an individual company. The Company measures and records its pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2015

Reclassifications From Accumulated Other Comprehensive Income

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," to improve the reporting of reclassifications out of accumulated other comprehensive income ("AOCI"). The amendments require an entity to provide information either on the face of the consolidated financial statements or in a single footnote on significant amounts reclassified out of AOCI and the related income statement line items to the extent an amount is reclassified in its entirety to net income. For significant items not reclassified to net income in their entirety, an entity is required to cross-reference to other disclosures that provide additional information. For non-public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Company adopted this guidance effective April 1, 2014 with no impact on its financial position, results of operations or cash flows.

Accounting Guidance Not Yet Adopted

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 No. 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 also 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. The application of this guidance is not expected to have a material impact on the Company's financial position, results of operations and cash flows.

Revenue Recognition

In May 2014, the FASB and the International Accounting Standards Board jointly issued a new revenue recognition standard ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The objective of the new guidance is to provide a single comprehensive revenue recognition model for all contracts with customers to improve comparability. The standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services in an amount that reflects the consideration the entity expects to receive. 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, 2017. The Company is currently evaluating the impact of the new guidance on its financial position, results of operations and cash flows.

Financial Statement Revision

During 2015, management determined that certain accounting transactions were not properly recorded in the Company's previously issued consolidated financial statements. The Company corrected the accounting by revising the prior period consolidated financial statements, the impacts of which are described below. The Company concluded that the revisions were not material to any prior periods.

During its review of the Company's accounting for its RDM, management determined it had incorrectly applied its methodology related to the unbilled component of revenue. A cumulative adjustment of \$4 million (net of income taxes) was recorded in the consolidated financial statements for the year ended March 31, 2014, of which \$12.5 million was recorded as a decrease to opening retained earnings (as of March 31, 2013) and \$8.5 million was recorded as an increase to net income within operating revenues for the year ended March 31, 2014.

Further, management determined it had not recognized a regulatory liability in relation to the Company's Net Utility Plant Tracker. A cumulative adjustment of \$9.4 million (net of income taxes) was recorded in the consolidated financial statements for the year ended March 31, 2014, of which \$1.3 million was recorded as a decrease to opening retained earnings (as of March 31, 2013) and \$8.1 million was recorded as a decrease to net income within operating revenues for the year ended March 31, 2014.

In addition, the Company has corrected various account balances that were improperly recorded. A cumulative adjustment of \$5 million (net of income taxes) was recorded in the consolidated financial statements for the year ended March 31, 2014, of which a \$3 million was recorded as a decrease to opening retained earnings (as of March 31, 2013) and \$2 million was recorded as a decrease to net income for the year ended March 31, 2014.

The following table shows the amounts previously reported as revised:

	As Previously Reported ⁽¹⁾	Adjustments	As Revised
	<i>(in thousands of dollars)</i>		
Consolidated Statement of Income			
	March 2014		March 2014
Operating revenues	\$ 1,623,886	\$ 671	\$ 1,624,557
Operating income	229,767	(1,375)	228,392
Total other deductions, net	(39,812)	(1,356)	(41,168)
Income before income taxes	189,955	(2,731)	187,224
Income tax expense	80,701	(1,109)	79,592
Net income	109,254	(1,622)	107,632
Consolidated Statement of Cash Flows			
	March 2014		March 2014
Net cash provided by operating activities	\$ 108,760	\$ (399)	\$ 108,361
Net cash used in investing activities	(263,782)	399	(263,383)
Consolidated Balance Sheet			
	As Previously Reported ⁽¹⁾	Adjustments	As Revised
	<i>(in thousands of dollars)</i>		
	March 2014		March 2014
Property, plant and equipment, net	\$ 2,914,454	\$ (7,870)	\$ 2,906,584
Total other non-current assets	2,640,097	19,388	2,659,485
Total current liabilities	722,633	6,712	729,345
Total other non-current liabilities	1,879,860	23,182	1,903,042
Retained Earnings			
March 31, 2014	135,266	(18,377)	116,889
March 31, 2013	26,012	(16,755)	9,257
Shareholders' Equity			
March 31, 2014	2,749,949	(18,377)	2,731,572
March 31, 2013	2,640,397	(16,755)	2,623,642

(1) During 2015, the Company changed its accounting policy for classification of regulatory accounts. The change in policy resulted in reclassification of balances reported at March 31, 2014.

3. REGULATORY ASSETS AND LIABILITIES

The Company records regulatory assets and liabilities that result from the ratemaking process. The following table presents the regulatory assets and regulatory liabilities recorded in the accompanying consolidated balance sheets.

	March 31,	
	2015	2014
	<i>(in thousands of dollars)</i>	
Regulatory assets		
Current:		
Derivative contracts	\$ 8,984	\$ 1,965
Gas costs adjustment	7,115	17,252
Other	330	1,675
Total	<u>16,429</u>	<u>20,892</u>
Non-current:		
Capital tracker	-	8,498
Environmental response costs	738,119	718,082
Postretirement benefits	341,974	280,710
Property taxes	8,413	16,871
Temperature control/interruptible sharing	48,710	22,484
Other	47,723	55,853
Total	<u>1,184,939</u>	<u>1,102,498</u>
Regulatory liabilities		
Current:		
Energy efficiency	43,076	41,100
Revenue decoupling mechanism	11,586	12,849
Temporary state assessment	13,330	-
Other	3,082	476
Total	<u>71,074</u>	<u>54,425</u>
Non-current:		
Cost of removal	194,425	181,329
Delivery rate adjustment	44,974	44,974
Excess earnings	88,082	88,082
Temporary state assessment	-	32,751
Other	45,214	32,803
Total	<u>372,695</u>	<u>379,939</u>
Net regulatory assets	<u>\$ 757,599</u>	<u>\$ 689,026</u>

Capital tracker: During the primary term of the rate plan (2008–2012), the Company had a capital tracker mechanism that reconciled the Company's capital expenditures to the amounts permitted in rates. The mechanism provided for a two way (upward and downward) tracker for City and State Construction ("CSC") related expenditures and a one way (downward only) tracker for all other capital expenditures. The Company records a carrying charge for CSC expenditures above the CSC rate and the full revenue requirement equivalent of amounts below the rate allowance for CSC expenditures as well as all other capital expenditures. Beginning January 1, 2013, the Capital Tracker was replaced by a Net Utility Plant and Depreciation Expense Reconciliation Mechanism ("NUP Tracker"). The NUP Tracker requires the Company to reconcile its annual actual average net utility plant and depreciation expense revenue requirement to targeted amounts defined in the rate extension agreement. If the cumulative two year actual net utility plant and depreciation expense revenue requirement are below the target, the amount will be deferred for the benefit of customers. There will be no deferral if the Company exceeds the target.

Cost of removal: Represents cumulative amounts collected, but not yet spent, to dispose of property, plant and equipment. This liability is discharged as removal costs are incurred.

Delivery rate adjustment: The NYPSC authorized a surcharge for recovery of regulatory assets ("Delivery Rate Surcharge") of \$5 million beginning January 1, 2008, which increased incrementally by \$5 million in rate years two through five; aggregating to a total of approximately \$75 million over the term of the rate agreement. In its order issued and effective November 28, 2012 (Order Authorizing Recovery of Deferred Balances), the NYPSC authorized a Site Investigation and Remediation ("SIR") Surcharge in the amount of \$25 million which superseded the Delivery Rate Surcharge effective January 1, 2013. These SIR recoveries will be used to amortize existing SIR deferral balances. On June 5, 2015, the Company submitted a petition to the NYPSC to increase its existing SIR Surcharge by \$37.5 million annually, effective September 1, 2015 (or sooner) and remaining in effect until new base rates are set. The proposed increase in the SIR Surcharge will allow the Company to recover some of its environmental remediation costs and minimize future bill impacts for customers.

Derivative contracts: The Company evaluates open derivative contracts for regulatory deferral by determining if they are probable of recovery from, or refund to, customers through future rates. Derivative contracts that qualify for regulatory deferral are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs.

Energy efficiency: Represents the difference between revenue billed to customers through the Company's energy efficiency charge and the costs of its energy efficiency programs as approved by the NYPSC.

Environmental response costs: Represents deferred costs associated with the estimated costs to investigate and perform certain remediation activities at former manufactured gas plant ("MGP") sites and related facilities. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Excess earnings: At the end of each rate year (calendar year), the Company is required to provide the NYPSC with a computation of its return on common equity capital ("ROE"). During the primary term of the rate plan (2008-2012), if the level of earned common equity in the applicable rate year exceeded 10.5%, the Company was required to defer a portion of the revenue equivalent associated with any over earnings for the benefit of customers. Beginning January 1, 2013, the threshold for earnings sharing has been reduced from 10.5% to 9.4% and the sharing mechanism is calculated based upon a cumulative average ROE over rate years 2013 and 2014 with 80% of any excess earnings applied as a credit against the SIR deferral balance.

Gas costs adjustment: The Company is subject to rate adjustment mechanisms for commodity costs, whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered or differences between actual revenues and targeted amounts as approved by the NYPSC. These amounts will be refunded to, or recovered from, customers over the next year.

Postretirement benefits: Represents the excess costs of the Company's pension and PBOP plans over amounts received in rates that are deferred to a regulatory asset to be recovered in future periods, and the non-cash accrual of net actuarial

gains and losses. Also included within this amount are certain pension deferral amounts from prior to the acquisition of KeySpan by NGUSA, which are being recovered in rates over a ten year period ending August 2017.

Property taxes: Represents 90% of actual property and special franchise tax expenses above or below the rate allowance for future collection from, or payment to, the Company's customers.

Revenue decoupling mechanism: As approved by the NYPSC, the Company has a RDM which applies only to the Company's firm residential heating sales and transportation customers. The RDM allows for annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. Any difference between the allowed revenue per customer and the actual revenue per customer is recorded as a regulatory asset or regulatory liability.

Temperature control/interruptible ("TC/IT") sharing: Under the existing rate agreement, the revenue requirement reflects certain levels of imputed TC/IT margins. Differences between the actual margins and imputed margins are shared 90% by ratepayers and 10% by shareholders. This regulatory asset represents the ratepayer share of the differences.

Temporary state assessment: In June 2009, the NYPSC authorized utilities, including the Company, to recover the costs required for payment of the Temporary State Energy & Utility Service Conservation Assessment ("Temporary State Assessment"), including carrying charges. The Temporary State Assessment is subject to reconciliation over a five year period which began July 1, 2009. On June 18, 2014, the NYPSC issued an order authorizing certain utilities, including the Company, to recover the Temporary State Assessment subject to reconciliation, including carrying charges, from July 1, 2014 through June 30, 2017. As of March 31, 2015, the Company over-collected on these costs. The Company is required to net any deferred over-collected amounts against the amount to be collected during fiscal years 2014 and 2015 as well as the first payment relating to fiscal years 2015 and 2016.

The Company records carrying charges on all regulatory balances (with the exception of derivative contracts, cost of removal, environmental response costs, and regulatory deferred tax balances), for which cash expenditures have been made and are subject to recovery, or for which cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made.

4. RATE MATTERS

General Rate Case

On June 13, 2013, the NYPSC approved a rate plan extension covering the Company's 2013 and 2014 rate years. The Company's revenue requirements for both years have been modified as follows: (i) there is no change in base delivery rates, other than those previously approved by the NYPSC in the rate plan extension, (ii) the allowed ROE decreased from 9.8% to 9.4%, and (iii) the common equity ratio in the capital structure increased from 45% to 48%.

Management Audit

In February 2011, the NYPSC selected Overland Consulting Inc., ("Overland") to perform a management audit of NGUSA's affiliate cost allocations, policies and procedures. The Company disputed certain of Overland's final audit conclusions and the NYPSC ordered that further proceedings be conducted to address what, if any, ratemaking adjustments were necessary. On September 5, 2014 the NYPSC approved a settlement that resolves all outstanding issues relating to the audit and establishes a \$13.3 million regulatory liability.

Gas Management Audit

In February 2013, the NYPSC initiated a comprehensive management and operational audit of NGUSA's New York gas businesses, including the Company, pursuant to the Public Service Law requirement that major electric and gas utilities undergo an audit every five years. The audit commenced in August 2013 and the NYPSC issued an audit findings report in October 2014. The audit findings found that the Company's operations performed well in providing reliable gas service, and

strength in operations, network planning, project management, work management, load forecasting, supply procurement and customer systems support. Also included were 31 recommendations for improvement, including: reconstituting the boards of directors of NGUSA and the gas companies in New York to include more objective oversight; establishing stronger reporting authority between the New York jurisdictional president and operational organizations; preparing a true strategic plan for NGUSA's New York operations to serve as a road map for investments, programs and operations to build upon the state energy plan and energy initiatives; developing a five-year, integrated, system-wide plan that includes all gas reliability work, mandated replacements, growth projects and system planning work; enhancing internal service level agreements to promote accountability for performance and costs; and undertaking a full accounting of all costs associated with NGUSA's SAP enterprise wide system. In November 2014, NGUSA's New York gas businesses filed joint audit implementation plans addressing each of the audit recommendations. On May 14, 2015, the NYPSC issued an order accepting without modifications the joint implementation plans and directing NGUSA's New York gas businesses to execute the plans.

Operations Audit

In August 2013, the NYPSC initiated an operational audit to review the accuracy of the customer service, electric reliability, and gas safety data reported by the investor owned utilities operating in New York, including the Company. On December 19, 2013, the NYPSC selected Overland to conduct the audit, which commenced in February 2014. At the time of the issuance of these consolidated financial statements, the Company has not received the final audit findings and cannot predict the outcome of this audit.

Operations Staffing Audit

In January 2014, the NYPSC initiated an operational audit to review internal staffing levels and use of contractors for the core utility functions of the investor owned utilities operating in New York, including the Company. On June 26, 2014, the NYPSC selected The Liberty Consulting Group to conduct the audit. At the time of the issuance of these consolidated financial statements, the Company cannot predict the outcome of this operational audit.

Capital Reconciliation Mechanism Petition

In June 2015, the Company submitted a petition to the NYPSC requesting a modification to the two-year NUP Tracker ended December 31, 2014. While the Company implemented and largely completed its capital program for 2013 and 2014, its ability to launch certain programs was hampered by SuperStorm Sandy and its aftermath. The impact of these delays and other related issues was a deferred liability, which was offset against the regulatory asset recorded in relation to the primary term of the rate plan. The requested modification to the NUP Tracker Mechanism would provide for an additional two year reconciliation period (calendar years 2015 and 2016) to complete more capital projects and facilitate the Company's plan to invest in its distribution system infrastructure. If approved, the extension would be effective September 1, 2015.

5. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2015	2014
	<i>(in thousands of dollars)</i>	
Plant and machinery	\$ 3,787,992	\$ 3,523,161
Land and buildings	190,530	174,708
Assets in construction	238,682	199,022
Software and other intangibles	124,399	124,399
Total property, plant and equipment	<u>4,341,603</u>	<u>4,021,290</u>
Accumulated depreciation and amortization	<u>(1,113,666)</u>	<u>(1,114,706)</u>
Property, plant and equipment, net	<u><u>\$ 3,227,937</u></u>	<u><u>\$ 2,906,584</u></u>

6. DERIVATIVE CONTRACTS

The Company utilizes derivative contracts, such as gas swap contracts, gas option contracts and gas purchase contracts, to manage commodity price risk associated with its natural gas purchases. The Company's risk management strategy is to reduce fluctuations in firm gas sales prices to its customers.

The Company's financial exposures are monitored and managed as an integral part of the Company's overall financial risk management policy. The Company engages in risk management activities, only in commodities and financial markets where it has an exposure, and only in terms and volumes consistent with its core business.

Volumes

Volumes of outstanding commodity derivative contracts measured in dekatherms ("dths") are as follows:

	March 31,	
	2015	2014
	<i>(in thousands)</i>	
Gas swap contracts	18,252	13,732
Gas option contracts	2,220	9,350
Gas purchase contracts	<u>17,564</u>	<u>22,310</u>
Total	<u><u>38,036</u></u>	<u><u>45,392</u></u>

Amounts Recognized in the Accompanying Consolidated Balance Sheets

	<u>Asset Derivatives</u>		<u>Liability Derivatives</u>	
	<u>March 31,</u>		<u>March 31,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	<i>(in thousands of dollars)</i>		<i>(in thousands of dollars)</i>	
<u>Current assets:</u>			<u>Current liabilities:</u>	
Rate recoverable contracts:			Rate recoverable contracts:	
Gas swap contracts	\$ 1,573	\$ 1,757	Gas swap contracts	\$ 6,283 \$ 3,432
Gas option contracts	36	905	Gas option contracts	290 253
Gas purchase contracts	<u>3,404</u>	<u>509</u>	Gas purchase contracts	<u>6,473</u> 4,744
	<u>5,013</u>	<u>3,171</u>		<u>13,046</u> 8,429
<u>Other non-current assets:</u>			<u>Other non-current liabilities:</u>	
Rate recoverable contracts:			Rate recoverable contracts:	
Gas purchase contracts	-	7,124	Gas purchase contracts	951 3,831
	<u>-</u>	<u>7,124</u>		<u>951</u> 3,831
Total	<u>\$ 5,013</u>	<u>\$ 10,295</u>	Total	<u>\$ 13,997</u> \$ 12,260

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying consolidated statements of income. The Company had no derivative contracts not subject to rate recovery as of March 31, 2015 and 2014.

Credit and Collateral

The Company is exposed to credit risk related to transactions entered into for commodity price risk management. Credit risk represents the risk of loss due to counterparty non-performance. Credit risk is managed by assessing each counterparty's credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is managed and monitored by NGUSA's Executive Energy Risk Management Committee ("EERC"), which is responsible for approving risk management policies and objectives for risk assessment, control and valuation, and the monitoring and reporting of risk exposures. NGUSA's Energy Procurement Risk Management Committee ("EPRMC") is responsible for approving transaction strategies, annual supply plans, and counterparty credit approval, as well as all valuation and control procedures. The EERC is chaired by the Global Tax and Treasury Director and reports to the Finance Committee. The EPRMC is chaired by the Vice President of U.S. Treasury and reports to the EERC.

The EPRMC monitors counterparty credit exposure and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduce its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support, and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties.

The Company's credit exposure for all derivative contracts, applicable payables and receivables, and instruments that are subject to master netting agreements, was a liability of \$8.7 million and \$3.2 million as of March 31, 2015 and 2014, respectively.

The aggregate fair value of the Company's derivative contracts with credit-risk-related contingent features that are in a liability position at March 31, 2015 and 2014 was \$5.3 million and \$4.1 million, respectively. The Company had no collateral posted for these instruments at March 31, 2015 or 2014. If the Company's credit rating were to be downgraded by one or two levels, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post \$5.4 million and \$4.4 million additional collateral to its counterparties at March 31, 2015 and 2014, respectively.

Offsetting Information for Derivatives Subject to Master Netting Arrangements

Gross Amounts Not Offset in the Consolidated Balance Sheets

(in thousands of dollars)

	Gross amounts of recognized assets <i>A</i>	Gross amounts offset in the Consolidated Balance Sheets <i>B</i>	Net amounts of assets presented in the Consolidated Balance Sheets <i>C=A+B</i>	Financial instruments <i>Da</i>	Cash collateral received <i>Db</i>	Net amount <i>E=C-D</i>
ASSETS:						
Derivative contracts						
Gas swap contracts	\$ 1,573	\$ -	\$ 1,573	\$ -	\$ -	\$ 1,573
Gas option contracts	36	-	36	-	-	36
Gas purchase contracts	3,404	-	3,404	-	-	3,404
Total	<u>\$ 5,013</u>	<u>\$ -</u>	<u>\$ 5,013</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,013</u>
	Gross amounts of recognized liabilities <i>A</i>	Gross amounts offset in the Consolidated Balance Sheets <i>B</i>	Net amounts of liabilities presented in the Consolidated Balance Sheets <i>C=A+B</i>	Financial instruments <i>Da</i>	Cash collateral paid <i>Db</i>	Net amount <i>E=C-D</i>
LIABILITIES:						
Derivative contracts						
Gas swap contracts	\$ 6,283	\$ -	\$ 6,283	\$ -	\$ -	\$ 6,283
Gas option contracts	290	-	290	-	-	290
Gas purchase contracts	7,424	-	7,424	-	-	7,424
Total	<u>\$ 13,997</u>	<u>\$ -</u>	<u>\$ 13,997</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,997</u>

March 31, 2014
Gross Amounts Not Offset in the Consolidated Balance Sheets

(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets <i>A</i>	Gross amounts offset in the Consolidated Balance Sheets <i>B</i>	Net amounts of assets presented in the Consolidated Balance Sheets <i>C=A+B</i>	Financial instruments <i>Da</i>	Cash collateral received <i>Db</i>	Net amount <i>E=C-D</i>
Derivative contracts						
Gas swap contracts	\$ 1,757	\$ -	\$ 1,757	\$ -	\$ -	\$ 1,757
Gas option contracts	905	-	905	-	-	905
Gas purchase contracts	<u>7,633</u>	<u>-</u>	<u>7,633</u>	<u>-</u>	<u>-</u>	<u>7,633</u>
Total	<u>\$ 10,295</u>	<u>\$ -</u>	<u>\$ 10,295</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,295</u>
LIABILITIES:						
	Gross amounts of recognized liabilities <i>A</i>	Gross amounts offset in the Consolidated Balance Sheets <i>B</i>	Net amounts of liabilities presented in the Consolidated Balance Sheets <i>C=A+B</i>	Financial instruments <i>Da</i>	Cash collateral paid <i>Db</i>	Net amount <i>E=C-D</i>
Derivative contracts						
Gas swap contracts	\$ 3,432	\$ -	\$ 3,432	\$ -	\$ -	\$ 3,432
Gas option contracts	253	-	253	-	-	253
Gas purchase contracts	<u>8,575</u>	<u>-</u>	<u>8,575</u>	<u>-</u>	<u>-</u>	<u>8,575</u>
Total	<u>\$ 12,260</u>	<u>\$ -</u>	<u>\$ 12,260</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,260</u>

7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value in the accompanying consolidated balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2015 and 2014:

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
<i>(in thousands of dollars)</i>				
Assets:				
Derivative contracts				
Gas swap contracts	\$ -	\$ 1,573	\$ -	\$ 1,573
Gas option contracts	-	-	36	36
Gas purchase contracts	<u>-</u>	<u>17</u>	<u>3,387</u>	<u>3,404</u>
Total	<u>-</u>	<u>1,590</u>	<u>3,423</u>	<u>5,013</u>
Liabilities:				
Derivative contracts				
Gas swap contracts	-	6,283	-	6,283
Gas option contracts	-	-	290	290
Gas purchase contracts	<u>-</u>	<u>84</u>	<u>7,340</u>	<u>7,424</u>
Total	<u>-</u>	<u>6,367</u>	<u>7,630</u>	<u>13,997</u>
Net liabilities	<u>\$ -</u>	<u>\$ (4,777)</u>	<u>\$ (4,207)</u>	<u>\$ (8,984)</u>

	March 31, 2014			
	Level 1	Level 2	Level 3	Total
	<i>(in thousands of dollars)</i>			
Assets:				
Derivative contracts				
Gas swap contracts	\$ -	\$ 1,757	\$ -	\$ 1,757
Gas option contracts	-	-	905	905
Gas purchase contracts	-	34	7,599	7,633
Total	-	1,791	8,504	10,295
Liabilities:				
Derivative contracts				
Gas swap contracts	-	3,432	-	3,432
Gas option contracts	-	-	253	253
Gas purchase contracts	-	107	8,468	8,575
Total	-	3,539	8,721	12,260
Net liabilities	\$ -	\$ (1,748)	\$ (217)	\$ (1,965)

Derivative Contracts: The Company's Level 2 fair value derivative contracts primarily consist of over-the-counter ("OTC") gas swap contracts and gas purchase contracts with pricing inputs obtained from the New York Mercantile Exchange and the Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative contracts. 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 95% or higher.

The Company's Level 3 fair value derivative contracts primarily consist of OTC gas option contracts and gas purchase contracts, which are valued based on internally-developed models. 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. A derivative is designated Level 3 when it is valued based on a forward curve that is internally developed, extrapolated or derived from market observable curves with correlation coefficients less than 95%, where optionality is present, or if non-economic assumptions are made. The internally developed forward curves have a high level of correlation with Platts Mark-to-Market curves and are reviewed by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative contracts categorized in Level 2 and Level 3.

Changes in Level 3 Derivative Contracts

	Years Ended March 31,	
	2015	2014
	<i>(in thousands of dollars)</i>	
Balance as of the beginning of the year	\$ (217)	\$ (3,902)
Total gains or losses included in regulatory assets and liabilities	(10,423)	5,209
Settlements	6,433	(1,524)
Balance as of the end of the year	\$ (4,207)	\$ (217)

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3, during the years ended March 31, 2015 or 2014.

Quantitative Information About Level 3 Fair Value Measurements

The following tables provide information about the Company's Level 3 valuations:

Commodity	Level 3 Position	Fair Value as of March 31, 2015			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
<i>(in thousands of dollars)</i>							
Gas	Purchase contracts	\$ 3,087	\$ (7,340)	\$ (4,253)	Discounted Cash Flow	Forward Curve (A)	\$0.96 - \$11.47/dth
Gas/Power	Cross commodity contracts	300	-	300	Discounted Cash Flow	Forward Curve	\$23.61 - \$378.51/dth
Gas	Option contracts	36	(290)	(254)	Discounted Cash Flow	Implied Volatility	34% - 41%
	Total	\$ 3,423	\$ (7,630)	\$ (4,207)			

(A) Includes deals with valuation assumptions on gas supply.

Commodity	Level 3 Position	Fair Value as of March 31, 2014			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
<i>(in thousands of dollars)</i>							
Gas	Purchase contracts	\$ 7,385	\$ (8,468)	\$ (1,083)	Discounted Cash Flow	Forward Curve (A)	\$2.434 - \$17.310/dth
Gas/Power	Cross commodity contracts	214	-	214	Discounted Cash Flow	Forward Curve	\$50.93 - \$98.98/dth
Gas	Option contracts	905	(253)	652	Discounted Cash Flow	Implied Volatility	29% - 31%
	Total	\$ 8,504	\$ (8,721)	\$ (217)			

(A) Includes deals with valuation assumptions on gas supply.

The significant unobservable inputs listed above would have a direct impact on the fair values of the Level 3 instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of the Company's gas purchase and gas option derivatives are forward commodity prices, both gas and electric, implied volatility and valuation assumptions pertaining to peaking gas deals based on forward gas curves. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

Other 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, 2015 and 2014 was \$1.2 billion.

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.

8. 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, 2015 and 2014, the Company made contributions of approximately \$22.8 million and \$45.6 million, respectively, to the Plans.

The Plans' assets are commingled and cannot be specifically 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. In addition, certain changes in the funded status of the Plans are also allocated based on the employees associated with the Company through an intercompany payable account and are presented as postretirement benefits in the accompanying consolidated balance sheets. Pension and PBOP expenses are included in operations and maintenance expense in the accompanying consolidated statements of income.

KeySpan's unfunded obligations at March 31, 2015 and 2014 are as follows:

	March 31,	
	2015	2014
	<i>(in thousands of dollars)</i>	
Pension	\$ 1,055,558	\$ 704,169
PBOP	985,669	916,706
	<u>\$ 2,041,227</u>	<u>\$ 1,620,875</u>

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, 2015 and 2014 are as follows:

	March 31,	
	2015	2014
	<i>(in thousands of dollars)</i>	
Pension	\$ 15,656	\$ 15,634
PBOP	19,186	19,186
	\$ 34,842	\$ 34,820

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2015 and 2014, the Company recognized an expense in the accompanying consolidated statements of income of \$1.1 million and \$1 million, respectively, for matching contributions.

Other Benefits

At March 31, 2015 and 2014, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported of \$10.5 million and \$10 million, respectively.

9. CAPITALIZATION

Gas Facilities Revenue Bonds

The Company has outstanding tax-exempt Gas Facilities Revenue Bonds ("GFRB") issued through the New York State Energy Research and Development Authority. At March 31, 2015 and 2014, \$640.5 million of GFRB were outstanding; \$230 million of which are variable-rate, auction rate bonds. The interest rate on the various variable rate series due starting December 1, 2020 through July 1, 2026 is reset weekly and ranged from 0.07% to 0.44% during the year ended March 31, 2015 and 0.07% to 0.51% during the year ended March 31, 2014. The GFRB are currently in auction rate mode and are backed by bond insurance. These bonds cannot be put back to the Company and, in the case of a failed auction, the resulting interest rate on the bonds would revert to the maximum auction rate which depends on the current appropriate, short-term benchmark rates and the senior secured rating of the Company's bonds. The effect of the failed auctions on interest expense was not material for the years ended March 31, 2015 or 2014.

Debt Maturities

The aggregate maturities of long-term debt for the years subsequent to March 31, 2015 are as follows:

<i>(in thousands of dollars)</i>	
<u>Years Ending March 31,</u>	
2016	\$ -
2017	400,000
2018	-
2019	-
2020	-
Thereafter	<u>640,500</u>
Total	<u>\$ 1,040,500</u>

The Company is obligated to meet certain non-financial covenants. During the years ended March 31, 2015 and 2014 the Company was in compliance with all such covenants.

Dividend Restrictions

Pursuant to the NYPSC's orders, the ability of the Company to pay dividends to KeySpan is conditioned upon maintenance of a utility capital structure with debt not exceeding 56% of total utility capitalization. At March 31, 2015 and 2014, the Company was in compliance with the utility capital structure required by the NYPSC.

Preferred Stock

In connection with the acquisition of KeySpan by NGUSA, the Company became subject to a requirement to issue a class of preferred stock, having one share (the "Golden Share"), subordinate to any existing preferred stock. The holder of the Golden Share 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 the Golden Share. The NYPSC subsequently authorized the issuance of the Golden Share to a trustee, GSS Holdings, Inc. ("GSS"), who will hold the Golden Share subject to a Services and Indemnity Agreement requiring GSS to vote the Golden Share in the best interests of New York State. On July 8, 2011, the Company issued the Golden Share with a par value of \$1.

10. INCOME TAXES

Components of Income Tax Expense

	<u>Years Ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
	<i>(in thousands of dollars)</i>	
Current tax expense (benefit):		
Federal	\$ 9,486	\$ 10,596
State	4,411	8,742
Total current tax benefit	<u>13,897</u>	<u>19,338</u>
Deferred tax expense:		
Federal	49,663	50,816
State	11,705	10,349
Total deferred tax expense	<u>61,368</u>	<u>61,165</u>
Amortized investment tax credits, net ⁽¹⁾	<u>(911)</u>	(911)
Total deferred tax expense	<u>60,457</u>	<u>60,254</u>
Total income tax expense	<u>\$ 74,354</u>	<u>\$ 79,592</u>

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

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2015 and 2014 are 40.5% and 42.5%, 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,	
	2015	2014
	<i>(in thousands of dollars)</i>	
Computed tax	\$ 64,323	\$ 65,527
Change in computed taxes resulting from:		
State income tax, net of federal benefit	10,475	12,410
Temporary differences flowed through	-	1,404
Investment tax credits	(911)	(911)
Other items, net	467	1,162
Total	10,031	14,065
Federal and state income taxes	\$ 74,354	\$ 79,592

The Company is included in the NGNA and subsidiaries consolidated federal income tax return. The Company has joint and several liability for any potential assessments against the consolidated group.

In September 2013, the U.S. Department of the Treasury issued final tangible property regulations, which provide guidance for the application of Internal Revenue Code ("IRC") §162(a) and IRC §263(a) to amounts paid to acquire, produce, or improve tangible property. In August 2014, the U.S. Department of Treasury also finalized the depreciable property disposition regulations. Both sets of regulations become effective for tax years beginning on or after January 1, 2014, which, for the Company, is the fiscal year ended March 31, 2015. The Company intends to adopt these regulations with its fiscal year 2015 federal tax return and has estimated a favorable §481(a) adjustment of \$10.7 million related to dispositions of depreciable property and an unfavorable §481(a) adjustment of \$1.7 million related to repairs deduction following casualty loss.

On March 31, 2014, New York's legislature enacted, as part of the 2014-15 budget package, legislation which included significant tax changes. For tax years beginning on or after January 1, 2016, the New York corporate franchise rate is reduced from 7.1% to 6.5%. Additionally, for tax years beginning on or after January 1, 2015, New York State will generally require combined reporting if the taxpayer is engaged in a unitary business and a 50% common ownership test is met. The Metropolitan Transportation Authority surcharge rate increased from 17% to 25.6% of the New York rate for taxable years beginning after 2014 and before 2016. For subsequent years, the rate is to be adjusted by the Commissioner of the New York State Department of Taxation and Finance. As of March 31, 2014, the Company remeasured its New York State deferred tax assets and liabilities based upon the enacted law that will apply when the corresponding state temporary differences are expected to be realized or settled. Specifically, to reflect the decrease in tax rate, the Company decreased its New York State deferred tax liability by \$6.9 million with an offset to regulatory liabilities.

Deferred Tax Components

	March 31,	
	2015	2014
	<i>(in thousands of dollars)</i>	
Deferred tax assets:		
Environmental remediation costs	\$ 259,968	\$ 230,171
Future federal benefit on state taxes	41,045	36,921
Postretirement benefits and other employee benefits	115,245	51,667
Regulatory liabilities - other	140,829	113,992
Other items	34,221	25,120
Total deferred tax assets ⁽¹⁾	<u>591,308</u>	<u>457,871</u>
Deferred tax liabilities:		
Property related differences	787,829	697,629
Regulatory assets - environmental response costs	344,783	311,307
Regulatory assets - postretirement benefits	135,724	120,655
Regulatory assets - other	90,990	51,659
Other items	60,346	48,608
Total deferred tax liabilities	<u>1,419,672</u>	<u>1,229,858</u>
Net deferred income tax liabilities	828,364	771,987
Deferred investment tax credits	2,903	3,814
Net deferred income tax liabilities and investment tax credits	831,267	775,801
Current portion of deferred income tax liabilities (assets), net	<u>(26,722)</u>	<u>(20,941)</u>
Deferred income tax liabilities, net	<u>\$ 857,989</u>	<u>\$ 796,742</u>

(1) There were no valuation allowances for deferred tax assets at March 31, 2015 or 2014.

The following table presents the amounts and expiration dates of operating losses as of March 31, 2015:

<u>Expiration of net operating losses:</u>	<u>Federal</u>
	<i>(in thousands of dollars)</i>
3/27/2029	\$ 35,582
3/31/2033	12,085
<u>Expiration of state and city net operating losses:</u>	<u>NYS</u>
	<i>(in thousands of dollars)</i>
3/31/2029	\$ 60,834
3/31/2033	39,254

Unrecognized Tax Benefits

As of March 31, 2015 and 2014, the Company's unrecognized tax benefits totaled \$72.2 million and \$73.4 million, respectively, of which \$0.8 million and zero, 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,	
	2015	2014
	<i>(in thousands of dollars)</i>	
Balance as of the beginning of the year	\$ 73,428	\$ 113,030
Gross increases - tax positions in prior periods	1,331	2,046
Gross decreases - tax positions in prior periods	(13,988)	(16,622)
Gross increases - current period tax positions	11,410	13,727
Settlements with tax authorities	-	(38,753)
Balance as of the end of the year	<u>\$ 72,181</u>	<u>\$ 73,428</u>

As of March 31, 2015 and 2014, the Company has accrued for interest related to unrecognized tax benefits of \$3.6 million and \$2.5 million, respectively. During the years ended March 31, 2015 and 2014, the Company recorded interest expense of \$1.4 million and \$3.9 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 (deductions), net, in the accompanying consolidated statements of income. No tax penalties were recognized during the years ended March 31, 2015 or 2014.

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.

During the year ended March 31, 2014, the Internal Revenue Service ("IRS") concluded its examination of the NGNA consolidated filing group's corporate income tax returns, which includes corporate income tax returns of KeySpan Corporation and subsidiaries for the short period ended August 24, 2007, and of NGNA and subsidiaries for the periods ended March 31, 2008 and 2009. These examinations were completed on March 27, 2014 and March 31, 2014, respectively, with an agreement on the majority of income tax issues for the years referenced above, as well as an acknowledgment that certain discrete items remain disputed. NGNA is in the process of appealing these disputed issues with the IRS Office of Appeals. The Company does not anticipate a change in its unrecognized tax positions in the next twelve months as a result of the appeals. However, pursuant to the Company's tax sharing agreement, the audit or appeals may result in a change to allocated tax. The tax returns for the years ended March 31, 2010 through March 31, 2015 remain subject to examination by the IRS.

The State of New York is in the process of examining the Company's New York State income tax returns for the years ended August 24, 2007 through March 31, 2008. The tax returns for the years ended March 31, 2009 through March 31, 2015 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	August 24, 2007

*The KeySpan consolidated filing group for the tax year ended August 24, 2007 and the NGNA consolidated filing group for the fiscal years ended March 31, 2008 and 2009 are in the process of appealing certain disputed issues with the IRS Office of Appeals.

11. ENVIRONMENTAL MATTERS

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

In March of 2010, the Gowanus Canal was named to the United States Environmental Protection Agency ("EPA") Superfund List. The Company's predecessor owned three historical manufactured gas plants located along the Canal. In September of 2013, the EPA issued its Record of Decision, which prescribes the remedy for the Canal. The EPA estimates the entire remedy will cost \$506 million. On March 21, 2014, the EPA issued a Unilateral Administrative Order to the Company and more than twenty-five other industrial potentially responsible parties ("PRPs"), to commence the design of the remedy. Although no estimate for the design of the remedy was given, an estimate of 10% of remedy cost is typically used when estimating design costs. The Company is negotiating with the other PRPs to share work and costs.

The Company has identified numerous MGP sites and related facilities, which were owned or operated by the Company or its predecessors. These former sites, some of which are no longer owned by the Company, have been identified to the NYPSC and the New York State Department of Environmental Conservation ("DEC") for inclusion on appropriate site inventories. Administrative Orders on Consent or Voluntary Cleanup Agreements have been executed with the DEC to address the investigation and remediation activities associated with certain sites. Expenditures incurred for the years ended March 31, 2015 and 2014 were \$42.6 million and \$27.7 million, respectively.

Upon the acquisition of KeySpan by NGUSA, the Company recognized its environmental liabilities at fair value. The fair values included discounting of the reserve, which is being accreted over the period for which remediation is expected to occur. Following the acquisition, these environmental liabilities are recognized in accordance with the current accounting guidance for environmental obligations.

The Company estimated the remaining costs of environmental remediation activities were \$542.4 million and \$532.1 million at March 31, 2015 and 2014, respectively. The Company's environmental obligation is discounted at a rate of 6.5%; the undiscounted amount of environmental liabilities at March 31, 2015 and 2014 was \$658.5 million and \$647.2 million, respectively. These costs are expected to be incurred over approximately 40 years, and the discounted amounts have been recorded as reserves in the accompanying consolidated balance sheets. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers, and, where appropriate, the Company may seek recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders, the NYPSC has provided for the recovery of SIR costs. Accordingly, as of March 31, 2015 and 2014, the Company has recorded net environmental regulatory assets of \$736.4 million and \$718 million, respectively.

The Company believes that its ongoing operations, and its approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws, and that the obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position since, as noted above, environmental expenditures incurred by the Company are recoverable from customers.

12. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company has an operating lease for office space which is utilized by both the Company and its affiliates. A portion of the lease expense is allocated from the service company to the affiliated entities that benefit from its use. The gross rental expense for the leasehold was approximately \$11.9 million and \$11.5 million the years ended March 31, 2015 and 2014, respectively. The rental expense, net of amounts allocated to affiliated entities, recognized by the Company in the

accompanying consolidated statements of income was approximately \$4 million and \$3.1 million for the years ended March 31, 2015 and 2014, respectively.

The future minimum lease payments for the years subsequent to March 31, 2015 are as follows:

(in thousands of dollars)

<u>Years Ending March 31,</u>		
2016	\$	12,232
2017		12,238
2018		12,422
2019		12,633
2020		12,866
Thereafter		<u>63,142</u>
Total	\$	<u><u>125,533</u></u>

Purchase Commitments

The Company has long-term commitments with a variety of suppliers and pipelines to purchase gas supply, gas storage capability, and transportation of gas on interstate gas pipelines. The Company is liable for these payments regardless of the level of services required from third-parties.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2015 are summarized in the table below:

(in thousands of dollars)

<u>Years Ending March 31,</u>	<u>Gas</u>	<u>Capital Expenditures</u>
2016	\$ 184,970	\$ 36,143
2017	158,170	12,535
2018	131,265	-
2019	70,068	-
2020	58,723	-
Thereafter	<u>381,509</u>	<u>-</u>
Total	<u><u>\$ 984,705</u></u>	<u><u>\$ 48,678</u></u>

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.

SuperStorm Sandy

In October 2012, SuperStorm Sandy hit the northeastern U.S. affecting energy supply to customers in the Company's service territory. Total costs associated with gas customer service restoration from this storm (including capital expenditures) through March 31, 2014 were approximately \$69.1 million.

The Company had recorded an "other receivable" in the accompanying consolidated balance sheets in the amount of \$19 million as of March 31, 2014, relating to claims filed against its property damage insurance policy, net of insurance deductibles, allowances, and advance payments received. In December 2014, NGUSA reached a final settlement with its

insurers, of which the Company's allocated portion was \$52.2 million (inclusive of advance payments of \$29.2 million), and received final payment for the remaining amounts due. This resulted in the Company recognizing a gain of \$2.6 million for the year ended March 31, 2015, recorded as a reduction to operations and maintenance expense in the accompanying consolidated statements of income.

13. 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,	
	2015	2014	2015	2014
	<i>(in thousands of dollars)</i>		<i>(in thousands of dollars)</i>	
Boston Gas Company	\$ -	\$ 16	\$ -	\$ -
KeySpan Corporation	-	-	35,323	11,527
KeySpan Gas East Corporation	-	10,034	6,005	-
National Grid Engineering Services	588	2,226	-	-
NGUSA Service Company	-	-	17,264	117,927
Niagara Mohawk Power Corporation	180	-	-	901
Other	25	73	2,644	1,719
Total	<u>\$ 793</u>	<u>\$ 12,349</u>	<u>\$ 61,236</u>	<u>\$ 132,074</u>

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 Regulated Money Pool, except for NETCO, which participates in the Unregulated Money Pool, and can both borrow and invest funds. Borrowings from the Regulated Money and Unregulated Money Pools bear interest in accordance with the terms of the Regulated and Unregulated Money Pool Agreements. As the Company fully participates in the Regulated and Unregulated Money Pools 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 intercompany money pool are constructive cash receipts and payments, and therefore are presented as such.

The Regulated and Unregulated Money Pools are 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 intercompany money pools, if necessary. The Company had short-term intercompany money pool payable of \$394.5 million and \$337.4 million at March 31, 2015 and 2014, respectively. NETCO had short-term intercompany money pool

investments of \$118.1 million and \$80 million at March 31, 2015 and 2014, respectively. The average interest rates for the intercompany money pool were 0.4% and 0.7% for the years ended March 31, 2015 and 2014, 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, 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, 2015 and 2014 were \$288.8 million and \$243.1 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the U.K.) 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 \$5.1 million and \$5.4 million before taxes and \$3.1 and \$3.5 million after taxes, for each of the years ended March 31, 2015 and 2014, if these amounts were allocated to the Company.