National Grid North America Inc. and Subsidiaries

Consolidated Financial Statements

For the years ended March 31, 2014 and 2013

NATIONAL GRID NORTH AMERICA INC. AND SUBSIDIARIES

TABLE OF CONTENTS

Independent Auditor's Report

To the Shareholder and Board of Directors
of National Grid North America Inc.

We have audited the accompanying consolidated financial statements of National Grid North America Inc. (the "Company"), which comprise the consolidated balance sheets as of March 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, cash flows, capitalization, and changes in shareholder's equity for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Grid North America Inc. at March 31, 2014 and 2013, 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

November 18, 2014

PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017
T: (646) 471 3000, F: (646) 471 8320, www.pwc.com/us

NATIONAL GRID NORTH AMERICA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in millions of dollars)

	March 31, 2014	March 31, 2013
Operating revenues:		
Electric services	$ 7,177	$ 6,525
Gas distribution	5,355	4,784
Other	24	28
Total operating revenues	12,556	11,337
Operating expenses:		
Purchased electricity	2,503	2,059
Purchased gas	2,360	2,013
Operations and maintenance	4,541	4,282
Depreciation and amortization	896	854
Other taxes	1,063	1,055
Total operating expenses	11,363	10,263
Operating income	1,193	1,074
Other income and (deductions):		
Interest on long-term debt	(427)	(403)
Other interest, including affiliate interest	(144)	(137)
Equity income in unconsolidated subsidiaries	35	36
Other deductions, net	(19)	(10)
Total other deductions, net	(555)	(514)
Income before income taxes	638	560
Income tax expense	178	91
Income from continuing operations	460	469
Net income (loss) from discontinued operations, net of taxes	133	(14)
Net income	593	455
Net loss attributable to non-controlling interest	20	1
Net income attributable to common shares	$ 613	$ 456

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

NATIONAL GRID NORTH AMERICA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions of dollars)

	Years Ended March 31,	
	2014	2013
Net income	**$ 593**	$ 455
Other comprehensive income (loss):		
Foreign currency translation, net of $0 and $1 tax expense	**-**	1
Unrealized gains on securities, net of $3 and $0 tax expense	**4**	1
Unrealized gains (losses) on hedges, net of $3 tax expense and $1 tax benefit	**4**	(4)
Change in pension and other postretirement obligations, net of $103 tax expense and $73 tax benefit	**145**	(117)
Adjustment for establishment of Narragansett pension tracker, net of $0 and $54 tax expense	**-**	91
Reclassification of gains into net income, net of $45 and $61 tax expense	**67**	87
Other comprehensive income	**220**	59
Comprehensive income	**813**	514
Less: comprehensive loss attributable to non-controlling interest	**20**	1
Comprehensive income attributable to National Grid North America Inc.	**$ 833**	$ 515

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

NATIONAL GRID NORTH AMERICA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions of dollars)

	Years Ended March 31,	
	2014	2013
Operating activities:		
Net income	**$ 613**	$ 455
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**896**	854
Regulatory amortizations	**50**	265
Provision for deferred income taxes	**241**	383
Bad debt expense	**136**	59
Equity income in unconsolidated subsidiaries, net of dividends received	**(10)**	(13)
Allowance for equity funds used during construction	**(27)**	(21)
Amortization of debt discount and issuance costs	**3**	14
Net pension and other postretirement expense (contributions)	**113**	(48)
Net environmental remediation payments	**(136)**	(125)
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenues	**(719)**	(820)
Accounts receivable from/accounts payable to affiliates, net	**38**	17
Inventory	**45**	101
Regulatory assets and liabilities, net	**45**	118
Derivative contracts	**15**	(67)
Prepaid and accrued taxes	**(118)**	(197)
Accounts payable and other liabilities	**(42)**	(91)
Other, net	**18**	93
Net cash provided by operating activities	**1,161**	977
Investing activities:		
Capital expenditures	**(1,960)**	(1,806)
Net proceeds from disposal of subsidiary assets	**-**	294
Changes in restricted cash and special deposits	**66**	(54)
Cost of removal and other	**(206)**	(201)
Net cash used in investing activities	**(2,100)**	(1,767)
Financing activities:		
Payments on long-term debt	**(1,604)**	(545)
Proceeds from long-term debt	**1,737**	1,684
Commercial paper (paid) issued	**(244)**	665
Advance from affiliate	**750**	(500)
Equity infusion from Parent	**1,000**	-
Other	**33**	61
Net cash provided by financing activities	**1,672**	1,365
Net increase in cash and cash equivalents	**733**	575
Net cashflow from discontinued operations - operating	**(352)**	(168)
Net cashflow from discontinued operations - investing	**28**	(18)
Cash and cash equivalents, beginning of year	**1,185**	796
Cash and cash equivalents, end of year	**$ 1,594**	$ 1,185
Supplemental disclosures:		
Interest paid	**$ (596)**	$ (527)
Income taxes paid	**(108)**	(128)
Significant non-cash items:		
Capital-related accruals included in accounts payable	**161**	84
Long Island Power Authority settlement	**371**	-

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

NATIONAL GRID NORTH AMERICA INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions of dollars)

	March 31,	
	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,594**	$ 1,185
Restricted cash and special deposits	**168**	234
Accounts receivable	**2,762**	2,206
Allowance for doubtful accounts	**(300)**	(296)
Other receivable	**58**	67
Accounts receivable from affiliates	**1**	13
Unbilled revenues	**620**	592
Inventory	**344**	355
Regulatory assets	**571**	313
Derivative contracts	**140**	61
Current portion of deferred income tax assets	**137**	193
Prepaid taxes	**329**	279
Prepaid and other current assets	**125**	142
Current assets related to discontinued operations	**153**	423
Total current assets	**6,702**	5,767
Equity investments	**194**	184
Property, plant, and equipment, net		
Property, plant, and equipment, net	**23,875**	22,499
Property, plant, and equipment, net related to discontinued operations	**-**	28
Total property, plant, and equipment, net	**23,875**	22,527
Other non-current assets:		
Regulatory assets	**4,322**	4,590
Goodwill	**7,151**	7,151
Derivative contracts	**66**	14
Postretirement benefits asset	**305**	297
Financial investments	**476**	427
Other	**142**	124
Other non-current assets related to discontinued operations	**29**	28
Total other non-current assets	**12,491**	12,631
Total assets	**$ 43,262**	$ 41,109

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

NATIONAL GRID NORTH AMERICA INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions of dollars)

	March 31, 2014	March 31, 2013
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 1,339**	$ 1,372
Accounts payable to affiliates	**71**	45
Advance from affiliate	**750**	-
Other tax liabilities	**35**	34
Commercial paper	**421**	665
Current portion of long-term debt	**2,231**	1,063
Taxes accrued	**21**	102
Customer deposits	**98**	104
Interest accrued	**143**	185
Regulatory liabilities	**524**	412
Derivative contracts	**43**	11
Payroll and benefits accruals	**228**	272
Other	**304**	183
Current liabilities related to discontinued operations	**37**	173
Total current liabilities	**6,245**	4,621
Other non-current liabilities:		
Regulatory liabilities	**2,688**	2,605
Asset retirement obligations	**87**	105
Deferred income tax liabilities	**4,745**	4,179
Postretirement benefits	**2,872**	3,639
Environmental remediation costs	**1,341**	1,370
Derivative contracts	**14**	95
Other	**950**	1,030
Other non-current liabilities related to discontinued operations	**-**	155
Total other non-current liabilities	**12,697**	13,178
Commitments and contingencies (Note 13)		
Capitalization:		
Shareholders' equity	**10,298**	8,453
Long-term debt	**14,022**	14,857
Total capitalization	**24,320**	23,310
Total liabilities and capitalization	**$ 43,262**	$ 41,109

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

NATIONAL GRID NORTH AMERICA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(in millions of dollars)

			March 31, 2014	March 31, 2013
Shareholders' equity attributable to common and preferred shares			$ 10,286	$ 8,427
Non-controlling interest in subsidiaries			12	26
Long-term debt:	**Interest Rate**	**Maturity Date**		
European Medium Term Note	Variable	June 2014 - January 2019	2,515	1,517
Notes Payable	1.13% - 9.75%	October 2014 - December 2042	6,782	7,113
Gas Facilities Revenue Bonds	Variable	December 2020 - July 2026	230	230
Gas Facilities Revenue Bonds	4.7% - 6.95%	April 2020 - July 2026	411	411
First Mortgage Bonds	6.34% - 9.63%	April 2018 - April 2028	127	128
State Authority Financing Bonds	Variable	October 2015 - August 2042	1,153	1,199
Industrial Development Revenue Bonds	5.25%	June 2027	128	128
Intercompany Notes	Variable	August 2014 - August 2027	4,903	5,203
Total debt			16,249	15,929
Unamortized debt premium (discount)			5	(9)
Current portion of long-term debt			(2,232)	(1,063)
Total long-term debt			14,022	14,857
Total capitalization			$ 24,320	$ 23,310

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

NATIONAL GRID NORTH AMERICA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in millions of dollars, except per share and number of shares data)

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income: Foreign Currency Translation	Accumulated Other Comprehensive Income: Unrealized Gain (Loss) on Available for Sale Securities	Accumulated Other Comprehensive Income: Pension and Postretirement Benefit Plans	Accumulated Other Comprehensive Income: Hedging Activity	Accumulated Other Comprehensive Income: Total Accumulated Other Comprehensive Income	Non-controlling interest	Total
Balance as of March 31, 2012	**$ -**	**$ 35**	**$ 7,098**	**$ 1,782**	**$ (140)**	**$ (3)**	**$ (925)**	**$ 2**	**(1,066)**	**$ 9**	**7,858**
Net income	-	-	-	456	-	-	-	-	-	(1)	455
Other comprehensive income (loss):											
Foreign currency translation, net of $1 tax expense	-	-	-	-	1	-	-	-	1	-	1
Unrealized gains on securities, net of $0 tax expense	-	-	-	-	-	1	-	-	1	-	1
Unrealized losses on hedges, net of $1 tax benefit	-	-	-	-	-	-	-	(4)	(4)	-	(4)
Changes in pension and other postretirement											-
obligations, net of $73 tax benefit	-	-	-	-	-	-	(117)	-	(117)	-	(117)
Adjustment for establishment of Narragansett pension											-
tracker, net of $54 tax expense	-	-	-	-	-	-	91	-	91	-	91
Reclassification of gains into net income, net of											-
$61 tax expense	-	-	-	-	-	-	87	-	87	-	87
Total comprehensive income											514
Consolidation of variable interest entity	-	-	-	-	-	-	-	-	-	22	22
Other equity transactions with non-controlling interest	-	-	-	-	-	-	-	-	-	(4)	(4)
Share based compensation	-	-	63	-	-	-	-	-	-	-	63
									-		
Balance as of March 31, 2013	**$ -**	**$ 35**	**$ 7,161**	**$ 2,238**	**$ (139)**	**$ (2)**	**$ (864)**	**$ (2)**	**$ (1,007)**	**$ 26**	**$ 8,453**
Net income	-	-	-	613	-	-	-	-	-	(20)	593
Other comprehensive income (loss):											
Unrealized gains on securities, net of $3 tax expense	-	-	-	-	-	4	-	-	4	-	4
Unrealized gains on hedges, net of $3 tax expense	-	-	-	-	-	-	-	4	4	-	4
Changes in pension and other postretirement											
obligations, net of $103 tax expense	-	-	-	-	-	-	145	-	145	-	145
Reclassification of gains into net income, net of											
$45 tax expense	-	-	-	-	-	-	67	-	67	-	67
Total comprehensive income											813
Other equity transactions with non-controlling interest	-	-	(7)	-	-	-	-	-	-	6	(1)
Equity infusion from Parent	-	-	1,000	-	-	-	-	-	-	-	1,000
Share based compensation	-	-	33	-	-	-	-	-	-	-	33
									-		
Balance as of March 31, 2014	**$ -**	**$ 35**	**$ 8,187**	**$ 2,851**	**$ (139)**	**$ 2**	**$ (652)**	**$ 2**	**$ (787)**	**$ 12**	**$ 10,298**

The Company had 1,353 shares of common stock authorized, issued and outstanding, with a par value of $0.10 per share and 372,641 shares of cumulative preferred stock authorized, issued and outstanding, with par values of $100 and $ 50 per share at March 31, 2014 and 2013.

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

NATIONAL GRID NORTH AMERICA INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

National Grid North America Inc. ("NGNA" or "the Company"), formerly National Grid Holdings Inc., is a Delaware corporation that was created on May 16, 2001 to finance acquisitions in the United States ("U.S."). The Company is an indirect wholly-owned subsidiary of National Grid plc (the "Parent"), a public limited company incorporated under the laws of England and Wales. It is the intermediate holding company of National Grid USA ("NGUSA") and acts as a funding company on behalf of the Parent for certain subsidiaries' borrowings.

NGUSA has two major lines of business, "Gas Distribution" and "Electric Services," and operates various energy services and investment companies.

The Company's wholly-owned New England subsidiaries include: New England Power Company ("NEP"), The Narragansett Electric Company ("Narragansett"), Massachusetts Electric Company ("Massachusetts Electric"), Nantucket Electric Company ("Nantucket"), Boston Gas Company ("Boston Gas"), and Colonial Gas Company ("Colonial Gas"). The Company's wholly-owned New York subsidiaries include: Niagara Mohawk Power Corporation ("Niagara Mohawk"), National Grid Generation, LLC ("National Grid Generation"), The Brooklyn Union Gas Company ("Brooklyn Union"), and KeySpan Gas East Corporation ("KeySpan Gas East").

In addition, the Company has certain subsidiaries which have provided operational and energy management services and continue to supply capacity to and produce energy for the use of customers of the Long Island Power Authority ("LIPA"), on Long Island, New York. The services provided to LIPA were or continue to be provided through the following contractual arrangements. The Power Supply Agreement ("PSA") which was amended and restated for a maximum term of 15 years in October 2012 provides LIPA with electric generating capacity, energy conversion and ancillary services from the Company's Long Island generating units. The Energy Management Agreement ("EMA"), which expired on May 28, 2013, provided management of all aspects of fuel supply for the Company's Long Island generating facilities. The Management Service Agreement ("MSA"), which expired on December 31, 2013, provided operation, maintenance and construction services, and significant administrative services relating to the Long Island electric transmission and distribution system. The results of the MSA are reflected as discontinued operations in the accompanying consolidated financial statements for the years ended March 31, 2014 and 2013.

On July 3, 2012, the Company's previous subsidiaries, Granite State Electric Company ("Granite State") and EnergyNorth Natural Gas, Inc., ("EnergyNorth") were sold to Liberty Energy Utilities Co. ("Liberty Energy"), a subsidiary of Algonquin Power & Utilities Corp. The results of Granite State and EnergyNorth are reflected as discontinued operations in the accompanying consolidated statements of income for the year ended March 31, 2013.

Other Services and Investments

The Company's Energy Services business includes companies that provide energy-related services to customers located primarily within the northeastern United States. These services comprise the operation, maintenance, and design of energy systems for commercial and industrial customers.

The Company's Energy Investments business consists of gas production and development investments such as natural gas pipelines, as well as certain other domestic energy-related investments. Through the Company's wholly-owned subsidiary, National Grid LNG, it owns a 600,000 barrel liquefied natural gas storage and receiving facility in Providence, Rhode Island. The Company also owns a 53.7% interest in two hydro-transmission electric companies which are consolidated into these financial statements.

The Company's consolidated financial statements also include a 26.25% interest in Millennium Pipeline Company LLC ("Millennium") and a 20.4% interest in Iroquois Gas Transmission System, which are accounted for under the equity method of accounting. In addition, the Company owns an equity ownership interest in three regional nuclear generating companies whose facilities have been decommissioned as discussed in Note 13, "Commitments and Contingencies" under "Decommissioning Nuclear Units."

The Company uses the equity method of accounting for its investments in affiliates when it has the ability to exercise significant influence over the operating and financial policies, but does not control the affiliates. The Company's share of the earnings or losses of such affiliates is included as equity income in unconsolidated subsidiaries 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 as applicable. The consolidated financial statements reflect the rate-making practices of the applicable regulatory authorities.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Non-controlling interests of majority-owned subsidiaries are calculated based upon the respective non-controlling interest ownership percentages. All intercompany transactions have been eliminated in consolidation.

Under its holding company structure, the Company has no independent operations or source of income of its own and conducts all of its operations through its subsidiaries. As a result, the Company depends on the earnings and cash flow of, and dividends or distributions from, its subsidiaries to provide the funds necessary to meet its debt and contractual obligations. Furthermore, a substantial portion of the Company's consolidated assets, earnings and cash flow is derived from the operations of its regulated utility subsidiaries, whose legal authority to pay dividends or make other distributions to the Company is subject to regulation by state regulatory authorities.

The Company has evaluated subsequent events and transactions through November 18, 2014, 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, 2014, except as described in Note 4, "Rate Matters" and Note 18, "Subsequent Events."

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 Federal Energy Regulatory Commission ("FERC"), the New York State Public Service Commission ("NYPSC"), the Massachusetts Department of Public Utilities ("DPU"), and the Rhode Island Public Utilities Commission ("RIPUC") regulate the rates the Company's subsidiaries charge their customers in the applicable states. In these cases, the subsidiaries defer costs (as regulatory assets) or recognize 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 rate-making process.

Revenue Recognition

Electric and Gas Distribution Revenue

Revenues are recognized for energy service 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.

As approved by state regulators, the Company is allowed to pass through commodity-related costs to customers and also bills for approved rate adjustment mechanisms. In addition, the Company's subsidiaries have revenue decoupling mechanisms which allow for adjustments to the Company's delivery rates as a result of the reconciliation between allowed revenue and billed revenue. Any difference between the allowed revenue and the billed revenue is recorded as a regulatory asset or regulatory liability.

The gas distribution business is influenced by seasonal weather conditions. Brooklyn Union, KeySpan Gas East, Niagara Mohawk and Narragansett gas utility tariffs contain weather normalization adjustments that provide for recovery from, or refund to, customers of material shortfalls or excesses of delivery revenues (revenues less applicable gas costs and revenue taxes) during a heating season due to variations from normal weather.

Transmission Revenue

Transmission revenues are generated by NEP, Narragansett, Massachusetts Electric, Nantucket, and Niagara Mohawk. Such revenues are based on a formula rate that recovers actual costs plus a return on investment. Stranded cost recovery revenues are collected through a contract termination charge ("CTC"), which is billed to former wholesale customers of the Company in connection with the Company's divestiture of its electricity generation investments.

Generation Revenue

Electric generation revenue is derived from billings to LIPA for the electric generation capacity and, to the extent requested, energy from the Company's existing oil and gas-fired generating plants as discussed in Note 13, "Commitments and Contingencies" under "Electric Services and LIPA Agreements."

Other Revenues

Revenues earned for service and maintenance contracts associated with commercial energy systems are recognized as earned or over the life of the service contract, as appropriate.

Other Taxes

The Company's subsidiaries collect from customers various taxes that are levied by state or local governments on the sale or distribution of gas. The Company presents taxes that are imposed on customers (such as sales taxes) on a net basis (i.e., excluded from revenues) and presents excise taxes on a gross basis.

Gas distribution revenues include the collection of excise taxes and the related expense is included in other taxes in the accompanying consolidated statements of income.

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 New York 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.

Narragansett and Niagara Mohawk accrue for property taxes on a calendar year basis, taking into account the assessment period. Narragansett and Niagara Mohawk had prepaid property taxes of $3.4 million and $9.4 million at March 31, 2014 and 2013, respectively.

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 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 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. Each subsidiary settles its current tax liability or benefit with NGNA in accordance with a tax sharing agreement between NGNA and its subsidiaries. In addition, certain consolidated tax benefits allocated from NGNA to its subsidiaries 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.

Restricted Cash and Special Deposits

Restricted cash primarily consists of deposits held by the New York Independent System Operator ("NYISO") and by the ISO New England ("ISO-NE"). Special deposits primarily consist of health care claims deposits. The Company had restricted cash of $144 million and $162 million and special deposits of $24 million and $72 million at March 31, 2014 and 2013 respectively.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. During the fiscal year ended March 31, 2014, the Company enhanced its estimation methodology. 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. In prior years, the estimate placed a higher emphasis on write-off history. Management believes the more fulsome analysis of all information disclosed above results in an improved estimate and the updated approach resulted in a decrease of approximately $50.1 million in the reserve. 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, gas in storage and renewable energy certificates ("RECs"). 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, 2014 or 2013.

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 applicable state regulators.

RECs are used to measure compliance with renewable energy standards and are held primarily for consumption. The Company recorded a compliance liability based on retail electricity sales of $142 million and $99 million within other current liabilities in the accompanying balance sheets at March 31, 2014 and 2013, respectively.

At March 31, 2014 and 2013, the Company had materials and supplies of $178 million and $170 million, respectively, gas in storage of $111 million and $164 million, respectively, and purchased RECs of $55 million and $21 million, respectively.

Derivatives

The Company uses derivative instruments to manage commodity price risk, interest and foreign currency rate risk. All derivative instruments are recorded in the accompanying consolidated balance sheets at their fair value. Qualifying derivative instruments may be designated as either cash flow hedges or fair value hedges.

Commodity Derivative Instruments

All commodity costs, including the impact of derivative instruments, are passed on to customers through the Company's commodity rate adjustment mechanisms. 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.

Certain non-trading contracts for the physical purchase of natural gas and electricity qualify for the normal purchase normal sale exception and are accounted for upon settlement. If the Company were to determine that a contract for which it elected the normal purchase normal sale exception no longer qualifies, the Company would recognize the fair value of the contract in accordance with the regulatory accounting described above.

Financing Derivative Instruments

Treasury related derivative instruments may qualify as either fair value hedges or cash flow hedges. The Company has entered into cross-currency and interest rate swaps ("CCIRS") to protect against changes in the fair value of fixed-rate borrowings due to movements in market interest rates. The Company has designated these instruments as fair value hedging relationships. For qualifying fair value hedges, all changes in the fair value of the derivative financial instrument and changes in the fair value of the item in relation to the risk being hedged are recognized in the consolidated statements of income. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortized to the consolidated statements of income as a yield adjustment over the remainder of the hedging period. At March 31, 2014, the Company had a net hedging (swap) liability position of $0.4 million on $528 million of debt. At March 31, 2013, the Company had a net hedging (swap) asset position of $0.8 million on $60 million of debt.

The Company continually assesses the cost relationship between fixed and variable rate debt and periodically enters into CCIRS to convert the terms of the underlying debt obligations from fixed rate to variable rate or variable rate to fixed rate. Payments made, or received, on these derivative contracts are recognized as an adjustment to interest expense as incurred. The Company has designated these instruments as cash flow hedges. For qualifying cash flow hedges, the effective portion of a derivative's gain or loss is reported in other comprehensive income, net of related tax effects, and the ineffective portion is reported in earnings. Amounts in accumulated other comprehensive income are reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

As at March 31, 2014, the Company had $3.1 billion of foreign currency debt and $75 million of current derivative assets and $40 million of non-current derivative assets designated in cash flow hedging relationships, with $6.3 million recognized in other comprehensive income for the year ended March 31, 2014. As at March 31, 2013 the Company had $796.3 million of foreign currency debt and $11 million of current derivative assets and $87 million of non-current derivative liabilities designated in cash flow hedging relationships, with $5 million recognized in other comprehensive income for the year ended March 31, 2013. The Company expects $4.2 million in other comprehensive income will be reclassified into earnings within the next twelve months. For the years ended March 31, 2014 and 2013, the Company recorded ineffectiveness related to cash flow hedges of $4.2 million (loss) and $0.9 million (gain), respectively.

The Company's accounting policy is to not offset fair value amounts recognized for derivative instruments 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 instrument 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, 2014 or 2013 for commodity derivatives. There was $25 million and $19 million of cash collateral posted for financing derivatives at March 31, 2014 and 2013, respectively.

Power Purchase Agreements

Certain of the Company's subsidiaries enter into power purchase agreements to procure commodity to serve their electric service customers. The Company evaluates whether such agreements are leases, derivatives, or executory contracts. Power purchase agreements that do not qualify as leases or derivatives are accounted for as executory contracts and are, therefore, recognized as the electricity is purchased. In making its determination of the accounting for power purchase agreements, the Company considers many factors, including: the source of the electricity; the level of output from any specified facility that the Company is taking under the contract; the involvement, if any, that the Company has in operating the specified facility; and the pricing mechanisms in the contract among other factors.

Fair Value Measurements

The Company measures derivatives and available-for-sale securities 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") for the regulated subsidiaries and capitalized interest for non-regulated projects.

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 state authorities. The average composite rates and average service lives for the years ended March 31, 2014 and 2013 are as follows:

	Electric		Gas		Common	
	Years Ended March 31,		Years Ended March 31,		Years Ended March 31,	
	2014	2013	**2014**	2013	**2014**	2013
Composite rates	**2.8%**	2.9%	**2.9%**	2.9%	**5.3%**	5.2%
Average service lives	48 years	48 years	**46 years**	45 years	**36 years**	38 years

Depreciation expense for regulated subsidiaries 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 $1.6 billion at March 31, 2014 and 2013.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the regulated subsidiaries record 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 income (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 $27 million and $21 million for the years ended March 31, 2014 and 2013, respectively. The Company recorded AFUDC related to debt of $13 million and $7 million for the years ended March 31, 2014 and 2013. The average AFUDC rates for the years ended March 31, 2014 and 2013 were 4.5% and 4.1%, respectively.

In addition, approximately $1 million and $8 million of interest was capitalized for construction of non-regulated projects during the years ended March 31, 2014 and 2013, respectively.

Goodwill and Other Intangible Assets

Goodwill

The Company tests goodwill for impairment annually on January 31, and when events occur or circumstances change that would more likely than not reduce the fair value of each of the Company's respective reporting units below its carrying amount. Goodwill is tested for impairment using a two-step approach. The first step compares the estimated fair value of each reporting unit 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 each reporting unit was calculated in the annual goodwill impairment test for the year ended March 31, 2014 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, 2014 to March 31, 2019; (b) a discount rate of 5.5%, 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 10.0, 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, 2014 or 2013.

Intangible Assets

Intangible assets represent finite-lived assets that are amortized over their respective estimated useful lives and, along with other long-lived assets, are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets, including property, plant and equipment and finite-lived intangibles, when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. In evaluating long-lived assets for recoverability, the Company uses its best estimate of future cash flows expected to result from the use of the asset and its eventual disposition. If the estimated future undiscounted net cash flows attributable to the asset are less than the carrying amount, an impairment loss is recognized equal to the difference between the carrying value of such asset and its fair value. Assets to be disposed of and for which there is a committed plan of disposal are reported at the lower of carrying value or fair value less costs to sell.

Available-For-Sale Securities

The Company holds available-for-sale securities that include equities, municipal bonds and corporate bonds. These investments are recorded at fair value and are included in other non-current assets in the accompanying consolidated balance sheets. Changes in the fair value of these assets are recorded within other comprehensive income.

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 and electric generation 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 Company has a legal obligation to dismantle the Glenwood and Far Rockaway facilities and remediate the associated sites. These facilities were shut down and decommissioning began in July 2012; demolition and remediation activities are expected to be completed between October 2014 and April 2015.

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

	Years Ended March 31,	
	2014	2013
	(in millions of dollars)	
Balance as of the beginning of the year	**$ 105**	$ 119
Accretion expense	**6**	5
Liabilities settled	**(24)**	(19)
Balance as of the end of the year	**$ 87**	$ 105

Accretion expense for the Company's regulated subsidiaries 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 has defined benefit pension and postretirement benefit ("PBOP") plans for its employees. The Company recognizes all pension and PBOP plans' funded status in the accompanying consolidated balance sheets as a net liability or asset with an offsetting adjustment to accumulated other comprehensive income ("AOCI") in shareholders' equity. In the case of regulated entities, the cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The Company measures and records its pension and PBOP assets at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

Supplemental Executive Retirement Plans

The Company has corporate assets included in financial investments in the accompanying consolidated balance sheets representing funds designated for Supplemental Executive Retirement Plans. These funds are invested in corporate owned life insurance policies and available-for-sale securities primarily consisting of equity investments and investments in municipal and corporate bonds. The corporate owned life insurance investments are measured at cash surrender value with increases and decreases in the value of these assets recorded in the accompanying consolidated statements of income.

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2014

Offsetting Assets and Liabilities

In December 2011 and January 2013, the Financial Accounting Standards Board ("FASB") issued amendments to address and clarify the scope of the disclosures related to offsetting assets and liabilities. Under the amendments, reporting entities are required to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement, such as for derivatives. The instruments and activities subject to these disclosures are recognized derivatives, repurchase and reverse repurchase agreements, and securities lending transactions. The Company adopted this guidance effective April 1, 2013, which only impacted its disclosures.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB issued amendments to address diversity in practice related to the presentation of unrecognized tax benefits in certain situations. The amendments require a liability related to an unrecognized tax benefit to be presented on a net basis with its associated deferred tax asset when utilization of such deferred tax assets is required or expected in the event the uncertain tax position is disallowed. Otherwise, the unrecognized tax benefit will be presented as a liability and will not be netted against deferred tax assets. The Company early adopted this guidance effective April 1, 2013 with no material impact on its financial position, results of operations or cash flows.

Accounting Guidance Not Yet Adopted

Reclassifications From Accumulated Other Comprehensive Income

In February 2013, the FASB issued amendments to improve the reporting of reclassifications out of AOCI. The amendments require an entity to provide information either on the face of the 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 will adopt this guidance effective April 1, 2014, which will only impact its disclosures.

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, 2017. The Company is currently evaluating the impact of the new guidance on its financial position, results of operations and cash flows.

Financial Statement Revisions

During 2014, 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 key impacts of which are described below. The Company concluded that the revisions were not material to any prior periods.

- Historically, the Company has calculated its capital tracker regulatory asset using its weighted average cost of capital ("WACC") and carrying charges on regulatory assets using its AFUDC rate. The WACC and AFUDC have both a debt and equity component. Accounting standards allow for the capitalization of all or part of an incurred cost that would otherwise be charged to expense if the regulator's actions create probable recovery of those costs through future rates. Because the equity component of a WACC or an AFUDC rate is not an incurred cost that would otherwise be charged to expense, accounting guidance for rate regulated activities does not allow for the capitalization of such equity amounts, and thus, the equity component should not have been included in the Company's capital tracker and carrying charges calculations.

  A cumulative adjustment of $57 million (net of income taxes) was recorded in the consolidated financial statements for the year ended March 31, 2013, of which $58 million was recorded as an adjustment to opening retained earnings (as of March 31, 2012), and $1 million was recorded as an increase to net income within gas distribution revenues, operations and maintenance expense, and other deductions, net for the year ended March 31, 2013 to reflect the fiscal year 2013 activity related to these corrections. This adjustment also resulted in a decrease of $111 million in non-current regulatory assets, a decrease of $17 million in non-current regulatory liabilities and a decrease of $38 million in deferred income tax liabilities as of March 31, 2013.

- During management's review of the Company's allowance for doubtful accounts methodology, management determined it had insufficiently provided for its allowance for doubtful accounts reserve in prior years. A cumulative adjustment of $12 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2013, of which $9 million was recorded as an adjustment to opening retained earnings (as of March 31, 2012), and $3 million was recorded as a decrease to net income for the year ended March 31, 2013 to reflect the fiscal year 2013 activity related to this correction.

In addition, the Company has corrected various account balances in continuing and discontinued operations that were improperly recorded. A cumulative adjustment of $15 million (net of income taxes) was recorded in the consolidated financial statements for the year ended March 31, 2013, of which $21 million was recorded as an adjustment to opening retained earnings (as of March 31, 2012), and $6 million was recorded as a decrease to net income for the year ended March 31, 2013 to reflect the fiscal year 2013 activity related to these items.

The following tables show the amounts previously reported as revised:

	As Previously Reported [1]	Discontinued Operations	Adjustments	As Revised
		(in millions of dollars)		
	March 2013			March 2013
Consolidated Statement of Income				
Operating revenues	$ 12,601	$ (1,251)	$ (13)	$ 11,337
Operating income	1,096	(2)	(20)	1,074
Other deductions, net	(520)	7	(1)	(514)
Income before income taxes	576	5	(21)	560
Income tax expense	106	9	(24)	91
Net loss from discontinued operations, net of taxes	(7)	4	(11)	(14)
Net income	463	(1)	(7)	455
Net income attributable to common shares	464	-	(8)	456
Consolidated Statement of Cash Flows				
Net cash provided by operating activities	$ 809	$ 182	(14)	$ 977
Net cash used in investing activities	(1,783)	12	4	(1,767)
Net cashflow from discontinued operations - operating	4	(183)	11	(168)
Net cashflow from discontinued operations - investing	(5)	(12)	(1)	(18)

	As Previously Reported [1]	Discontinued Operations	Adjustments	As Revised
		(in millions of dollars)		
	March 2013			March 2013
Consolidated Balance Sheet				
Total current assets	$ 5,829	$ (2)	$ (60)	$ 5,767
Property, plant, and equipment, net	22,522	-	5	22,527
Total other non-current assets	12,746	9	(124)	12,631
Total current liabilities	4,625	-	(4)	4,621
Total other non-current liabilities	13,135	162	(119)	13,178
Long-term debt	15,012	(155)	-	14,857
Accumulated other comprehensive loss				
March 31, 2013	(1,005)	-	(2)	(1,007)
March 31, 2012	(1,063)	-	(3)	(1,066)
Retained Earnings				
March 31, 2013	2,292	-	(54)	2,238
March 31, 2012	1,828	-	(46)	1,782

(1) Certain reclassifications have been made to the financial statements to conform prior year data to the current year presentation.

3. REGULATORY ASSETS AND LIABILITIES

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

		March 31,	
		2014	2013
		(in millions of dollars)	
Regulatory assets			
Current:			
	Derivative contracts	**$ 16**	$ 6
	Energy efficiency	**23**	6
	Gas costs adjustment	**287**	83
	Rate adjustment mechanisms	**110**	68
	Renewable energy certificates	**91**	78
	Revenue decoupling mechanism	**20**	36
	Other	**24**	36
		571	313
Non-current:			
	Capital tracker	**34**	30
	Environmental response costs	**1,739**	1,766
	Postretirement benefits	**1,476**	1,756
	Recovery of acquisition premium	**208**	217
	Regulatory deferred tax asset	**134**	122
	Storm costs	**319**	342
	Other	**412**	357
	Total	**4,322**	4,590
Regulatory liabilities			
Current:			
	Derivative contracts	**50**	48
	Energy efficiency	**146**	122
	Gas costs adjustment	**50**	91
	Profit sharing	**38**	43
	Rate adjustment mechanisms	**68**	74
	Revenue decoupling mechanism	**66**	25
	Other	**106**	9
		524	412
Non-current:			
	Capital tracker	**39**	29
	Carrying charges	**60**	26
	Cost of removal	**1,617**	1,563
	Delivery rate adjustment	**128**	130
	Environmental response costs	**104**	114
	Excess earnings	**95**	95
	Postretirement benefits	**220**	315
	Regulatory deferred tax liability	**7**	24
	Temporary state assessment	**111**	34
	Other	**307**	275
	Total	**2,688**	2,605
	Net regulatory assets	**$ 1,681**	$ 1,886

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

Cost of removal: The Company's depreciation expense includes estimated costs to remove property, plant and equipment, which are recovered through the rates charged to customers. This regulatory liability represents cumulative costs recovered in excess of costs incurred. For a vast majority of its regulated utility plant assets, the Company uses these funds to remove the asset so a new one can be installed in its place.

Delivery rate adjustment: The NYPSC authorized a combined annual surcharge for recovery of regulatory assets ("Delivery Rate Surcharge") of $15.0 million in January 2008 and 2009, respectively, for Brooklyn Union and KeySpan Gas East ("The New York Gas Companies"). The annual surcharge increased incrementally by $5.0 million for the first five years of the Brooklyn Union's rate plan and increased by $10.0 million in rate year 2010 through 2012 of KeySpan Gas East's rate plan, aggregating to a total of $175.0 million over the term of the rate agreement. In its order issued and effective November 28, 2012, the NYPSC authorized a Site Investigation and Remediation ("SIR") Surcharge in the amount of $65.0 million which superseded the Delivery Rate Surcharge effective January 1, 2013.

Derivative contracts (assets and liabilities): Gains or losses resulting from commodity derivatives are required to be refunded to, or recovered from, customers through the Company's commodity rate adjustment mechanisms. Accordingly, the Company's regulated subsidiaries evaluate open derivative contracts to determine if they are probable of recovery, or refund, through future rates charged to customers and qualify for regulatory deferral. 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: This amount 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 state authorities.

Environmental response costs: This regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at sites with which it may be associated. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates. The regulatory liability primarily represents the amount of customer contributions and insurance proceeds recovered to pay for costs to investigate and perform certain remediation activities at sites with which it may be associated as well as the excess of amounts received in rates over the Company's actual site investigation and remediation ("SIR") costs.

Excess earnings: At the end of each rate year (calendar year), the New York Gas Companies are required to provide the NYPSC with a computation of its return on common equity capital ("ROE"). If the ROE in the applicable rate year exceeds 10.5%, the New York Gas Companies are required to defer a portion of the revenue equivalent associated with any over earnings for the benefit of customers. Beginning January 1, 2013, Brooklyn Union's threshold for earnings sharing has been reduced from 10.5% to 9.4% and the sharing mechanism will be 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's gas regulated subsidiaries are 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 state regulators. These amounts will be refunded to, or recovered from, customers over the next year.

Postretirement benefits: The amount in regulatory assets primarily 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. The amount in regulatory liabilities primarily represents accrued carrying charges as calculated in accordance with the Company's pension and PBOP internal reserve mechanism.

Profit sharing: This regulatory liability represents a portion of deferred margins from off-system sale transactions. Under current rate orders, Boston Gas and Colonial Gas (the "Massachusetts Gas Companies") are required to return 90% of margins earned from such optimization transactions to firm customers. The amounts deferred in the accompanying balance sheet will be refunded to customers over the next year.

Rate adjustment mechanisms: The Company's regulated subsidiaries are subject to a number of rate adjustment mechanisms such as 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 applicable state regulatory bodies.

Recovery of acquisition premium: This represents the unrecovered amount (plus related taxes) by which the purchase price paid exceeded the net book value of Colonial Gas' assets in the 1998 acquisition of Colonial Gas by Eastern Enterprises, Inc. In exchange for certain rate concessions and the achievement of certain merger savings targets, the DPU has allowed Colonial Gas to recover the acquisition premium through rates for the next 25 years (through August 2039).

Regulatory deferred tax asset (liability): This amount represents unrecovered federal and state deferred taxes of the Company primarily as a result of regulatory flow through accounting treatment and tax rate changes. The income tax benefits or charges for certain plant related timing differences, such as equity AFUDC, are immediately flowed through to, or collected from, customers. The amortization of the related regulatory deferred tax asset or liability, for these items, follows the book life of the underlying plant asset.

Renewable energy certificates: Represents deferred costs associated with the Company's compliance obligation with the Rhode Island and Massachusetts Renewable Portfolio Standard ("RPS"). The RPS is legislation established to foster the development of new renewable energy sources. The regulatory asset will be recovered over the next year.

Revenue decoupling mechanism: Revenue decoupling mechanisms allow for the periodic adjustment of 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.

Temporary state assessment: In June 2009, the NYPSC authorized utilities, including the New York Gas Companies, 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 beginning July 1, 2009 and ending June 30, 2014. On June 18, 2014, the NYPSC issued an order authorizing certain utilities, including the New York Gas Companies, to recover the Temporary State Assessment subject to reconciliation, including carrying charges, from July 1, 2014 through June 30, 2017. As of May 31, 2014, the New York Gas Companies over-collected on these costs. The New York Gas Companies are 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.

Storm costs: This regulatory asset represents the incremental operation and maintenance costs to restore power to customers resulting from major storms.

The Company records carrying charges on all regulatory balances, with the exception of derivative contracts, cost of removal, environmental response costs, renewable energy certificates, and regulatory deferred tax balances, where 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

Niagara Mohawk

March 2013 Electric and Gas Filing

In March 2013 the NYPSC issued a final order regarding Niagara Mohawk's electric and gas base rate filing made on April 27, 2012. The term of the new rate plan is from April 1, 2013 through March 31, 2016 and provides for an electric revenue requirement of $1,338 million in the first year, $1,396 million in the second year, and $1,443 million in the third year. It also provides for a gas revenue requirement of $307 million in the first year, $315 million in the second year, and $322 million in the third year.

Transmission Return on Equity Complaint

On September 11, 2012, the New York Association of Public Power ("NYAPP") filed a complaint against Niagara Mohawk, seeking to have the base ROE for transmission service of 11.5%, which includes a NYISO participation incentive adder, lowered to 9.49%. Similarly, on November 2, 2012 the Municipal Electric Utilities Association ("MEUA") filed a complaint to lower Niagara Mohawk's ROE to 9.25% including the NYISO participation adder. The MEUA also challenges certain aspects of Niagara Mohawk's transmission formula rate. On February 6, 2014, the NYAPP filed a further complaint against Niagara Mohawk seeking an order effective February 6, 2014 to reduce the ROE used in calculating rates for transmission service under the NYISO Open Access Transmission Tariff ("OATT") to 9.36%, inclusive of the 50 basis point adder for participation in the NYISO, with a corresponding overall weighted cost of capital of 6.60%. On September 8, 2014, the FERC issued orders consolidating the first and second complaints and setting the consolidated complaints and the third complaint for hearing and settlement procedures. At this time, Niagara Mohawk cannot predict the outcome of the complaint. Any change in the ROE would not have an impact on net income because the retail rate plan fully reconciles any increase or decrease in wholesale transmission revenue under the FERC Transmission Service Charge rate through a Transmission Revenue Adjustment Clause mechanism.

Wholesale Transmission Service Charge

On December 6, 2013, Niagara Mohawk submitted a filing for FERC approval of revisions to its Wholesale Transmission Service Charge ("TSC Rate") under the NYISO OATT to recover its RSS costs under two agreements with NRG to support the reliability of Niagara Mohawk's transmission system while transmission reinforcements are constructed. On February 4, 2014 the FERC allowed the RSS charges to become effective in TSC Rates as of July 1, 2013, subject to refund and further consideration of the matter by the FERC.

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. Niagara Mohawk and the New York Gas Companies disputed certain of Overland's final audit conclusions and the NYPSC ordered that further proceedings be conducted to address what, if any, rate-making adjustments were necessary. On September 5, 2014, the NYPSC approved a settlement that resolves all outstanding issues relating to the audit. The order provides for no rate adjustments for Niagara Mohawk and $24.7 million to be returned for the benefit of customers for the New York Gas Companies. This amount is recorded as a regulatory liability in the accompanying consolidated balance sheets.

Gas Management Audit

In February 2013, the NYPSC initiated a comprehensive management and operational audit of the NGUSA's New York gas businesses, including Niagara Mohawk, pursuant to the Public Service Law requirement that major electric and gas utilities undergo an audit every five years. On June 13, 2013, the NYPSC selected NorthStar Consulting Group to conduct the audit, which commenced in July 2013. The final audit report was issued on October 2, 2014 and contained recommendations primarily relating to gas operations, organizational structure and governance. The next phase of the audit presents an opportunity for NGUSA to develop implementation plans that address the recommendations.

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 Niagara Mohawk and the New York Gas Companies. 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 Niagara Mohawk. 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, Niagara Mohawk cannot predict the outcome of this operational audit.

Recovery of Deferral Costs Relating to Emergency Order

On January 28, 2014, Niagara Mohawk filed a petition requesting a waiver of Rule 46.3.2 of its tariff. Rule 46.3.2 describes the manner in which Niagara Mohawk calculates its supply-related Mass Market Adjustment (“MMA”). Niagara Mohawk proposed the waiver of the rule to mitigate adverse financial impacts anticipated from a significant and unusual increase in electric commodity prices for its mass market customers.

On that same date, the NYPSC issued, on an emergency basis pursuant to the State Administrative Procedure Act §202(6), an Emergency Order granting Niagara Mohawk’s waiver request (the “Emergency Order”). In the Emergency Order, the NYPSC waived the requirements of Rule 46.3.2 and approved deferral treatment of the costs and associated carrying charges related to the one-time credit provided via the waiver. However, the NYPSC denied, pending further review and consideration of public comments, Niagara Mohawk’s request to recover such deferral over a six-month period beginning May 2014.

The NYPSC issued another order on April 25, 2014 permanently approving the Emergency Order and authorizing Niagara Mohawk to collect $33.3 million, plus carrying charges at the customer deposit rate, over a six-month period commencing with the June 2014 billing period. The deferral recovery will be performed in a manner consistent with the method that was used to provide the benefit to the mass market customers, through an adjustment to the MMA as calculated by NYISO load zone.

Proposed Commodity Rate Mechanism Changes

On October 23, 2014, the NYPSC approved tariff revisions filed by Niagara Mohawk that modified several components of Rule 46 – Supply Service Charges of Niagara Mohawk’s tariff, PSC No. 220-Electricity. The revisions provide Niagara Mohawk with a measure of flexibility to manage significant volatility resulting from the reconciliation of commodity costs, like those experienced in January and March of 2014 due to the unanticipated extreme cold weather, for its residential and small commercial customers (“mass market customers”). The tariff revisions go into effect October 29, 2014 and will allow for more flexibility in the timing of Niagara Mohawk’s reconciliation of revenues and expenses for mass market customers.

Petition for Authorization to Defer an Actuarial Experience Pension Settlement Loss for Fiscal Year 2014

On February 28, 2014, Niagara Mohawk filed a petition seeking authorization to defer a pension settlement loss incurred during fiscal year 2014. The petition reflected actual loss amounts through December 31, 2013. On August 13, 2014, Niagara Mohawk filed a supplemental petition with actual results through March 31, 2014. In total, Niagara Mohawk seeks authorization to defer $14.1 million related to a pension settlement loss that occurred in fiscal year 2014.

The New York Gas Companies

General Rate Case

KeySpan Gas East has been subject to a rate plan with a primary term of five years (2008-2012), which remains in effect until modified by the NYPSC. Under this rate plan, base delivery rates include an allowed ROE of 9.8%.

On June 13, 2013, the NYPSC approved a settlement covering the Brooklyn Union's 2013 and 2014 rate years. Brooklyn Union'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, (ii) the allowed ROE has decreased from 9.8% to 9.4%, and (iii) the common equity ratio in the capital structure has increased from 45% to 48%.

Capital Investment

On June 13, 2014, KeySpan Gas East filed a petition with the NYPSC to implement a three-year capital investment program that would allow KeySpan Gas East to invest more than $700.0 million in gas infrastructure projects designed to enhance the safety and reliability of its gas systems and promote gas growth, while maintaining base delivery rates. The petition seeks (i) a new deferral mechanism that would permit KeySpan Gas East to defer for future recovery in rates the pre-tax revenue requirement associated with its capital spending program to the extent the amount of such investments exceeds the level of book depreciation expense reflected in KeySpan Gas East's rates; and (ii) the elimination of its existing city/state construction and non-growth related capital deferral mechanisms. The petition is currently under review by the NYPSC staff. At the time of the issuance of these financial statements, KeySpan Gas East cannot predict the outcome of this petition.

Massachusetts Electric and Nantucket (the "Massachusetts Electric Companies")

2009 Capital Investments Audit

Rates for services rendered by the Massachusetts Electric Companies are subject to approval by the DPU. The DPU approved an RDM arising from the 2009 distribution rate case filed by the Massachusetts Electric Companies. As part of their RDM provision, the Massachusetts Electric Companies file a report by July 1st of each year on their capital investment for the prior calendar year. In connection with the Massachusetts Electric Companies' first capital expenditure ("CapEx") filing made in July 2010, the DPU opened a proceeding in March 2011, as requested by the Massachusetts Attorney General's Office ("Attorney General"), for an independent audit of the Massachusetts Electric Companies' 2009 capital investments which, in part, formed the basis for the Massachusetts Electric Companies' RDM rate. On July 31, 2014, the DPU issued an order approving the sole responder's bid to perform the CapEx audit. The Capex audit is currently underway. The Massachusetts Electric Companies cannot currently predict the outcome of this proceeding.

Cost Recovery

In addition to the rates and tariffs put into effect following its most recent rate case, Massachusetts Electric continues to be authorized to recover costs associated with the procurement of electricity for its customers, all transmission costs, and costs charged by Massachusetts Electric's affiliate NEP, for stranded costs associated with NEP's former electric generation investments.

DPU Audit Settlement Agreement

In the general rate case involving the Company's Massachusetts gas distribution subsidiaries, the DPU opened an investigation to address the allocation and assignment of costs to the gas affiliates by the NGUSA service companies. The audit was later expanded to include the Massachusetts Electric Companies. The Massachusetts Electric Companies, the Massachusetts Gas Companies and the Attorney General's Office executed a Settlement Agreement that the DPU approved on July 25, 2014. As a result of the approval of the Settlement, there is no need for an audit, and both the Massachusetts Gas and Massachusetts Electric Companies will implement reporting and review practices similar to those in place for their New York affiliates, and NGUSA contributed $1 million to the Massachusetts Association for Community Action that will be used for the benefit of the Massachusetts Electric Companies' electric customers and customers of its Massachusetts gas distribution affiliates who are eligible for fuel assistance.

Storm Management Audit

In January 2011, the DPU opened an investigation into the Massachusetts Electric Companies' preparation and response to a December 2010 winter storm. The DPU has the authority to issue fines not to exceed approximately $0.3 million for each violation for each day that the violation persists. On September 22, 2011, the DPU approved a settlement between the Massachusetts Electric Companies and the Attorney General that included a $1.2 million refund to customers. The DPU also investigated the Massachusetts Electric Companies' response to Tropical Storm Irene and the October 2011 winter storm in a consolidated proceeding. On December 11, 2012, the DPU issued an order in which it assessed the Massachusetts Electric Companies a penalty of $18.7 million associated with the Massachusetts Electric Companies' performance in responding to these two weather events, consisting of $8.1 million for Tropical Storm Irene and $10.6 million for the October 2011 winter storm. The Massachusetts Electric Companies appealed this ruling and on September 4, 2014 the Court affirmed all but two violations, reducing the penalty by $0.9 million. The Massachusetts Electric Companies had recorded the original penalty and credited customers during March 2013. In addition, in the December 11, 2012 order, the DPU ordered a management audit of the Massachusetts Electric Companies' emergency planning, outage management, and restoration. The auditors have completed their audit, and submitted their Final Report to the DPU on July 9, 2014. No parties submitted comments on the Final Report. The Massachusetts Electric Companies cannot predict the outcome of the management audit.

2010 Service Quality Report

On December 30, 2013, the DPU issued an order on Massachusetts Electric's calendar year 2010 Service Quality report, ordering that Massachusetts Electric refund to customers a net penalty of $6.7 million. On January 21, 2014, Massachusetts Electric filed a Motion for Clarification/Reconsideration regarding a portion of the penalty amount related to Circuit Average Interruption Frequency Index which totaled $2.7 million. In addition, Massachusetts Electric filed a proposal to credit customers the $6.7 million penalty along with a proposed tariff that would allow for recovery of the $2.7 million if the DPU rules in favor of Massachusetts Electric regarding the Motion for Clarification/Reconsideration. On May 21, 2014, the DPU denied Massachusetts Electric's motion.

Boston Gas and Colonial Gas (the "Massachusetts Gas Companies")

General Rate Case

In November 2010, the DPU issued an order in the Massachusetts Gas Companies' 2010 rate case approving a revenue increase of $58.0 million based upon a 9.75% rate of return on equity and a 50% equity ratio. The Massachusetts Gas Companies filed two motions in response. These motions resulted in a final revenue increase of $65.3 million reflected in rates effective February 1, 2013.

PBOP Carrying Charges

On June 1, 2011, in conjunction with the DPU's annual investigation of Boston Gas' calendar year 2009 pension and PBOP rate reconciliation mechanism, the Massachusetts Attorney General ("AG") argued that Boston Gas be obligated to provide carrying charges to the benefit of customers on its PBOP liability balances related to its 2003 to 2006 rate reconciliation filings. In August 2010, the DPU ordered Boston Gas to provide carrying charges on its PBOP liability balances on its 2007 and 2008 rate reconciliation filings, but the order was silent about providing carrying charges prior to those years. On August 29, 2014, the DPU agreed with the AG and ordered Boston Gas to provide carrying charges on its 2003 to 2006 PBOP liability balances in its next annual pension and PBOP reconciliation filing.

New England Power

Stranded Cost Recovery

Under settlement agreements approved by state commissions and the FERC, NEP is permitted to recover stranded costs (those costs associated with its former generating investments (nuclear and non-nuclear) and related contractual commitments that were not recovered through the sale of those investments). NEP earns an ROE of approximately 11% on stranded cost recovery. NEP will recover remaining non-nuclear stranded costs through 2020. NEP will recover remaining non-nuclear stranded costs through 2020. See “Decommissioning Nuclear Units” in Note 13 “Commitments and Contingencies,” for a discussion of ongoing costs associated with decommissioned nuclear units.

Transmission Return on Equity

NEP’s transmission rates during the reporting period reflect a base ROE of 11.14% applicable to all transmission facilities, plus an additional 0.5% Regional Transmission Organizations (“RTO”) participation adder applicable to transmission facilities included under the Regional Network Service (“RNS”) rate. Approximately 70% of the NEP’s transmission facilities are included under RNS rates. NEP earns an additional 1.0% ROE incentive adder on RNS-related transmission facilities approved under the RTO’s Regional System Plan and placed in service on or before December 31, 2008. It also earns a 1.25% ROE incentive on its portion of New England East-West Solution (“NEEWS”) as described below. On October 16, 2014, the FERC issued an order as the result of a ROE complaint case (as described in “FERC ROE Complaints” in Note 13 “Commitments and Contingencies,”) that set NEP’s base ROE, effective from the date of the order, at 10.57% with total or maximum ROE including the aforementioned incentives not to exceed 11.74%.

New England East-West Solution

In September 2008, NEP, its affiliate Narragansett, and Northeast Utilities jointly filed an application with the FERC to recover financial incentives for the NEEWS, pursuant to the FERC’s Transmission Pricing Policy Order No. 679. NEEWS consists of a series of inter-related transmission upgrades identified in the New England Regional System Plan and is being undertaken to address a number of reliability problems in Connecticut, Massachusetts, and Rhode Island. Effective November 2008, the FERC granted (1) an incentive ROE of 12.89% (125 basis points above the approved base ROE of 11.64% including the RTO participation adder), (2) 100% construction work in progress in rate base and (3) recovery of plant abandoned for reasons beyond the companies’ control. In its June 19, 2014 order on the first NETO ROE complaint, the FERC ordered that all ROE incentives, such as the NEEWS incentive ROE, be capped at 11.74% subject to further limited proceedings to determine growth rates that would be used in calculating the final cap. It is currently unclear how the FERC’s order will affect the ROE for NEEWS.

Narragansett

General Rate Case

On December 20, 2012, the RIPUC approved a settlement agreement among the Rhode Island Division of Public Utilities and Carriers, the Department of the Navy, and Narragansett, which provided for an increase in electric base distribution revenue of $21.5 million and an increase in gas base distribution revenue of $11.3 million based on a 9.5% allowed ROE and a common equity ratio of approximately 49.1%, effective February 1, 2013. The settlement also included reinstatement of base rate recovery of storm fund contributions and implementation of a Pension Adjustment Mechanism (“PAM”) for pension and PBOP expenses for the electric business identical to the mechanism in place for the gas business.

5. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2014	2013
	(in millions of dollars)	
Plant and machinery	**$ 27,034**	$ 25,181
Property held for future use	**16**	24
Land and buildings	**2,075**	2,027
Assets in construction	**1,410**	1,380
Software and other intangibles	**637**	530
Total property, plant and equipment	**31,172**	29,142
Accumulated depreciation and amortization	**(7,297)**	(6,643)
Property, plant and equipment, net	**$ 23,875**	$ 22,499

6. DERIVATIVE CONTRACTS AND HEDGING

The Company utilizes derivative instruments to manage commodity price, interest and currency rate risk associated with its natural gas and electricity purchases and its foreign currency borrowings. The Company's commodity risk management strategy is to reduce fluctuations in firm gas and electricity sales prices to its customers. The Company's interest rate risk management strategy is to minimize its cost of capital. The Company's currency rate risk management policy is to hedge the risk associated with its foreign currency borrowings by utilizing instruments to convert principle and interest payments into U.S. dollars.

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 to, and only in terms and volumes consistent with its core business.

Volumes

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

	Electric		Gas	
	March 31,		March 31,	
	2014	2013	**2014**	2013
	(in millions)		*(in millions)*	
Gas purchase contracts (dths)	**-**	-	**87**	59
Gas swap contracts (dths)	**-**	-	**50**	66
Gas option contracts (dths)	**-**	-	**23**	4
Gas future contracts (dths)	**-**	-	**20**	17
Electric swap contracts (Mwhs)	**7**	6	**-**	-
Total:	**7**	6	**180**	146

Amounts Recognized in the Accompanying Consolidated Balance Sheets:

	Asset Derivatives			Liability Derivatives	
	March 31,			March 31,	
	2014	2013		**2014**	2013
	(in millions of dollars)			*(in millions of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas swap contracts	**$ 12**	$ 15	Gas swap contracts	**$ 4**	$ 6
Gas future contracts	**3**	1	Gas future contracts	**1**	2
Gas option contracts	**2**	1	Gas option contracts	**1**	-
Gas purchase contracts	**11**	15	Gas purchase contracts	**36**	3
Electric swap contracts	**36**	18	Electric swap contracts	**1**	-
Electric option contracts	**1**	-	Electric option contracts	**-**	-
Hedge contracts:			Hedge contracts:		
CCIRS	**75**	11	CCIRS	**-**	-
	140	61		**43**	11
Deferred charges and other assets:			Deferred credits and other liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas swap contracts	**-**	1	Gas swap contracts	**-**	-
Gas future contracts	**-**	2	Gas future contracts	**-**	-
Gas purchase contracts	**18**	4	Gas purchase contracts	**5**	7
Electric swap contracts	**8**	6	Electric swap contracts	**9**	1
Hedge contracts:			Hedge contracts:		
CCIRS	**40**	1	CCIRS	**-**	87
	66	14		**14**	95
Total	**$ 206**	$ 75	Total	**$ 57**	$ 106

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 changes in fair value of the Company's contracts not subject to rate recovery are recorded within purchased gas in the accompanying consolidated statements of income.

Credit and Collateral

The Company is exposed to credit risk related to transactions entered into for commodity price, interest and currency 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.

Commodity Transactions

The Company enters into commodity transactions on the New York Mercantile Exchange ("NYMEX"). The NYMEX clearinghouses act as the counterparty to each trade. Transactions on the NYMEX must adhere to comprehensive collateral and margining requirements. As a result, transactions on NYMEX are significantly collateralized and have limited counterparty credit risk.

The credit policy for commodity transactions is managed and monitored by the 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. The Energy Procurement Risk Management Committee ("EPRMC") is responsible for approving transaction strategies, annual supply plans, 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 commodity derivative instruments, normal purchase normal sale contracts, and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements was $29 million and $42 million as of March 31, 2014 and 2013, respectively.

The aggregate fair value of the Company's commodity derivative instruments with credit-risk-related contingent features that is in a liability position at March 31, 2014 and 2013 was $16.9 million and $5.0 million, respectively. The Company had no collateral posted for these instruments at March 31, 2014 or 2013. 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 $18.0 million additional collateral to its counterparties.

Financing Transactions

The credit policy for financing transactions is managed by a central Treasury department under policies approved by the Finance Committee. In accordance with these treasury policies, counterparty credit exposure utilizations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilization adjusted, if appropriate. Management does not expect any significant losses from non-performance by these counterparties.

In relation to the Company's cash flow hedge contracts, if the Company's credit rating were to be downgraded by one, two, or three levels, it would not be required to post any additional collateral.

Offsetting Information for Derivatives Subject to Master Netting Arrangements

March 31, 2014
Gross Amounts Not Offset in the Balance Sheets
(in millions of dollars)

ASSETS: Description	Gross amounts of recognized assets	Gross amounts offset in the Balance Sheets	Net amounts of assets presented in the Balance Sheets	Financial instruments	Cash collateral received	Net amount
	A	*B*	*C=A+B*	*Da*	*Db*	*E=C-D*
Derivatives						
Gas swap contracts	$ 12	$ -	$ 12	$ -	$ -	$ 12
Gas future contracts	3	-	3	-	3	-
Gas option contracts	2	-	2	-	-	2
Gas purchase contracts	29	-	29	-	-	29
Electric swap contracts	44	-	44	-	3	41
Electric option contracts	1	-	1	-	-	1
CCIRS	115	-	115	-	25	90
Total	$ 206	$ -	$ 206	$ -	$ 31	$ 175

LIABILITIES: Description	Gross amounts of liabilities	Gross amounts offset in the Balance Sheets	Net amounts of presented in the Balance Sheets	Financial instruments	Cash collateral paid	Net amount
	A	*B*	*C=A+B*	*Da*	*Db*	*E=C-D*
Derivatives						
Gas swap contracts	$ 4	$ -	$ 4	$ -	$ -	$ 4
Gas future contracts	1	-	1	-	1	-
Gas option contracts	1	-	1	-	-	1
Gas purchase contracts	41	-	41	-	-	41
Electric swap contracts	10	-	10	-	-	10
Electric option contracts	-	-	-	-	-	-
Total	$ 57	$ -	$ 57	$ -	$ 1	$ 56

March 31, 2013
Gross Amounts Not Offset in the Balance Sheets
(in millions of dollars)

ASSETS: Description	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net t *E=C-D*
Derivatives						
Gas swap contracts	$ 16	$ -	$ 16	$ -	$ -	$ 16
Gas future contracts	3	-	3	-	3	-
Gas option contracts	1	-	1	-	-	1
Gas purchase contracts	19	-	19	-	-	19
Electric swap contracts	24	-	24	-	-	24
CCIRS	12	-	12	-	-	12
Total	$ 75	$ -	$ 75	$ -	$ 3	$ 72

LIABILITIES: Description	Gross amounts of liabilities *A*	Gross amounts offset in the Balance Sheets *B*	liabilities presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net t *E=C-D*
Derivatives						
Gas swap contracts	$ 6	$ -	$ 6	$ -	$ -	$ 6
Gas future contracts	2	-	2	-	1	1
Gas purchase contracts	10	-	10	-	-	10
Electric swap contracts	1	-	1	-	-	1
CCIRS	87	-	87	-	19	68
Total	$ 106	$ -	$ 106	$ -	$ 20	$ 86

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, 2014 and 2013:

	March 31, 2014			
	Level 1	Level 2	Level 3	Total
		(in millions of dollars)		
Assets:				
Derivative contracts				
Gas swaps contracts	$ -	$ 12	$ -	$ 12
Gas futures contracts	3	-	-	3
Gas options contracts	-	-	2	2
Gas purchase contracts	-	1	28	29
Electric swaps contracts	-	44	-	44
Electric options contracts	-	-	1	1
CCIRS	-	115	-	115
Available-for-sale securities	113	124	-	237
Total	116	296	31	443
Liabilities:				
Derivative contracts				
Gas swaps contracts	-	4	-	4
Gas futures contracts	1	-	-	1
Gas options contracts	-	-	1	1
Gas purchase contracts	-	5	36	41
Electric swaps contracts	-	10	-	10
Total	1	19	37	57
Net assets	$ 115	$ 277	$ (6)	$ 386

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
		(in millions of dollars)		
Assets:				
Derivative contracts				
Gas swaps contracts	$ -	$ 16	$ -	$ 16
Gas futures contracts	3	-	-	3
Gas options contracts	-	-	1	1
Gas purchase contracts	-	1	18	19
Electric swaps contracts	-	24	-	24
CCIRS	-	12	-	12
Available-for-sale securities	134	115	-	249
Total	137	168	19	324
Liabilities:				
Derivative contracts				
Gas swaps contracts	-	6	-	6
Gas futures contracts	2	-	-	2
Gas purchase contracts	-	2	8	10
Electric swaps contracts	-	1	-	1
CCIRS	-	87	-	87
Total	2	96	8	106
Net assets	$ 135	$ 72	$ 11	$ 218

Derivative Contracts: The Company's Level 1 fair value derivative instruments primarily consist of quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date. Derivative assets and liabilities utilizing Level 1 inputs include active exchange-based derivatives (e.g. natural gas futures traded on NYMEX).

The Company's Level 2 fair value derivative instruments primarily consist of over-the-counter ("OTC") interest and currency swap transactions, and gas swap contracts with pricing inputs obtained from the New York Mercantile Exchange and 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 instruments. 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 instruments 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.

Available-for-Sale Securities: Available-for-sale securities are included in other non-current assets in the accompanying consolidated balance sheets and primarily include equity and debt investments based on quoted market prices (Level 1) and municipal and corporate bonds based on quoted prices of similar traded assets in open markets (Level 2).

Changes in Level 3 Derivatives

	Years Ended March 31,	
	2014	**2013**
	(in millions of dollars)	
Balance as of the beginning of the year	**$ 11**	$ 25
Transfers out of Level 3	**1**	(4)
Total gains or losses included in regulatory assets and liabilities	**(23)**	(17)
Settlements	**5**	7
Balance as of the end of the year	**$ (6)**	$ 11
The amount of total gains or losses for the year included in net income attributed to the change in unrealized gains or losses related to non-regulatory assets and liabilities at year-end	**$ -**	$ -

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 Level 3, during the years ended March 31, 2014 or 2013.

For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivatives valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. The forward curves used for financial reporting are developed and verified 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.

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

Quantitative Information About Level 3 Fair Value Measurements

Commodity	Level 3 Position	Fair Value as of March 31, 2014			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in millions of dollars)					
Gas	Purchase Contracts	$ 28	$ (36)	$ (8)	Discounted Cash Flow	Forward Curve and LNG Forward Curve	$2.434-$98.98/Dth
Gas	Options Contracts	2	(1)	1	Discounted Cash Flow	Forward Curve	$(1.070)-$0.720/Dth
Electric	Options Contracts	1	-	1	Discounted Cash Flow	Implied Volatility	29%-65%
	Total	$ 31	$ (37)	$ (6)			

Quantitative Information About Level 3 Fair Value Measurements

Commodity	Level 3 Position	Fair Value as of March 31, 2013			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in millions of dollars)					
Gas	Purchase Contracts	$ 18	$ (8)	$ 10	Discounted Cash Flow	Forward Curve	$3.816-$93.21/Dth
Gas	Options Contracts	1	-	1	Discounted Cash Flow	Forward Curve	$0.274-$0.352/Dth
	Total	$ 19	$ (8)	$ 11			

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 and electric option derivatives are forward commodity prices, both gas and electric, implied volatility and valuation assumptions pertaining to the peaking gas deals based on the 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, 2014 and 2013 was $17.4 billion and $17.9 billion, respectively.

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

8. EMPLOYEE BENEFITS

The Company sponsors numerous non-contributory defined benefit pension plans (the "Pension Plans") and several PBOP Plans. In general, the Company calculates benefits under these plans based on age, years of service and pay using March 31 as a measurement date. In addition, the Company also sponsors defined contribution plans for eligible employees.

Pension Plans

The Pension Plans are comprised of both qualified and non-qualified plans. The qualified 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 Company funds the qualified plans by contributing at least the minimum amount required under Internal Revenue Service ("IRS") regulations. The Company expects to contribute approximately $196 million to the Pension Plans during the year ended March 31, 2015.

PBOP Plans

The PBOP Plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. The Company funds these plans based on the requirements of the various regulatory jurisdictions in which it operates. The Company expects to contribute approximately $181 million to the PBOP Plans during the year ended March 31, 2015.

Defined Contribution Plans

The Company also has several defined contribution pension plans (primarily 401(k) employee savings fund plans) that cover substantially all employees. In addition, employees may receive certain employer contributions, including matching contributions and a 15% discount on the purchase of National Grid plc common stock. Employer matching contributions of approximately $38 million and $30 million, respectively, were expensed in the years ended March 31, 2014 and 2013.

Components of Net Periodic Benefit Costs

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2014	2013	**2014**	2013
	(in millions of dollars)			
Service cost, benefits earned during the year	**$ 134**	$ 133	**$ 73**	$ 68
Interest cost	**355**	361	**203**	207
Expected return on plan assets	**(443)**	(414)	**(170)**	(145)
Net amortization and deferral	**261**	275	**91**	111
Settlements/curtailments	**16**	7	**(140)**	(2)
Total cost	**$ 323**	$ 362	**$ 57**	$ 239

All of the Company's regulated subsidiaries have regulatory recovery of these costs and therefore have recorded related regulatory assets (liabilities) in the accompanying consolidated balance sheets. The Company records amounts for its unregulated subsidiaries within operations and maintenance expense in the accompanying consolidated statements of income.

Amounts Recognized in AOCI and Regulatory Assets

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2014	2013	**2014**	2013
	(in millions of dollars)			
Net actuarial loss	**$ (18)**	$ 150	**$ (319)**	$ 227
Prior service cost	**-**	11	**(31)**	-
Amortization of gain	**(267)**	(272)	**58**	(98)
Amortization of prior service cost	**(10)**	(9)	**(9)**	(11)
Total	**$ (295)**	$ (120)	**$ (301)**	$ 118
Included in regulatory assets	**$ (181)**	$ 22	**$ (62)**	$ 66
Included in AOCI	**(114)**	(142)	**(239)**	52
Total	**$ (295)**	$ (120)	**$ (301)**	$ 118

Amounts Recognized in AOCI and Regulatory Assets – not yet recognized as components of net actuarial loss

	Pension Plans		PBOP Plans		Expected Amortization
	Years Ended March 31,		**Years Ended March 31,**		**Year Ended March 31,**
	2014	2013	**2014**	2013	2015
	(in millions of dollars)				
Cumulative loss	**$ 1,681**	$ 1,966	**$ 644**	$ 905	**$ 306**
Prior service cost	**46**	56	**(23)**	17	**13**
Total	**$ 1,727**	$ 2,022	**$ 621**	$ 922	**$ 319**
Included in regulatory assets	**$ 886**	$ 1,067	**$ 397**	$ 459	
Included in accumulated other comprehensive income	**841**	955	**224**	463	
Total	**$ 1,727**	$ 2,022	**$ 621**	$ 922	

Reconciliation of Funded Status to Amount Recognized

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2014	2013	**2014**	2013
	(in millions of dollars)			
Change in benefit obligation:				
Benefit obligation as of the beginning of the year	**$ (7,724)**	$ (7,340)	**$ (4,589)**	$ (4,213)
Service cost	**(134)**	(133)	**(73)**	(68)
Interest cost on projected benefit obligation	**(355)**	(361)	**(203)**	(207)
Plan amendments	**-**	(11)	**31**	-
Net actuarial loss	**(157)**	(379)	**(103)**	(283)
Benefits paid	**357**	418	**190**	194
Actual Medicare Part D subsidy received	**-**	-	**(26)**	(33)
Curtailments and settlements	**141**	3	**304**	-
Divestitures	**-**	79	**-**	21
Benefit obligation as of the end of the year	**(7,872)**	(7,724)	**(4,469)**	(4,589)
Change in plan assets:				
Fair value of plan assets as of the beginning of the year	**6,654**	6,159	**2,302**	1,907
Actual return on plan assets	**591**	623	**287**	189
Company contributions	**279**	352	**303**	409
Benefits paid	**(357)**	(418)	**(190)**	(194)
Settlements	**(115)**	(3)	**-**	-
Divestitures	**-**	(59)	**-**	(9)
Fair value of plan assets as of the end of the year	**7,052**	6,654	**2,702**	2,302
Funded status	**$ (820)**	$ (1,070)	**$ (1,767)**	$ (2,287)

The benefit obligation shown above is the projected benefit obligation ("PBO") for the Pension Plans and the accumulated benefit obligation ("ABO") for the PBOP Plans. The Company is required to reflect the funded status of its Pension Plans above in terms of the PBO, which is higher than the ABO, because the PBO includes the impact of expected future compensation increases on the pension obligation. The Pension Plans had ABO balances that exceeded the fair value of plans assets as of March 31, 2014 and 2013. The aggregate ABO balances for the Pension Plans were $7.4 billion and $7.2 billion as of March 31, 2014 and 2013, respectively.

Amounts Recognized in the Accompanying Consolidated Balance Sheets

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2014	2013	**2014**	2013
	(in millions of dollars)			
Non-current assets	**$ 290**	$ 297	**$ 15**	$ -
Current liabilities	**(22)**	(23)	**(16)**	(11)
Non-current liabilities	**(1,088)**	(1,344)	**(1,766)**	(2,276)
Total	**$ (820)**	$ (1,070)	**$ (1,767)**	$ (2,287)

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2014:

(in millions of dollars) Years Ended March 31,	Pension Benefits	Postretirement Benefits
2015	$ 486	$ 199
2016	491	206
2017	497	213
2018	499	220
2019	498	226
Thereafter	2,510	1,223
Total	$ 4,981	$ 2,287

Assumptions Used for Employee Benefits Accounting

	Pension Plans		**PBOP Plans**	
	Years Ended March 31,		**Years Ended March 31,**	
	2014	2013	**2014**	2013
Benefit Obligations				
Discount rate	**4.80%**	4.70%	**4.80%**	4.70%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	n/a
Expected return on plan assets	**7.00%**	6.75%-7.25%	**7.00% - 7.25%**	7.25%-7.50%
Net Periodic Benefit Costs				
Discount rate	**4.70%**	5.10%	**4.70%**	5.10%
Rate of compensation increase	**3.50%**	3.50%	**n/a**	n/a
Expected return on plan assets	**6.75% - 7.25%**	6.75%-7.25%	**7.25%-7.50%**	7.25%-7.50%

The Company selects its discount rate assumption based upon rates of return on highly rated corporate bond yields in the marketplace as of each measurement date. Specifically, the Company uses the Hewitt AA Above Median Curve along with the expected future cash flows from the Company retirement plans to determine the weighted average discount rate assumption.

The expected rate of return for various passive asset classes is based both on analysis of historical rates of return and forward looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of the long-term assumptions. A small premium is added for active management of both equity and fixed income securities. The rates of return for each asset class are then weighted in accordance with the actual asset allocation, resulting in a long-term return on asset rate for each plan.

Assumed Health Cost Trend Rate

	March 31, 2014	March 31, 2013
Health care cost trend rate assumed for next year		
Pre 65	**8.00%**	8.00%
Post 65	**7.00%**	7.50%
Prescription	**7.00%**	8.25%
Rate to which the cost trend is assumed to decline (ultimate)	**5.00%**	5.00%
Year that rate reaches ultimate trend		
Pre 65	**2022**	2019
Post 65	**2021**	2018
Prescription	**2021**	2020

Sensitivity to Changes in Assumed Health Care Cost Trend Rates

(in millions of dollars)	March 31, 2014
1% point increase	
Total of service cost plus interest cost	$ 51
Postretirement benefit obligation	642
1% point decrease	
Total of service cost plus interest cost	(41)
Postretirement benefit obligation	(542)

Plan Assets

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

The target asset allocations for the benefit plans as of March 31, 2014 and 2013 are as follows:

	Pension Plans		PBOP Plans	
	March 31,		**March 31,**	
	2014	2013	**2014**	2013
U.S. equities	**20%**	20%	**39%**	39%
Global equities (including U.S.)	**7%**	7%	**6%**	6%
Global tactical asset allocation	**10%**	10%	**9%**	9%
Non-U.S. equities	**10%**	10%	**21%**	21%
Fixed income	**40%**	40%	**25%**	25%
Private equity	**5%**	5%	**0%**	0%
Real estate	**5%**	5%	**0%**	0%
Infrastructure	**3%**	3%	**0%**	0%
	100%	100%	**100%**	100%

Fair Value Measurements

The following tables provide the fair value measurements amounts for the pension and PBOP assets.

	March 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
	(in millions of dollars)			
Pension Assets:				
Cash and cash equivalents	$ 5	$ 116	$ 1	$ 122
Accounts receivable	93	-	-	93
Accounts payable	(82)	-	-	(82)
Equity	846	1,796	318	2,960
Global tactical asset allocation	-	244	54	298
Fixed income securities	-	2,890	46	2,936
Preferred securities	2	-	-	2
Futures contracts	4	-	-	4
Private equity	-	-	409	409
Real estate	-	-	310	310
Total	**$ 868**	**$ 5,046**	**$ 1,138**	**$ 7,052**
PBOP Assets:				
Cash and cash equivalents	$ 49	$ 17	$ -	$ 66
Accounts receivable	6	-	-	6
Accounts payable	(5)	-	-	(5)
Equity	460	1,219	105	1,784
Global tactical asset allocation	72	98	24	194
Fixed income securities	2	647	-	649
Private equity	-	-	8	8
Total	**$ 584**	**$ 1,981**	**$ 137**	**$ 2,702**

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
		(in millions of dollars)		
Pension Assets:				
Cash and cash equivalents	$ 4	$ 102	$ -	$ 106
Accounts receivable	141	-	-	141
Accounts payable	(124)	-	-	(124)
Equity	988	1,778	56	2,822
Global tactical asset allocation	-	261	52	313
Fixed income securities	-	2,697	56	2,753
Preferred securities	6	-	-	6
Private equity	-	-	376	376
Real estate	-	-	261	261
Total	**$ 1,015**	**$ 4,838**	**$ 801**	**$ 6,654**
PBOP Assets:				
Cash and cash equivalents	$ 94	$ 42	$ -	$ 136
Accounts receivable	8	-	-	8
Accounts payable	(7)	-	-	(7)
Equity	419	1,030	22	1,471
Global tactical asset allocation	64	79	18	161
Fixed income securities	-	517	1	518
Private equity	-	-	15	15
Total	**$ 578**	**$ 1,668**	**$ 56**	**$ 2,302**

The methods used to fair value pension and PBOP assets are described below:

Cash and Cash Equivalents: Cash and cash equivalents that can be priced daily are classified as Level 1. Active reserve funds, reserve deposits, commercial paper, repurchase agreements, and commingled cash equivalents are classified as Level 2. Such instruments are generally valued using a curve methodology that includes observable inputs such as money market rates for specific instruments, programs, currencies and maturity points obtained from a variety of market makers, reflective of current trading levels. The methodologies consider an instrument's days to final maturity to generate a yield based on the relevant curve for the instrument.

Accounts Receivable and Accounts Payable: Accounts receivable and accounts payable are classified in the same category as the investments to which they relate. Such amounts are short-term and settle within a few days of the measurement date.

Equity and Preferred Securities: Common stocks investment trusts are valued using the official close of the primary market on which the individual securities are traded. Equity securities are primarily comprised of securities issued by public companies in domestic and foreign markets plus investments in commingled funds, which are valued on a daily basis. The Company can exchange shares of the publicly traded securities and the fair values are primarily sourced from the closing prices on stock exchanges where there is active trading, in which case they are classified as Level 1 investments. If there is less active trading, then the publicly traded securities would typically be priced using observable data, such as bid and ask prices, and these measurements are classified as Level 2 investments. Investments that are not publicly traded and valued using unobservable inputs are classified as Level 3 investments. Commingled funds with publicly quoted prices and active trading are classified as Level 1 investments. For investments in commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the net asset value (“NAV”) per fund share, derived from the underlying securities’ quoted prices in active markets, and they are classified as Level 2 investments. Investments in commingled funds with redemption restrictions and that use NAV are classified as Level 3 investments.

Global Tactical Asset Allocation: Assets held in global tactical asset allocation funds are managed by investment managers who use both top-down and bottom-up valuation methodologies to value asset classes, countries, industrial sectors, and individual securities in order to allocate and invest assets opportunistically. If the inputs used to measure a financial instrument fall within different levels of the fair value hierarchy within the commingled fund, the categorization is based on the lowest level input that is significant to the measurement of that financial instrument. The assets invested through commingled funds are classified as Level 2. Those which are open ended mutual funds with observable pricing are classified as Level 1. However, the underlying Level 3 assets that makeup these funds are classified in the same category as the investments to which they relate.

Fixed Income Securities: Fixed income securities (which include corporate debt securities, municipal fixed income securities, U.S. Government and Government agency securities including government mortgage backed securities, index linked government bonds, and state and local bonds) convertible securities, and investments in securities lending collateral (which include repurchase agreements, asset backed securities, floating rate notes and time deposits) are valued with an institutional bid valuation. A bid valuation is an estimated price at which a dealer would pay for a security (typically in an institutional round lot). Oftentimes, these evaluations are based on proprietary models which pricing vendors establish for these purposes. In some cases there may be manual sources when primary vendors do not supply prices. Fixed income investments are primarily comprised of fixed income securities and fixed income commingled funds. The prices for direct investments in fixed income securities are generated on a daily basis. Prices generated from less active trading with wider bid ask prices are classified as Level 2 investments. If prices are based on uncorroborated and unobservable inputs, then the investments are classified as Level 3 investments. Commingled funds with publicly quoted prices and active trading are classified as Level 1 investments. For commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV per fund share, derived from the underlying securities' quoted prices in active markets, and are classified as Level 2 investments. Investments in commingled funds with redemption restrictions and that use NAV are classified as Level 3.

Private Equity and Real Estate: Commingled equity funds, commingled special equity funds, limited partnerships, real estate, venture capital and other investments are valued using evaluations (NAV per fund share), based on proprietary models, or based on the NAV. Investments in private equity and real estate funds are primarily invested in privately held real estate investment properties, trusts, and partnerships as well as equity and debt issued by public or private companies. The Company's interest in the fund or partnership is estimated based on the NAV. The Company's interest in these funds cannot be readily redeemed due to the inherent lack of liquidity and the primarily long-term nature of the underlying assets. Distribution is made through the liquidation of the underlying assets. The Company views these investments as part of a long-term investment strategy. These investments are valued by each investment manager based on the underlying assets. The funds utilize valuation techniques consistent with the market, income, and cost approaches to measure the fair value of certain real estate investments. The majority of the underlying assets are valued using significant unobservable inputs and often require significant management judgment or estimation based on the best available information. Market data includes observations of the trading multiples of public companies considered comparable to the private companies being valued. As a result, the Company classifies these investments as Level 3.

While management believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of Level 3 financial instruments could result in a different fair value measurement at the reporting date.

Changes in Level 3 Plan Investments

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2014	2013	**2014**	2013
	(in millions of dollars)			
Balance as of the beginning of the year	**$ 801**	$ 804	**$ 56**	$ 73
Transfers out of Level 3	**(16)**	(4)	**(41)**	(24)
Transfers in to Level 3	**282**	6	**102**	27
Actual gain or loss on plan assets				
Realized gain	**37**	17	**3**	-
Unrealized gain	**56**	37	**(1)**	1
Purchases	**397**	296	**37**	188
Sales	**(419)**	(355)	**(19)**	(209)
Balance as of the end of the year	**$ 1,138**	$ 801	**$ 137**	$ 56

Other Benefits

The Company accrued $83.7 million and $74.6 million at March 31, 2014 and 2013, respectively, regarding workers compensation, auto and general insurance claims which have been incurred but not yet reported.

9. CAPITALIZATION

European Medium Term Note Program

At March 31, 2014, the Company had a Euro Medium Term Note program (the “Program”) under which it is able to issue debt instruments (“Instruments”) up to a total of the equivalent of 4 billion Euros. Instruments issued under the Program are admitted to trading on the London Stock Exchange. The Program commenced in December 2007 and is renewed annually, with the latest renewal of the Program expiring in December 2014. If the Program is not renewed in December 2014, it would preclude the issuance of new notes under this Program, but it would not impact the outstanding debt balances and their maturity dates. Instruments carry certain affirmative and negative covenants, including a restriction on the Company’s ability to mortgage, pledge, charge or otherwise encumber its assets in order to secure, guarantee or indemnify other listed or quoted debt obligations, as well as cross-acceleration in the event of breach by the Company or its principal subsidiaries of other listed or quoted debt obligations. At March 31, 2014 and 2013, the Company was in compliance with all covenants. At March 31, 2014 and 2013, $2.5 billion and $1.5 billion, respectively, of these notes were issued and outstanding, excluding the impact of interest rate and currency swaps.

Notes Payable

At March 31, 2014 and 2013 the Company had outstanding $6.8 billion and $7.1 billion, respectively, of unsecured medium and long-term notes. In December 2012, Narragansett issued $250 million of unsecured long-term debt at 4.17% with a maturity date of December 10, 2042. In November 2012, Niagara Mohawk issued $400 million of unsecured long-term debt at 4.119% with a maturity date of November 28, 2042 and $300 million of unsecured long-term debt at 2.721% with a maturity date of November 28, 2022. The interest rates on the unsecured notes range from 3.296% to 9.750% and maturity dates range from October 2014 through December 2042. In June 2013, the Company entered into a new bank loan for $762.6 million. This 18-month loan contained an option to extend for a further year. The loan was originally borrowed in sterling, but swapped to USD at a fixed rate of 1.1325%. On June 30, 2014 the Company repaid the $762.6 million bank loan.

On August 9, 2011, the Company entered into two loan agreements with Bank of Tokyo-Mitsubishi UFJ, Ltd. for $250 million with an interest rate of London Interbank Offered Rate ("LIBOR") plus a margin spread of 0.7%, which matured in August 2013 and $500 million with an interest rate of LIBOR plus a margin spread of 0.9%, which was scheduled to mature on October 29, 2014 and was paid in advance in February 2014. On August 19, 2011, the Company entered into a term loan agreement with the Mizuho Corporate Bank, Ltd. for $250 million with an interest rate of LIBOR plus a margin spread of 0.7%, which matured in August 2013.

Gas Facilities Revenue Bonds

Brooklyn Union has outstanding tax-exempt Gas Facilities Revenue Bonds ("GFRB") issued through the New York State Energy Research and Development Authority ("NYSERDA"). There are no sinking fund requirements for any of Brooklyn Union's GFRB. At March 31, 2014 and 2013, $641 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 0.51% during the year ended March 31, 2014 and 0.14% to 2.17% during the year ended March 31, 2013. The GFRB are currently in auction rate mode and are backed by bond insurance. These bonds cannot be put back to Brooklyn Union and, in the case of a failed auction, the resulting interest rate on the bonds would revert to the maximum rate which depends on the current appropriate, short-term benchmark rates and the senior unsecured rating of the Brooklyn Union's bonds. The effect of the failed auctions on interest expense was not material for the years ended March 31, 2014 or 2013.

Promissory Notes to LIPA

KeySpan Corporation had previously issued $155 million of promissory notes to LIPA to support certain debt obligations assumed by LIPA. Following the expiration of the MSA on December 31, 2013, the debt was fully extinguished (refer to Note 17, "Discontinued Operations").

First Mortgage Bonds

The assets of Colonial Gas and Narragansett are subject to liens and other charges and are provided as collateral over borrowings of $75 million and $51.6 million, respectively, of non-callable First Mortgage Bonds ("FMB"). These FMB indentures include, among other provisions, limitations on the issuance of long-term debt. Interest rates range from 6.34% to 9.63% and maturity dates range from April 2018 to April 2028.

State Authority Financing Bonds

At March 31, 2014, the Company had outstanding $1.2 billion of State Authority Financing Bonds. Of the $1.2 billion outstanding at March 31, 2014, approximately $716 million of these bonds were issued through NYSERDA and the remaining $484 million were issued through various other state agencies.

Approximately $605 million of State Authority Financing Bonds were issued to secure a like amount of tax-exempt revenue bonds issued by NYSERDA. Approximately $530 million of such securities bear interest at short-term adjustable interest rates (with an option to convert to other rates, including a fixed interest rate) ranging from 0.38% to 0.53% for the year ended March 31, 2014. The bonds 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 rate which depends on the current appropriate, short-term benchmark rate and the senior secured rating of the Company or the bond insurer, whichever is greater. The effect on interest expense has not been material in either of the years ended March 31, 2014 or 2013.

The Company also has $75 million of 5.15% fixed rate pollution control revenue bonds issued through NYSERDA which are callable at par. Pursuant to agreements between NYSERDA and the Company, proceeds from such issues were used for the purpose of financing the construction of certain pollution control facilities at the Company's generation facilities (which the Company subsequently sold) or to refund outstanding tax-exempt bonds and notes.

Additionally, the Company has $41 million of 1999 Series A Pollution Control Revenue Bonds due October 1, 2028. The interest rate ranged from 0.15% to 1.35% for the year ended March 31, 2014, at which time the rate was 0.61%. The interest rate ranged from 0.25% to 1.60% for the year ended March 31, 2013, at which time the rate was 0.61%. Interest expense related to these notes for each of the years ended March 31, 2014 and 2013 was approximately $0.4 million and $0.5 million, respectively.

The Company also has outstanding $25 million variable rate 1997 Series A Electric Facilities Revenue Bonds due December 1, 2027. The interest rate on these bonds is reset weekly and ranged from 0.04% to 0.25% and from 0.10% to 0.27% during the years ended March 31, 2014 and 2013, respectively. The interest rate was 0.25% and 0.12% at March 31, 2014 and 2013, respectively. Interest expense related to these notes for each of the years ended March 31, 2014 and 2013 was approximately $0.1 million.

At March 31, 2014, the Company had outstanding $410 million of the Pollution Control Revenue Bonds in tax exempt commercial paper mode with maturity dates ranging from October 2015 to October 2022 and variable interest ranging from 0.29% to 0.50% for the year ended March 31, 2014. In addition, at March 31, 2014, the Company had $52 million of tax exempt Electric Revenue Bonds in commercial paper mode with varying maturity dates from March 2016 through August 2042 and variable interest rates ranging from 0.30% to 0.50% during the year ended March 31, 2014. The bonds were issued by the Massachusetts Development Finance Agency in connection with the Company's financing of its first and second underground and submarine cable projects. Sinking fund payments of $0.3 million were made during the year ended March 31, 2014.

At March 31, 2012, three of the Company's subsidiaries had a Standby Bond Purchase Agreement ("SBPA") totaling $500 million, which expires on November 20, 2015. This agreement was available to provide liquidity support for $483 million of the Company's long-term bonds in tax-exempt commercial paper mode. The Company has classified this debt as long-term due to its intent and ability to refinance the debt on a long-term basis in the event of a failure to remarket the bonds. The Company, together with other affiliates of National Grid plc, has rights to issue debt under an $850 million syndicated revolving credit facility which can be drawn upon at any time until its maturity in November 2015 and may be used, if needed, to refinance the tax-exempt commercial paper on a long-term basis. This facility has a number of financial and non-financial covenants which the Company is obliged to meet. At March 31, 2014 and 2013, the Company was in compliance with all covenants.

Industrial Development Revenue Bonds

At March 31, 2014 and 2013, KeySpan Corporation had outstanding $128 million of 5.25% tax-exempt bonds due in June 2027. Of the amount, $53 million was issued through the Nassau County Industrial Development Authority for the construction of the Glenwood Energy electric-generation peaking plant and the balance of $75 million was issued by the Suffolk County Industrial Development Authority for the Port Jefferson electric-generation peaking plant. KeySpan Corporation has fully and unconditionally guaranteed the payment obligations with regard to these tax-exempt bonds.

Committed Facility Agreements

At March 31, 2014, NGUSA, NGNA, and National Grid plc have a committed revolving credit facility of $850 million which matures in November 2015. This facility, bearing a commitment fee of 0.21%, has not been drawn against and therefore there is no balance outstanding. NGUSA, NGNA, and National Grid plc can all draw on this facility in a variety of currencies as needed, but the aggregate borrowings across the group cannot exceed the $850 million limit. The terms of the facility restrict the borrowing of all U.S. subsidiaries of the Company to $18 billion excluding intercompany indebtedness. Additionally, this facility has a number of non-financial covenants which the Company is obliged to meet. At March 31, 2014 and 2013, the Company was in compliance with all covenants.

NGUSA and National Grid plc have two additional committed revolving credit facilities of $280 million and £155 million which mature in July 2017. These facilities, bear a commitment fee of 0.20% each, have not been drawn against and therefore there is no balance outstanding. NGUSA and National Grid plc can draw on these facilities in a variety of currencies as needed, but the aggregate borrowings across the group cannot exceed the $280 million and £155 million limit, respectively. The terms of the facilities restrict the borrowing of all U.S. subsidiaries of the Company to $18 billion excluding intercompany indebtedness. Additionally, these facilities have a number of non-financial covenants which the Company is obliged to meet. At March 31, 2014 and 2013, the Company was in compliance with all covenants.

Intercompany Notes Payable

As of March 31, 2014 and 2013, NGNA's intercompany debt was in the form of intercompany loans from the Parent and other affiliated entities obtained to fund the acquisition of various entities. The intercompany loans are paid back by NGNA from the dividends it receives from NGUSA.

Due to:	Interest Rate	Maturity Date	March 31, **2014**	March 31, 2013
			(in millions of dollars)	
National Grid Lux Investments Limited	0.78% to 2.2% over LIBOR	August 2014 - August 2027	**$ 3,022**	$ 3,222
National Grid U.S. Partner 1 Limited	1.51% to 1.56% over LIBOR	August 2014 - August 2016	**200**	300
National Grid Twenty Five Limited	2.00% to 2.3% over LIBOR	August 2014 - August 2018	**1,681**	1,681
Total			**$ 4,903**	$ 5,203

Debt Maturities

The aggregate maturities of long-term debt for the years subsequent to March 31, 2014 are as follows:

(in millions of dollars)	
Years Ending March 31,	
2015	$ 2,231
2016	1,973
2017	1,358
2018	2,142
2019	694
Thereafter	7,851
Total	$ 16,249

The Company is obligated to meet certain financial and non-financial covenants. The Company's subsidiaries also have restrictions on the payment of dividends which relate to their debt to equity ratios. During the years ended March 31, 2014 and 2013 the Company was in compliance with all such covenants and restrictions.

Some of the Company's State Authority Financing Bonds, First Mortgage Bonds, and Notes Payable have sinking fund requirements which totaled $7 million during the years ended March 31, 2014 and 2013. The following table reflects the sinking fund repayment requirements for the years subsequent to March 31, 2014:

(in millions of dollars)		
Years Ending March 31,		
2015	$	2
2016		2
2017		1
2018		1
2019		1
Thereafter		8
Total	$	15

Commercial Paper and Revolving Credit Agreements

At March 31, 2014, the Company had two commercial paper programs totaling $4 billion; a $2 billion U.S. commercial paper program and a 2 billion Euro commercial paper program. In support of these programs, the Company was a named borrower under National Grid plc credit facilities with $1.4 billion available to the Company. These facilities support both the Parent's and the Company's commercial paper programs for ongoing working capital needs. The facilities expire in 2015 to 2017. At March 31, 2014 and 2013, there were $421 million and $665 million of borrowings outstanding on the U.S. commercial paper program and no borrowings outstanding on the Euro commercial paper program.

The credit facilities allow both the Parent and the Company to borrow in multi-currencies. The current annual commitment fees range from 0.20% to 0.21%. If for any reason the Company were not able to issue sufficient commercial paper or source funds from other sources, the facilities could be drawn upon to meet cash requirements. The facilities contain certain affirmative and negative operating covenants, including restrictions on the Company's utility subsidiaries' ability to mortgage, pledge, encumber or otherwise subject their utility property to any lien, as well as financial covenants that require the Company and the Parent to limit the total indebtedness in U.S. and non-U.S. subsidiaries to pre-defined limits. Violation of these covenants could result in the termination of the facilities and the required repayment of amounts borrowed thereunder, as well as possible cross defaults under other debt agreements. At March 31, 2014 and 2013, the Company was in compliance with all covenants.

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2014	2013
	(in millions of dollars)	
Current tax expense (benefit):		
Federal	**$ (88)**	$ (331)
State	**25**	39
Total current tax benefit	**(63)**	(292)
Deferred tax expense (benefit):		
Federal	**204**	398
State	**42**	(9)
Total deferred tax expense	**246**	389
Amortized investment tax credits [1]	**(5)**	(6)
Total deferred tax expense	**241**	383
Total income tax expense	**$ 178**	$ 91

(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, 2014 and 2013 were 28% and 16%, 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,	
	2014	2013
	(in millions of dollars)	
Computed tax	**$ 223**	$ 196
Change in computed taxes resulting from:		
Audit and related reserve movements	**(70)**	(115)
State income tax, net of federal benefit	**44**	20
Investment tax credits	**(5)**	(6)
Other items, net	**(14)**	(4)
Total	**(45)**	(105)
Federal and state income taxes	**$ 178**	$ 91

The Company files a consolidated federal income tax return with its subsidiaries. The Company has joint and several liability for any potential assessments against the consolidated group. The Company also files unitary, combined and separate state income tax returns.

In September 2013, the IRS issued final regulations, effective for tax years beginning in 2014, that provide guidance on the appropriate tax treatment of costs incurred to acquire, produce or improve tangible property, as well as, routine maintenance and repair costs. Proposed regulations were issued addressing the tax treatment of asset dispositions. The Company has evaluated tax accounting method changes that may be elected or required by the final regulations. At March 31, 2014, $41.6 million of deferred tax liabilities have been classified as current in the Company's consolidated balance sheets, representing the cumulative adjustment expected to be reflected in income for tax purposes during the twelve months ending March 31, 2015. The application of these regulations is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

On July 24, 2013, the Massachusetts legislature enacted into law transportation finance legislation which included significant tax changes affecting the classification of utility corporations. For tax years beginning on or after January 1, 2014, Massachusetts utility corporations will be taxed in the same manner as general business corporations. The state income tax rate increased from 6.5% to 8.0%. Also, any unitary net operating loss generated post-2013 and allocated to the utilities will be allowed as a carryforward tax attribute. As of March 31, 2014, all Massachusetts state deferred tax balances at the regulated utilities were remeasured to the 8% rate, resulting in an increase in deferred tax liabilities of $47 million with an offset to the regulatory deferred tax asset. The application of this legislation is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

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, the Company decreased its New York State deferred tax liability and income tax expense by $24.5 million and $3.1 million, respectively, with an offset of $27.6 million to the regulatory deferred tax liability.

Deferred Tax Components

	March 31,	
	2014	2013
	(in millions of dollars)	
Deferred tax assets:		
Pensions, PBOP and other employee benefits	**$ 1,514**	$ 1,821
Reserve - environmental response costs	**563**	580
Regulatory liabilities - other	**326**	398
Future federal benefit on state taxes	**179**	206
Net operating losses	**288**	306
Other items	**232**	285
Total deferred tax assets (1)	**3,102**	3,596
Deferred tax liabilities:		
Property related differences	**5,615**	5,248
Regulatory assets - pension and PBOP	**722**	875
Regulatory assets - environmental	**681**	692
Regulatory assets - other	**432**	479
Other items	**223**	243
Total deferred tax liabilities	**7,673**	7,537
Net deferred income tax liabilities	**4,571**	3,941
Deferred investment tax credits	**37**	45
Net deferred income tax liability and investment tax credits	**4,608**	3,986
Current portion of deferred income tax liabilities	**137**	193
Deferred income tax liabilities	**$ 4,745**	$ 4,179

(1) There was a valuation allowance of zero and $5.8 million for deferred tax assets at March 31, 2014 and 2013, respectively.

Included in "Future federal benefit on state taxes" is a deferred tax asset related to future deductions on Massachusetts unitary returns recorded at $98 million as of March 31, 2014 and 2013. There is a valuation allowance of zero million and $13 million against this deferred tax asset as of March 31, 2014 and 2013, respectively.

Also included in "Other items" are deferred tax assets relating to net operating losses in the state of Massachusetts of $2 million as of March 31, 2013, representing approximately $30 million of net operating losses carried forward in the state of Massachusetts. There was a valuation allowance established against these loss carryforwards as the Company believed that the losses would not be utilized before their expiration in 2014. The deferred tax asset and the related valuation allowance have been written-off upon expiration of the carryforward period as of March 31, 2014.

The following table presents the amounts and expiration dates of operating losses as of March 31, 2014:

Expiration of net operating losses:	Federal
	(in millions of dollars)
03/31/2033	$ 583
03/31/2034	626

Expiration of New York state and city net operating losses:	State of New York	City of New York
	(in millions of dollars)	
12/31/2024	$ 49	$ 38
12/31/2025	88	82
12/31/2026	24	-
12/31/2027	35	-
03/31/2028	47	7
03/31/2029	295	37
03/31/2030	70	28
03/31/2031	11	-
03/31/2032	41	10
03/31/2033	387	295
03/31/2034	90	-

Unrecognized Tax Benefits

As of March 31, 2014 and 2013, the Company's unrecognized tax benefits totaled $707 million and $973 million, respectively, of which $180 million and $310 million, respectively, would affect the effective tax rate, if recognized. The unrecognized federal 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,	
	2014	2013
	(in millions of dollars)	
Balance as of the beginning of the year	**$ 973**	$ 1,118
Gross increases related to prior period	**53**	33
Gross decreases related to prior period	**(152)**	(206)
Gross increases related to current period	**68**	59
Gross decreases related to current period	**-**	(27)
Settlements with tax authorities	**(235)**	(4)
Balance as of the end of the year	**$ 707**	$ 973

As of March 31, 2014 and 2013, the Company has accrued for interest related to unrecognized tax benefits of $62 million and $82 million, respectively. During the years ended March 31, 2014 and 2013, the Company recorded interest expense of $10 million and interest income of $5.4 million, respectively. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other deductions, net in the accompanying consolidated statements of income. No tax penalties were recognized during the years ended March 31, 2014 and 2013.

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 fiscal year 2014, the 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 March 31, 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. The Company 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.

The years ended March 31, 2010 through March 31, 2014 remain subject to examination by the IRS.

The Company is a member of the NGUSA Service Company Massachusetts unitary group since fiscal year ended March 31, 2010. The tax returns for the fiscal years ended March 31, 2010 through March 31, 2014 remain subject to examination by the State of Massachusetts.

The following table indicates the earliest tax year subject to examination:

Jurisdiction	Tax Year
Federal	August 24, 2007 *
Massachusetts	March 31, 2003
New York	December 31, 2003
New York City	December 31, 2003
New Hampshire	March 31, 2009

*The Company is in the process of appealing certain disputed issues with the IRS Office of Appeals for the short period ended August 24, 2007 and the years ended March 31, 2008 through March 31, 2009.

The Company is in the process of appealing certain adjustments made by the Massachusetts Department of Revenue ("MADOR") for the years ended March 31, 2003 through March 31, 2005. The Company is currently under audit by the MADOR for years ended March 31, 2006 through March 31, 2008.

During the fiscal year, the Company settled examinations for KeySpan Corporation and subsidiaries income tax returns for the years 2000 through 2002, and Wayfinder Group Inc. for the year ended March 31, 2008 with the State of New York and made payments for tax and interest of $3.4 million and $4.3 million, respectively.

The State of New York is in the process of examining the Company's NYS income tax returns for KeySpan Gas East for the period January 1, 2003 through March 31, 2008, and for Brooklyn Union for the period January 1, 2007 through March 31, 2008. The tax returns for the years ended March 31, 2009 through March 31, 2014 remain subject to examination by the State of New York. The Company has filed New York ITC claims for the New York Gas Companies for the tax years ended December 31, 2002 through March 31, 2010. New York State has disallowed the claims for December 31, 2002 through December 31, 2006 upon audit, and also denied them on appeal to the New York Tax Tribunal, which decision was further appealed to the Supreme Court, Appellate Division. On June 6, 2013, the Company received an adverse decision from the Supreme Court, Appellate Division, and made tax and interest payments of $29.7 million and $19.9 million, respectively, during the year ended March 31, 2014.

New York State and New York City are in the process of an examining the returns of KeySpan Corporation and subsidiaries for the period January 1, 2003 through March 31, 2008 and January 1, 2003 through December 31, 2005, respectively.

The State of New York is in the process of examining the Niagara Mohawk Holdings Inc. and subsidiaries combined returns for the years ended March 31, 2006 through March 31, 2008.

11. GOODWILL

The following table represents the changes in the carrying amount of goodwill for the years ended March 31, 2014 and 2013:

	Years Ended March 31,	
	2014	2013
	(in millions of dollars)	
Balance as of the beginning of the year	**$ 7,151**	$ 7,133
Consolidation of variable interest entity	-	20
Revaluation in relation to Granite State	-	(1)
Regulatory recovery	-	(1)
Balance as of the end of the year	**$ 7,151**	$ 7,151

In January 2013, the Company made an investment in Clean Line Energy Partners LLC ("Clean Line"). Clean Line is a development-stage entity engaged in the development of long distance, high voltage direct current transmission lines that connect wind farms and other renewable resources in remote parts of the United States with electric demand. The Company committed to a $40 million investment in Clean Line, of which the Company contributed $12.5 million during the year ended March 31, 2013 and contributed the remaining $27.5 million during the year ended March 31, 2014. Based on an analysis of the contractual terms and rights contained in the related agreements, the Company determined that under the applicable accounting standards, Clean Line is a variable interest entity and the Company has effective control over the entity. Therefore, as the primary beneficiary, the Company has consolidated Clean Line. Upon consolidation, the Company recognized approximately $20 million of goodwill.

Colonial Gas has authority from the DPU to recover $234.8 million of goodwill ($141.5 million of acquisition premium, plus tax of $93.3 million). The regulatory asset for the recovery of the acquisition premium was $208.4 million at March 31, 2014, and will be amortized on a straight-line basis as it is recovered through rates at $8.2 million per year through August 2039.

The net regulatory recovery adjustments of $1 million shown in the table above include, with respect to Colonial Gas: (1) a reclassification adjustment of $5 million from regulatory assets to goodwill in order to correct these balances and properly reflect the authorized recovery period of acquisition premium under DPU 10-55, and (2) a reclassification adjustment of ($6.0) million from goodwill to regulatory assets related to a ruling by the DPU in January 2013.

12. 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.

On April 26, 2013, General Electric ("GE") filed a lawsuit against Niagara Mohawk seeking contribution under the Comprehensive Environmental Response, Compensation, and Liability Act for an unspecified portion of GE's alleged response costs incurred in remediating polychlorinated biphenyl ("PCB") contamination in the Hudson River. GE alleges that Niagara Mohawk's removal of the Fort Edward Dam in 1973 resulted in the migration of sediments, contaminated with PCBs released into the environment by GE, downstream of the former dam's location. On June 25, 2013, Niagara Mohawk answered GE's complaint denying liability. The parties executed a confidential settlement agreement on December 13, 2013. By stipulation of the parties and Court order, GE's claims against Niagara Mohawk were dismissed with prejudice on January 13, 2014.

Air

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

Water

Additional capital expenditures associated with the renewal of the surface water discharge permits for National Grid Generation's power plants will likely be required by the DEC at each of the Long Island power plants pursuant to Section 316 of the Clean Water Act to mitigate the plants' alleged cooling water system impacts to aquatic organisms. National Grid Generation is currently engaged in discussions with the DEC and environmental groups regarding the nature of capital upgrades or other mitigation measures necessary to reduce any impacts. Although these discussions have been productive and have led to mutually agreeable final permits at some of the plants, it is possible that the determination of required capital improvements and the issuance of final renewal permits for the remaining plants could involve adjudicatory hearings among National Grid Generation, the agency, and the environmental groups. Capital costs for expected mitigation requirements at the plants had been estimated on the order of approximately $100 million and do not anticipate a need for cooling towers at any of the plants. Depending on the outcome of the adjudicatory process, which could extend beyond the next fiscal year, ultimate costs could be substantially higher. Costs associated with any finally ordered capital improvements would be reimbursable from LIPA under the PSA.

Land, Manufactured Gas Plants and Related Facilities

Federal and state environmental regulators, as well as private parties, have alleged that several of the Company's subsidiaries are potentially responsible parties under Superfund laws for the remediation of numerous contaminated sites in New York and New England. The Company's greatest potential Superfund liabilities relate to MGP facilities formerly owned or operated by its subsidiaries or their predecessors. MGP byproducts included fuel oils, hydrocarbons, coal tar, purifier waste and other waste products which may pose a risk to human health and the environment.

Since July 12, 2006, several lawsuits have been filed which allege damages resulting from contamination associated with the historic operations of a former manufactured gas plant located in Bay Shore, New York. KeySpan has been conducting a remediation at this location pursuant to Administrative Order on Consent ("ACO") with the New York State Department of Environmental Conservation ("DEC"). KeySpan intends to contest these proceedings vigorously.

On February 8, 2007, the Company received a Notice of Intent to File Suit from the AG against KeySpan and four other companies in connection with the cleanup of historical contamination found in certain lands located in Greenpoint, Brooklyn and in an adjoining waterway. KeySpan has previously agreed to remediate portions of the properties referenced in this notice and will work cooperatively with the DEC and AG to address environmental conditions associated with the remainder of the properties. KeySpan has entered into an ACO with the DEC for the land-based sites. The EPA assumed control of the waterway and, on September 29, 2010, listed this site on its National Priorities List of Superfund sites. The Company signed a consent decree with the EPA on July 7, 2011 and is currently performing a Remedial Investigation and Feasibility Study. At this time, the Company is unable to predict what effect, if any, the outcome of these proceedings will have on its consolidated financial position, results of operations, and cash flows.

Utility Sites

At March 31, 2014, the Company's total reserve for estimated MGP-related environmental matters is $1.3 billion. The potential high end of the range at March 31, 2014 is presently estimated at $2.0 billion on an undiscounted basis. Management believes that obligations imposed on the Company because of the environmental laws will not have a material adverse effect on its operations, financial position, or cash flows. Through various rate orders issued by the NYPSC, DPU, and RIPUC, costs related to MGP environmental cleanup activities are recovered in rates charged to gas distribution customers. Accordingly, the Company has reflected a regulatory asset of $1.7 billion and $1.8 billion on the consolidated balance sheets at March 31, 2014 and 2013, respectively.

Upon the acquisition of KeySpan by NGUSA, the Company recognized those 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 of KeySpan, these environmental liabilities are recognized in accordance with the current accounting guidance for environmental obligations.

The Company is pursuing claims against other potentially responsible parties to recover investigation and remediation costs it believes are the obligations of those parties. The Company cannot predict the likelihood of success of such claims.

Non-Utility Sites

The Company is aware of two non-utility sites for which it may have, or share, environmental remediation or ongoing maintenance responsibility. Expenditures incurred were approximately $2 million and $1 million for the years ended March 31, 2014 and 2013, respectively. The Company presently estimates the remaining cost of the environmental cleanup activities for these two non-utility sites will be approximately $24 million and $22 million, which has been accrued at March 31, 2014 and 2013, respectively. The Company's environmental obligation is net of a discount rate of 6.5%, and the undiscounted amount totaled $29 million and $27 million in liabilities at March 31, 2014 and 2013, respectively. The Company believes this to be a reasonable estimate of probable costs for known sites; however, remediation costs for each site may be materially higher than noted, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered.

The Company believes that in the aggregate, the accrued liability for all of the sites and related facilities identified above are reasonable estimates of the probable cost for the investigation and remediation of these sites and facilities. As circumstances warrant, the Company periodically re-evaluates the accrued liabilities associated with MGP sites and related facilities. The Company may be required to investigate and, if necessary, remediate each site previously noted, or other currently unknown former sites and related facility sites, the cost of which is not presently determinable.

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 generally recoverable from customers.

13. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company has various operating leases for buildings, office equipment, vehicles and power operating equipment utilized by both the Company and its subsidiaries. Total rental expense for operating leases included in operations and maintenance expense in the accompanying consolidated statements of income was $121 million and $105 million for the years ended March 31, 2014 and 2013, respectively.

The future minimum lease payments for the years subsequent to March 31, 2014 are as follows:

(in millions of dollars) Years Ending March 31,		
2015	$	97
2016		98
2017		98
2018		99
2019		86
Thereafter		404
Total	$	882

Energy Purchase and Capital Expenditure Commitments

The Company's electric subsidiaries have several long-term contracts for the purchase of electric power. Substantially all of these contracts require power to be delivered before the subsidiaries are obligated to make payment. The Company's gas distribution subsidiaries have entered into various contracts for gas delivery, storage and supply services. Certain of these contracts require payment of annual demand charges. The Company's gas distribution subsidiaries are liable for these payments regardless of the level of services required from third-parties. Such charges are currently recovered from customers as gas costs. In addition, the Company has various capital commitments related to the construction of property, plant, and equipment.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2014 are summarized in the table below:

(in millions of dollars) Years Ending March 31,		Energy Purchases		Capital Expenditures
2015	$	2,087	$	489
2016		859		46
2017		632		41
2018		483		50
2019		391		34
Thereafter		1,806		-
Total	$	6,258	$	660

The Company's subsidiaries can purchase additional energy to meet load requirements from independent power producers, other utilities, energy merchants or on the open market through the NYISO or the ISO-NE at market prices.

Pursuant to the PSA, the Company is required to invest in capital improvements in accordance with prudent utility practice. Such investments may approach the range of $500 million to $590 million subject to certain provisions in the contract.

Financial Guarantees

The Company has guaranteed the principal and interest payments on certain outstanding debt of its subsidiaries. Additionally, the Company has issued financial guarantees in the normal course of business, on behalf of its subsidiaries, to various third-party creditors. At March 31, 2014, the following amounts would have to be paid by the Company in the event of non-payment by the primary obligor at the time payment is due:

Guarantees for Subsidiaries:		Amount of Exposure	Expiration Dates
		(in millions of dollars)	
Industrial Development Revenue Bonds	(i)	$ 128	June 2027
KeySpan Ravenswood LLC Lease	(ii)	387	May 2040
Reservoir Woods	(iii)	229	October 2029
Surety Bonds	(iv)	195	Revolving
Commodity Guarantees and Other	(v)	95	October 2015 - August 2042
Letters of Credit	(vi)	203	May 2014 - December 2014
		$ 1,237	

The following is a description of the Company's outstanding subsidiary guarantees:

(i) KeySpan has fully and unconditionally guaranteed the payment obligations of its subsidiaries with regard to $128 million of Industrial Development Revenue Bonds issued through the Nassau County and Suffolk County Industrial Development Authorities for the construction of two electric-generation peaking plants on Long Island, New York. The face value of these notes is included in long-term debt in the accompanying consolidated balance sheets.

(ii) The Company had guaranteed all payment and performance obligations of a former subsidiary (KeySpan Ravenswood LLC) associated with a merchant electric generating facility leased by that subsidiary under a sale/leaseback arrangement. The subsidiary and the facility were sold in 2008. However, the original lease remains in place and the Company will continue to make the required payments under the lease through 2040. The cash consideration from the buyer of the facility included the remaining lease payments on a net present value basis. At March 31, 2014, the Company's obligation related to the lease was $387 million and is reflected in other non-current liabilities in the accompanying consolidated balance sheets.

(iii) The Company has fully and unconditionally guaranteed $229 million in lease payments through 2029 related to the lease of office facilities by its service company at Reservoir Woods in Waltham, Massachusetts.

(iv) The Company has agreed to indemnify the issuers of various surety bonds associated with various construction requirements or projects of its subsidiaries. In the event that the Company or its subsidiaries fail to perform their obligations under contracts, the injured party may demand that the surety make payments or provide services under the bond. The Company would then be obligated to reimburse the surety for any expenses or cash outlays it incurs.

(v) The Company has guaranteed commodity-related payments for certain subsidiaries. These guarantees are provided to third-parties to facilitate physical and financial transactions involved in the purchase and transportation of natural gas, oil and other petroleum products for gas and electric production and marketing activities. The guarantees cover actual purchases by these subsidiaries that are still outstanding as of March 31, 2014.

(vi) The Company has arranged for stand-by letters of credit to be issued to third-parties that have extended credit to certain subsidiaries. Certain vendors require the posting of letters of credit to guarantee subsidiary performance under the Company's contracts and to ensure payment to the Company's subsidiary subcontractors and vendors under those contracts. Certain of the Company's vendors also require letters of credit to ensure reimbursement for amounts they are disbursing on behalf of the Company's subsidiaries, such as to beneficiaries under the Company's self-funded insurance programs. Such letters of credit are generally issued by a bank or similar financial institution. The letters of credit commit the issuer to pay specified amounts to the holder of the letter of credit if the holder demonstrates that the Company has failed to perform specified actions. If this were to occur, the Company would be required to reimburse the issuer of the letter of credit.

As of the date of this report, the Company has not had a claim made against it for any of the above guarantees and has no reason to believe that the Company's subsidiaries or former subsidiaries will default on their current obligations. However, the Company cannot predict when, or if, any defaults may take place or the impact any such defaults may have on its consolidated results of operations, financial position, or cash flows.

The Company has guaranteed $210 million of an $800 million Millennium Pipeline construction loan. The $210 million represents the Company's proportionate share of the $800 million loan based on the Company's 26.25% ownership interest in the Millennium Pipeline project.

Long-Term Contracts for Renewable Energy

Town of Johnston Project

In June 2010, pursuant to 2009 Rhode Island legislation that required Narragansett to negotiate a contract for an electric generating project fueled by landfill gas from the Rhode Island Central Landfill Narragansett entered into a contract with Rhode Island LFG Genco for the Town of Johnston Project, a combined cycle power plant with an average output of 32 megawatts ("MW"). The facility reached commercial operation on May 28, 2013 and is being accounted for as an operating lease.

Deepwater Agreement

The 2009 law also required Narragansett to solicit proposals for a small scale renewable energy generation project of up to eight wind turbines with an aggregate nameplate capacity of up to 30 MW to benefit the Town of New Shoreham. The renewable energy generation project also included a transmission cable to be constructed between Block Island and the mainland of Rhode Island. On June 30, 2010, Narragansett entered into a 20-year Amended Power Purchase Agreement ("PPA") with Deepwater Wind Block Island LLC, which was approved by the RIPUC in August 2010. Narragansett also negotiated a Transmission Facilities Purchase Agreement ("Facilities Purchase Agreement") with Deepwater Wind Block Island Transmission, LLC ("Deepwater") to purchase from Deepwater the permits, engineering, real estate, and other site development work for construction of the undersea transmission cable. On April 2, 2014, the Division issued its Consent Decision for Narragansett to execute the Facilities Purchase Agreement with Deepwater. In July 2014, Narragansett filed with the FERC to recover the costs associated with the cable in transmission rates. The agreements went into effect on September 30, 2014.

Legal Matters

The Company is subject to various legal proceedings, primarily injury claims, 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.

FERC ROE Complaints

On September 30, 2011, several state and municipal parties in New England, ("Complainants"), filed a complaint against certain New England Transmission Owners, ("NETOs") including NEP, to lower the base ROE for transmission rates in New England from 11.14% to 9.2 %. On August 6, 2013, a FERC Administrative Law Judge ("ALJ") issued an Initial Decision finding that the base ROE for the refund period and the prospective period should be 10.6% and 9.7%, respectively, prior to any adjustments in a final FERC order. The refund period is the 15-month period from October 1, 2011 through December 31, 2012; the prospective period begins when the FERC issues its final order. In response to the ALJ's Initial Decision, NEP recorded an estimated reduction to revenues of $7.1 million and an increase to interest expense of $0.2 million for the fiscal year ended March 31, 2013, reflecting an effective ROE of 10.6% for the portion that would be refunded to transmission customers for the refund period. On June 19, 2014, the FERC issued an order modifying the ALJ's findings and its previous methodology for establishing ROE. The FERC tentatively set the ROE at 10.57% and capped the ROE for incentive rates of return to 11.74% subject to further proceedings to finalize an input to the FERC's ROE methodology. In response to the tentative ROE decision from the FERC, NEP recorded an additional reduction to revenues of $1.2 million and an increase of $0.2 million to interest expense for the fiscal year ended March 31, 2014. On October 16, 2014, FERC issued a final order for this ROE complaint affirming its tentative decision and setting the Company's base ROE for the refund period and prospectively, effective from the date of the order, at 10.57% with the cap on ROE incentives of 11.74%.

On December 27, 2012, a second ROE complaint was filed against the NETOs by a coalition of consumers seeking to lower the base ROE for New England transmission rates to 8.7% effective as of December 27, 2012. On June 19, 2014, the FERC issued an order setting the complaint for investigation and a trial-type, evidentiary hearing. The FERC stated that it expects parties to present evidence and any discounted cash flow analyses, as guided by the rulings found in FERC's June 19 order on the first complaint. The FERC's order also established a 15-month refund period for the second complaint beginning on December 27, 2012. In its order setting the complaint for hearing, the FERC noted that, if the case is fully litigated, the FERC expects to issue its final decision no earlier than April 30, 2016.

On July 31, 2014, a third ROE Complaint was filed against the NETOs by the Complainants. The FERC has not yet acted on this complaint.

Electric Services and LIPA Agreements

Effective May 23, 2013, National Grid Generation provides services to LIPA under an amended and restated PSA. Under the PSA, National Grid Generation has a revenue requirement of $418.6 million, a return on equity of 9.75% and a capital structure of 50% debt and 50% equity. The PSA has a term of fifteen years, provided LIPA has the option to terminate the agreement as early as April 2025 on two years advance notice. National Grid Generation accounts for the PSA as an operating lease.

The PSA provides potential penalties to National Grid Generation if it does not maintain the output capability of the generating facilities, as measured by annual industry-standard tests of operating capability, plant availability, and efficiency. These penalties may total $4.0 million annually. Although the PSA provides LIPA with all of the capacity from the generating facilities, LIPA has no obligation to purchase energy from the generating facilities and can purchase energy on a least-cost basis from all available sources consistent with existing transmission interconnection limitations of the transmission and distribution system. National Grid Generation must, therefore, operate its generating facilities in a manner such that the Company can remain competitive with other producers of energy. To date, National Grid Generation has dispatched to LIPA and LIPA has accepted the level of energy generated at the agreed to price per megawatt hour. Under the terms of the PSA, LIPA is obligated to pay for capacity at rates that reflect recovery of an agreed level of the overall cost of maintaining and operating the generating facilities, including recovery of depreciation and return on its investment in plant. A monthly variable maintenance charge is billed for each unit of energy actually acquired from the generating facilities. The billings to LIPA under the PSA do not include a provision for fuel costs, as such fuel is owned by LIPA.

In June 2011, LIPA and National Grid Generation executed an amendment to the then-current PSA pursuant to which the parties agreed that LIPA would reduce purchases of capacity from specified generating facilities, specifically the Glenwood and Far Rockaway, New York steam facilities. The Company has retired these generating facilities and removed them from the PSA and is in the process of dismantling these facilities. As part of this amendment, National Grid Generation paid an Economic Equivalent Payment ("EEP") of $18.0 million which represented the economic benefit to LIPA which would have been realized under the original agreement. Half of the EEP was paid on July 3, 2012, with the remaining balance on May 28, 2013. The EEP was accrued on a straight-line basis over the 24-month term, from June 2011 through May 2013, as a reduction in operating revenues.

Pursuant to the EMA, the Company procured and managed fuel supplies for LIPA to fuel the Company's Long Island based generating facilities. In exchange for these services, the Company earned an annual fee of $750,000. The EMA expired on May 28, 2013. LIPA did not renew the EMA contract with the Company.

Decommissioning Nuclear Units

NEP has minority interests in three nuclear generating companies: Yankee Atomic Electric Company ("Yankee Atomic"), Connecticut Yankee Atomic Power Company ("Connecticut Yankee"), and Maine Yankee Atomic Power Company ("Maine Yankee") (together, the "Yankees"). These ownership interests are accounted for on the equity method. The Yankees operated nuclear generating units which have been permanently decommissioned. Spent nuclear fuel remains on each site, awaiting fulfillment by the U.S. Department of Energy ("DOE") of its statutory obligation to remove it. In addition, groundwater monitoring is ongoing at each site. Future estimated billings, which are included in other deferred liabilities and other current liabilities in the accompanying consolidated balance sheets, are as follows:

(in thousands of dollars)	The Company's Investment as of March 31, 2014			Future Estimated Billings to the Company
Unit	%	Amount	Date Retired	Amount
Yankee Atomic	34.5	$ 529	Feb 1992	$ 3,877
Connecticut Yankee	19.5	303	Dec 1996	18,090
Maine Yankee	24.0	564	Aug 1997	10,947

The Yankees are periodically required to file rate cases for FERC review, which present the Yankees' estimated future decommissioning costs. The Yankees collect the approved costs from their purchasers, including NEP. Future estimated billings from the Yankees are based on cost estimates. These estimates include the projections of groundwater monitoring, security, liability and property insurance and other costs. They also include costs for interim spent fuel storage facilities which the Yankees have constructed while they await removal of the fuel by the DOE as required by the Nuclear Waste Policy Act of 1982 and contracts between the DOE and each of the Yankees. NEP has recorded a liability and a regulatory asset reflecting the estimated future decommissioning billings from the Yankees.

In 2013, the FERC accepted settlements establishing rate mechanisms by which each of the Yankees maintains funding for operations and decommissioning and credits to its purchasers, including NEP, any net proceeds in excess of funding costs received as part of the DOE litigation proceedings discussed below.

Each of the Yankees brought litigation against the DOE for failure to remove their respective nuclear fuel stores as required by the Nuclear Waste Policy Act and contracts. Following a trial at the U.S. Court of Claims ("Claims Court") to determine the level of damages, on October 4, 2006, the Claims Court awarded the three companies an aggregate of $143 million for spent fuel storage costs that had been incurred through 2001 and 2002 (the "Phase I Litigation"). The Yankees had requested $176.3 million. The DOE appealed to the U.S. Court of Appeals for the Federal Circuit, which rendered an opinion generally supporting the Claims Court's decision and remanded the matter to it for further proceedings. In September, 2010, the Claims Court again awarded the companies an aggregate of approximately $143 million. The DOE again appealed and the Yankees cross-appealed. On May 18, 2012, the Court of Appeals again ruled in favor of the Yankees, awarding them an aggregate of approximately $160 million. The DOE sought reconsideration but, on September 5, 2012, the Court of Appeals for the Federal Circuit denied the petition for rehearing. The DOE elected not to file a petition for writ of certiorari seeking review by the U.S. Supreme Court and in January 2013 the awards were paid to the Yankees. As of March 2014, total net proceeds of $14.4 million have been refunded to NEP by Connecticut Yankee and Maine Yankee. Yankee Atomic did not provide a refund, but reduced monthly billing effective June 1, 2013.

On December 14, 2007, the Yankees brought further litigation in the Claims Court to recover subsequent damages incurred through 2008 (the “Phase II Litigation”). A Claims Court trial took place in October 2011. On November 1, 2013, the judge awarded the Yankees an aggregate of $235.4 million in damages for the Phase II Litigation. The DOE has elected not to seek appellate review. In March, 2014, Maine Yankee and Yankee Atomic received 100% of the DOE Phase II proceeds expected ($35.8 million and $73.3 million respectively). Connecticut Yankee received a partial payment of $90 million of the expected $126.3 million. The balance was received in April, 2014.

On April 29, 2014, the Yankees submitted informational filings to the FERC in order to flow through the DOE Phase II proceeds to their Sponsor companies, including NEP, in accordance with financial analyses that were performed earlier this year and supported by stakeholders from Connecticut, Massachusetts and Maine. The filings will allow for the flow through of the proceeds to the Sponsors, including NEP, with a proposed rate effective date of June 1, 2014. NEP’s aggregate share will be approximately $58 million, which is recorded in accounts receivable in the accompanying consolidated balance sheets. NEP will refund its aggregate share to its customers through the CTCs.

On August 15, 2013 the Yankees brought further litigation in the Claims Court to recover damages incurred 2009 through 2012.

The U.S. Congress and the DOE have effectively terminated budgetary support for the proposed long-term spent fuel storage facility at Yucca Mountain in Nevada and the DOE took actions designed to prevent its construction. However, on August 12, 2013 the U.S. Court of Appeals for the District of Columbia Circuit directed the Nuclear Regulatory Commission (“NRC”) to resume the Yucca Mountain licensing process despite insufficient funding to complete it. On October 28, 2013, the Circuit Court denied the NRC’s petition for rehearing. On November 18, 2013, NRC ordered its staff to resume work on its Yucca Mountain safety report. A Blue Ribbon Commission (“BRC”) charged with advising the DOE regarding alternatives to disposal at Yucca Mountain issued its final report on January 26, 2012. In the report, the BRC recommended that priority be given to removal of spent fuel from shutdown reactor sites. It is impossible to predict when the DOE will fulfill its obligation to take possession of the Yankees’ spent fuel. The decommissioning costs that are actually incurred by the Yankees may substantially exceed the estimated amounts.

Nuclear Contingencies

As of March 31, 2014 and 2013, Niagara Mohawk had a liability of $168 million, recorded in other non-current liabilities in the accompanying consolidated balance sheets, for the disposal of nuclear fuel irradiated prior to 1983. The Nuclear Waste Policy Act of 1982 provides three payment options for liquidating such liability and Niagara Mohawk has elected to delay payment, with interest, until the year in which Constellation Energy Group Inc., which purchased Niagara Mohawk’s nuclear assets, initially plans to ship irradiated fuel to an approved DOE disposal facility. Niagara Mohawk cannot predict the impact that the recent actions of the DOE and the U.S. government will have on the ability to dispose of the spent nuclear fuel and waste.

Storm Costs Recovery

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) were approximately $204.1 million through March 31, 2014, for the New York Gas Companies.

The Company has recorded an “other receivable” in the accompanying consolidated balance sheets in the amount of $58 million and $67 million as of March 31, 2014 and 2013, respectively, relating to claims filed against property damage and business interruption insurance policies, net of insurance deductibles and allowance. As of March 31, 2014, the Company has received $83.4 million from its insurers.

Total costs from SuperStorm Sandy associated with electricity customers' service restoration charged to LIPA through March 31, 2014, were approximately $668 million. The Company had outstanding accounts receivable from LIPA related to costs incurred in connection with SuperStorm Sandy of $88.4 million and $328.6 million at March 31, 2014 and 2013, respectively.

14. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

The Company engages in various transactions with National Grid plc and its subsidiaries. Certain activities and costs, primarily executive and administrative and some human resources, legal, and strategic planning are shared between the Company and its affiliates.

The Company records short-term payables to and receivables from certain of its affiliates in the ordinary course of business. At March 31, 2014 and 2013, the Company had net outstanding accounts receivable from affiliates and accounts payable to affiliates balances as follows:

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2014	2013	**2014**	2013
	(in millions of dollars)		*(in millions of dollars)*	
National Grid plc	**$ -**	$ -	**$ 60**	$ 36
Other	**1**	13	**11**	9
Total	**$ 1**	$ 13	**$ 71**	$ 45

Advance from Affiliate

In August 2009, the NGUSA and KeySpan Corporation entered into an agreement with the Parent, whereby either party can collectively borrow up to $3 billion from time to time for working capital needs. These advances bear interest rates of LIBOR plus 1.4%. At March 31, 2014 and 2013, the Company had $750 million and zero outstanding under this agreement.

Holding Company Charges

The Company 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. For the years ended March 31, 2014 and 2013, the effect on net income was $52 million before tax and $34 million after tax.

15. PREFERRED STOCK

Preferred stock of NGNA subsidiaries

The Company's subsidiaries have certain issues of non-participating preferred stock, some of which provide for redemption at the option of the Company. A summary of the preferred stock of NGNA subsidiaries at March 31, 2014 and 2013 is as follows:

		Shares Outstanding		Amount		
		March 31,		March 31,		Call
Series	Company	**2014**	2013	**2014**	2013	Price
		(in millions of dollars, except per share and number of shares data)				
$100 par value -						
3.40% Series	Niagara Mohawk	**57,524**	57,524	**$ 6**	$ 6	$ 103.500
3.60% Series	Niagara Mohawk	**137,152**	137,152	**14**	14	104.850
3.90% Series	Niagara Mohawk	**95,171**	95,171	**9**	9	106.000
4.44% Series	Massachusetts Electric	**22,585**	22,585	**2**	2	104.068
6.00% Series	NEP	**11,117**	11,117	**1**	1	Non-callable
$50 par value -						
4.50% Series	Narragansett	**49,089**	49,089	**3**	3	55.000
Golden Shares -						
	Niagara Mohawk and KeySpan subsidiaries	**3**	3	**-**	-	Non-callable
Total		**372,641**	372,641	**$ 35**	$ 35	

In connection with the acquisition of KeySpan by NGUSA, each of the Company's New York subsidiaries 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 a total of 3 Golden Shares pertaining to Niagara Mohawk, Brooklyn Union, and KeySpan Gas East each with a par value of $1.

16. STOCK-BASED COMPENSATION

The Parent's Remuneration Committee determines remuneration policy and practices with the aim of attracting, motivating and retaining high caliber Executive Directors and other senior employees to deliver value for shareholders, high levels of customer service, and safety and reliability in an efficient and responsible manner. As such, the Remuneration Committee has established a Long-Term Performance Plan ("LTPP") which aims to drive long-term performance, aligning Executive Director incentives to shareholder interests. The LTPP replaces the previous Performance Share Plan ("PSP") which operated for awards between 2003 and 2010 inclusive. Both plans issue performance based restricted stock units ("RSU"s) which are granted in the Parent's common stock traded on the London Stock Exchange for U.K.-based directors and employees or the Parent's American Depository Receipts traded on the New York Stock Exchange for U.S.-based directors and employees. Both plans have a performance period of three years and have been approved by the Parent's Remuneration Committee.

As of March 31, 2014, the Parent had 3.9 billion of ordinary shares issued with 123,948,354 held as treasury shares. The aggregate dilution resulting from executive share-based incentives will not exceed 5% in any 10-year period for executive share-based incentives and will not exceed 10% in any 10-year period for all employee incentives. This is reviewed by the Remuneration Committee and currently, the Parent has excess headroom of 4.10% and 7.99% respectively.

The number of units within each award is subject to change depending upon the Parent's ability to meet the stated performance targets. Under the LTPP, performance conditions are split into three parts as follows: (i) 50% of the units awarded are subject to annualized growth in the Parent's earnings per share ("EPS") over a general index of retail prices over a period of three years; (2) 25% of the units awarded will vest based upon the Parent's Total Shareholder Return ("TSR") compared to that of the Financial Times Stock Exchange ("FTSE") 100 over a period of three years; and (3) 25% of the units awarded are subject to the average achieved regulatory ROE. Under the PSP, performance conditions are split into two parts as follows: (1) 50% of the units awarded are subject to annualized growth in the Parent's EPS over a general index of retail prices over a period of three years; and (2) 50% of the units awarded will vest based upon the Parent's TSR compared to that of the FTSE 100 over a period of three years. Units under both plans generally vest at the end of the performance period.

A Monte Carlo simulation model has been used to estimate the fair value for the TSR portion of the awards. For the EPS and ROE portions of the awards, the fair value of the award is determined using the stock price as quoted per the London Stock Exchange or the price for the American Depository Shares as quoted on the New York Stock Exchange as of the earlier of the reporting date or vesting date.

The following assumptions were used to calculate the fair value of the TSR portion of the awards issued during the fiscal year ended March 31, 2014:

	2014	2013
Expected volatility	**18.39%**	12.72% - 14.48%
Expected term	**3 years**	3 years
Risk free rates	**0.66%**	0.07% - 0.26%

The EPS portions of the awards are classified as liability awards as they are each indexed to a factor that is not a market, performance, or service condition. Therefore, the changes in the fair value of the EPS portions of the awards are reflected within net income. The TSR and ROE portions of the awards are classified as equity awards as they are indexed to market conditions and are expensed over the performance period.

The following table summarizes the stock based compensation expense recognized by the Company for the years ended March 31, 2014 and 2013:

	Units	**Weighted Average Grant Date Fair Value**
Non-vested as of March 31, 2012	1,015,540	$ 42.19
Vested	119,468	45.53
Granted	272,274	48.29
Forfeited/Cancelled	222,401	42.97
Non-vested as of March 31, 2013	945,945	40.36
Vested	183,275	46.37
Granted	247,891	55.96
Forfeited/Cancelled	89,829	49.00
Non-vested as of March 31, 2014	920,732	$ 49.92

The total expense recognized for non-vested awards was $19.0 million and $24.7 million for the years ended March 31, 2014 and 2013 respectively, and will vest over three years. The total tax benefit recorded was approximately $7.6 million and $9.9 million as of March 31, 2014 and 2013 respectively. Total expense expected to be recognized by the Parent in future periods for non-vested awards outstanding as of March 31, 2014 is $9.0 million, $4.7 million, and $1.4 million for the years ended March 31, 2015, 2016, and 2017 respectively.

17. DISCONTINUED OPERATIONS

On December 8, 2010, NGUSA and Liberty Energy entered into a stock purchase agreement which was subsequently amended and restated on January 21, 2011, pursuant to which NGUSA sold and Liberty Energy purchased all of the common stock of Granite State and EnergyNorth. The parties received FERC approval in July 2011 and New Hampshire Public Utilities Commission approval in May 2012. Granite State and EnergyNorth were sold on July 3, 2012 for proceeds of $294 million. The results of Granite State and EnergyNorth are reflected as discontinued operations in the accompanying consolidated statements of income for the year ended March 31, 2013.

On December 15, 2011, LIPA announced that it was not renewing the MSA contract beyond its expiration on December 31, 2013. During the year ended March 31, 2013, the MSA contract represented approximately 9.9% of the Company's annual revenue and 1.2% of its operating income. In addition, the loss of the contract resulted in 1,950 employees transferring to a new employer. The results of the MSA are reflected as discontinued operations in the accompanying consolidated financial statements for the years ended March 31, 2014 and 2013.

Following the expiration of the MSA, NGUSA entered into a Settlement and Release Agreement ("SRA") with LIPA. Under the terms of this SRA, LIPA (1) fully released NGUSA from its obligations under certain promissory notes payable to LIPA, and (2) agreed to make a one-time lump sum payment to NGUSA of $91.5 million. In return, NGUSA fully released LIPA from certain claims for reimbursement of pension and PBOP costs. As a result, NGUSA recorded a gain of approximately $231.0 million, primarily related to the extinguishment of debt and recognition of a receivable for the lump sum cash payment (which was received from LIPA in April 2014).

In addition, a $97.0 million net settlement gain and a $43.0 million net curtailment gain were recognized for the employees who transferred to a new employer. The new employer had assumed responsibility for the transferred employees' obligations under the PBOP.

The reconciliation below highlights the major classes of line items constituting income before income taxes of discontinued operations for Granite State, EnergyNorth and the MSA for the years ended March 31, 2014 and 2013:

	Years Ended March 31,	
	2014	2013
	(in millions of dollars)	
Major classes of line items constituting income before income taxes of discontinued operations		
Revenue	**$ 476**	$ 1,288
Purchased electricity	**-**	(8)
Purchased gas	**-**	(8)
Operations and maintenance	**(601)**	(1,267)
Other expenses	**(19)**	(12)
Loss before income taxes from discontinued operations	**(144)**	(7)
Gain (loss) on disposal of discontinued operations	**371**	(34)
Total income (loss) before income taxes from discontinued operations	**227**	(41)
Income tax expense (benefit)	**94**	(27)
Income (loss) from discontinued operations, net of taxes	**$ 133**	$ (14)

The reconciliation below highlights the carrying values of assets and liabilities of the discontinued operations that are disclosed in the accompanying consolidated balance sheets for the MSA at March 31, 2014 and 2013:

	March 31,	
	2014	2013
	(in millions of dollars)	
Carrying values of assets included in the discontinued operations:		
Cash and cash equivalents	**$ -**	$ 1
Accounts receivable	**219**	96
Allowance for doubtful accounts	**(70)**	(33)
Unbilled revenues	**2**	336
Inventory	**-**	16
Property, plant, and equipment, net	**-**	28
Deferred income tax assets	**29**	9
Other assets that are not major	**2**	26
Total assets classified as discontinued operations in the consolidated balance sheets	**$ 182**	$ 479
Carrying values of liabilities included in the discontinued operations:		
Accounts payable	**$ 20**	$ 146
Taxes accrued	**2**	5
Long-term debt	**-**	155
Other liabilities that are not major	**15**	22
Total liabilties classified as discontinued operations in the consolidated balance sheets	**$ 37**	$ 328

18. SUBSEQUENT EVENTS

In September 2014, Niagara Mohawk issued $500 million of unsecured long-term debt at 3.508% with a maturity date of October 1, 2024 and $400 million of unsecured long-term debt at 4.278% with a maturity date of October 1, 2034. In June 2014, the Company raised $406.4 million through the Euro Medium Term Note program by issuing a floating instrument with a maturity date of June 17, 2016. Further, in August 2014, the Company raised an additional $93 million through the Program by issuing a fixed rate instrument at 4% with a maturity date of August 20, 2019.