



**Colonial Gas Company  
d/b/a National Grid**

Financial Statements

For the years ended March 31, 2014 and 2013

**COLONIAL GAS COMPANY**

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## Independent Auditor's Report

To the Shareholder and Board of Directors  
of Colonial Gas Company

We have audited the accompanying financial statements of Colonial Gas Company (the "Company"), which comprise the balance sheets as of March 31, 2014 and 2013, and the related statements of 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 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 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 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 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Colonial Gas Company at March 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

July 9, 2014

**COLONIAL GAS COMPANY**  
**STATEMENTS OF INCOME**  
*(in thousands of dollars)*

	Years Ended March 31,	
	2014	2013
<b>Operating revenue</b>	<b>\$ 288,086</b>	\$ 255,025
<b>Operating expenses:</b>		
Purchased gas	149,234	123,528
Operations and maintenance	67,943	59,202
Depreciation and amortization	23,435	22,589
Amortization of acquisition premium	8,200	7,888
Other taxes	7,259	7,262
Total operating expenses	<b>256,071</b>	220,469
<b>Operating income</b>	<b>32,015</b>	34,556
<b>Other income and (deductions):</b>		
Interest on long-term debt	(7,766)	(7,426)
Other interest, including affiliate interest	(1,541)	(2,039)
Other income, net	1,008	1,004
Total other deductions, net	<b>(8,299)</b>	(8,461)
<b>Income before income taxes</b>	<b>23,716</b>	26,095
<b>Income tax expense</b>	<b>8,724</b>	10,346
<b>Net income</b>	<b>\$ 14,992</b>	\$ 15,749

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

**COLONIAL GAS COMPANY**  
**STATEMENTS OF CASH FLOWS**  
*(in thousands of dollars)*

	<b>Years Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Operating activities:</b>		
Net income	\$ 14,992	\$ 15,749
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,435	22,589
Amortization of acquisition premium	8,200	7,888
Provision for deferred income taxes	2,369	4,621
Bad debt expense	4,216	2,688
Allowance for equity funds used during construction	(1,569)	(822)
Net postretirement benefit expense	4,756	2,553
Net environmental remediation payments	(290)	(386)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	(24,720)	(11,056)
Inventory	4,859	6,539
Regulatory assets and liabilities	4,260	6,108
Derivative contracts	4,239	(6,736)
Prepaid and accrued taxes	902	819
Accounts payable and other liabilities	31,630	(1,850)
Other, net	461	583
Net cash provided by operating activities	77,740	49,287
<b>Investing activities:</b>		
Capital expenditures	(46,431)	(57,532)
Affiliated money pool investing and receivables/payables, net	(23,102)	4,409
Cost of removal	(3,813)	(4,615)
Net cash used in investing activities	(73,346)	(57,738)
<b>Financing activities:</b>		
Affiliated money pool borrowing and receivables/payables, net	(7,261)	7,293
Parent loss tax allocation	2,867	1,158
Net cash (used in) provided by financing activities	(4,394)	8,451
Net change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	\$ -	\$ -
<b>Supplemental disclosures:</b>		
Interest paid	\$ (7,756)	\$ (8,620)
Income taxes paid	(2,200)	(1,984)
<b>Significant non-cash item:</b>		
Capital-related accruals included in accounts payable	1,715	2,064

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

**COLONIAL GAS COMPANY**  
**BALANCE SHEETS**  
*(in thousands of dollars)*

	March 31,	
	2014	2013
<b>ASSETS</b>		
<b>Current assets:</b>		
Accounts receivable	\$ 62,843	\$ 49,295
Allowance for doubtful accounts	(4,913)	(4,051)
Accounts receivable from affiliates	8,288	11,940
Intercompany money pool	18,213	12,687
Unbilled revenues	24,150	16,332
Inventory	6,669	11,528
Regulatory assets	15,133	15,209
Derivative contracts	1,201	1,336
Current portion of deferred income tax assets	28,306	25,129
Other	703	-
Total current assets	160,593	139,405
<b>Property, plant, and equipment, net</b>	<b>520,382</b>	<b>488,459</b>
<b>Other non-current assets:</b>		
Regulatory assets	245,181	252,126
Accounts receivable from affiliates	18,061	19,017
Goodwill	54,074	54,074
Derivative contracts	29	112
Other	1,804	2,277
Total other non-current assets	319,149	327,606
<b>Total assets</b>	<b>\$ 1,000,124</b>	<b>\$ 955,470</b>

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

**COLONIAL GAS COMPANY**  
**BALANCE SHEETS**  
*(in thousands of dollars)*

	March 31,	
	2014	2013
<b>LIABILITIES AND CAPITALIZATION</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 29,844	\$ 4,152
Accounts payable to affiliates	21,460	50,905
Taxes accrued	146	291
Interest accrued	5,136	2,649
Regulatory liabilities	75,440	72,320
Derivative contracts	4,024	8
Other	3,382	3,400
Total current liabilities	139,432	133,725
<b>Non-current liabilities:</b>		
Regulatory liabilities	85,391	81,610
Asset retirement obligations	2,333	2,201
Deferred income tax liabilities	188,825	175,840
Postretirement benefits	69,539	69,794
Environmental remediation costs	7,305	5,985
Derivative contracts	6	1
Other	4,503	1,383
Total non-current liabilities	357,902	336,814
<b>Commitments and contingencies (Note 12)</b>		
<b>Capitalization:</b>		
Shareholder's equity	377,790	359,931
Long-term debt	125,000	125,000
<b>Total capitalization</b>	<b>502,790</b>	<b>484,931</b>
<b>Total liabilities and capitalization</b>	<b>\$ 1,000,124</b>	<b>\$ 955,470</b>

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

**COLONIAL GAS COMPANY**  
**STATEMENTS OF CAPITALIZATION**  
*(in thousands of dollars)*

			March 31,	
			2014	2013
<b>Total shareholder's equity</b>			<b>\$ 377,790</b>	<b>\$ 359,931</b>
<b>Long-term debt:</b>	<u>Interest Rate</u>	<u>Maturity Date</u>		
<i>Unsecured notes:</i>				
Senior Note - Series A	3.296%	March 15, 2022	25,000	25,000
Senior Note - Series B	4.628%	March 15, 2042	25,000	25,000
			<b>50,000</b>	50,000
<i>First Mortgage Bonds ("FMB"):</i>				
FMB Series CH	8.80%	July 1, 2022	25,000	25,000
FMB Series A-1	7.38%	October 14, 2025	10,000	10,000
FMB Series A-2	6.90%	December 15, 2025	10,000	10,000
FMB Series A-3	6.94%	February 5, 2026	10,000	10,000
FMB Series B-1	7.12%	April 7, 2028	20,000	20,000
			<b>75,000</b>	75,000
Long-term debt			<b>125,000</b>	125,000
<b>Total capitalization</b>			<b>\$ 502,790</b>	<b>\$ 484,931</b>

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



**COLONIAL GAS COMPANY**  
**STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY**  
*(in thousands of dollars)*

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>Balance as of March 31, 2012</b>	\$ 10	\$ 319,974	\$ 23,040	\$ 343,024
Net income	-	-	15,749	15,749
Parent loss tax allocation	-	1,158	-	1,158
<b>Balance as of March 31, 2013</b>	<u>10</u>	<u>321,132</u>	<u>38,789</u>	<u>359,931</u>
Net income	-	-	14,992	14,992
Parent loss tax allocation	-	2,867	-	2,867
<b>Balance as of March 31, 2014</b>	<u><b>\$ 10</b></u>	<u><b>\$ 323,999</b></u>	<u><b>\$ 53,781</b></u>	<u><b>\$ 377,790</b></u>

The Company had 200 shares of common stock authorized, of which 100 shares are issued and outstanding, with a par value of \$100 per share at March 31, 2014 and 2013.

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

**COLONIAL GAS COMPANY**  
**NOTES TO THE FINANCIAL STATEMENTS**

**1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

Colonial Gas Company d/b/a National Grid (“the Company”) is a gas distribution company engaged in the transportation and sale of natural gas to approximately 198,000 residential, commercial and industrial customers in northwest Boston and Cape Cod, Massachusetts.

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

The accompanying 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. The financial statements reflect the rate-making practices of the applicable regulatory authorities.

The Company has evaluated subsequent events and transactions through July 09, 2014, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2014.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates**

In preparing 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 financial statements. Actual results could differ from those estimates.

**Regulatory Accounting**

The Massachusetts Department of Public Utilities (“DPU”) regulates the rates the Company charges its customers. In certain cases, the rate actions of the DPU can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from or refunded to customers through future rates.

**Revenue Recognition**

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

With respect to base distribution rates, the DPU has approved a Revenue Decoupling Mechanism (“RDM”), which requires the Company to adjust its base rates semi-annually to reflect the over or under recovery of the Company’s targeted base distribution revenues from the prior peak (November – April) and off-peak (May – October) seasons.

The Company’s tariff includes a cost of gas adjustment factor (“CGAF”) which requires the Company to adjust rates semi-annually or, based on certain criteria, adjust rates monthly for firm gas sales in order to track changes in the cost of gas and other operating expenses. The CGAF includes a prior period reconciliation for the over or under recovery of actual costs and collections incurred during the prior peak and off-peak seasons.

## **Other Taxes**

The Company collects a variety of taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues).

## **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. The Company settles its current tax liability or benefit each year with NGNA pursuant to a tax sharing arrangement between NGNA and its subsidiaries. Tax benefits attributable to the tax attributes of other group companies and allocated by NGNA are treated as capital contributions.

## **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 \$2.6 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 as well as gas in storage. Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 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 DPU.

The Company had materials and supplies of \$0.1 million at March 31, 2014 and 2013, and gas in storage of \$6.6 million and \$11.4 million at March 31, 2014 and 2013, respectively.

## **Derivatives**

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

The Company's accounting policy is to present on a gross basis, fair value amounts recognized for derivative instruments and related cash collateral receivable or payable with the same counterparty under a master netting agreement. The related cash collateral is recorded as special deposits in the accompanying balance sheets. There were no special deposits as of March 31, 2014 or 2013.

## **Fair Value Measurements**

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data; and
- Level 3: unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs.

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

## **Property, Plant and Equipment**

Property, plant and equipment is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of property, plant and equipment is capitalized. The capitalized cost of additions to property, plant and equipment includes costs such as direct material, labor and benefits, and an allowance for funds used during construction ("AFUDC").

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the DPU. The average composite rates for each of the years ended March 31, 2014 and 2013 was 3.4%. The average service lives for each of the years ended March 31, 2014 and 2013 was 43 years.

Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of \$85.3 million and \$81.5 million at March 31, 2014 and 2013 respectively.

### *Allowance for Funds Used During Construction*

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the statements of income as non-cash income in other income, 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 \$1.6 million and \$0.8 million and AFUDC related to debt of \$0.5 million and \$0.3 million for the years ended March 31, 2014 and 2013 respectively. The average AFUDC rates for the years ended March 31, 2014 and 2013 were 7.8% and 6.5% respectively.

## **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 the Company below its carrying amount. Goodwill is tested for impairment using a two-step approach. The first step compares the estimated fair value of the Company with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is considered not impaired. If the carrying value exceeds the estimated fair value, then a second step is performed to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The fair value of the Company was calculated in the annual goodwill impairment test for the year ended March 31, 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.

## **Asset Retirement Obligations**

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

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

	<b>Years Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(in thousands of dollars)</i>	
Balance as of the beginning of the year	\$ 2,201	\$ 2,076
Accretion expense	132	125
Balance as of the end of the year	<u>\$ 2,333</u>	<u>\$ 2,201</u>

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

### **Employee Benefits**

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

### **New and Recent Accounting Guidance**

#### *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.

### 3. REGULATORY ASSETS AND LIABILITIES

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

	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(in thousands of dollars)</i>	
<b>Regulatory assets</b>		
Current:		
Derivative contracts	\$ 4,024	\$ 8
Environmental costs	506	482
Postretirement benefits	2,078	2,078
Recovery of acquisition premium	8,200	8,200
Revenue decoupling mechanism	-	2,873
Other	325	1,568
	<u>15,133</u>	<u>15,209</u>
Non-current:		
Derivative contracts	6	1
Environmental costs	4,550	3,450
Postretirement benefits	27,045	33,394
Recovery of acquisition premium	200,217	208,417
Regulatory deferred tax asset	9,979	4,290
Other	3,384	2,574
Total	<u>245,181</u>	<u>252,126</u>
<b>Regulatory liabilities</b>		
Current:		
Derivative contracts	1,201	1,336
Gas costs	49,161	62,083
Local distribution adjustment clause	8,002	2,453
Profit sharing	8,823	5,982
Revenue decoupling mechanism	7,696	-
Other	557	466
	<u>75,440</u>	<u>72,320</u>
Non-current:		
Cost of removal	85,345	81,451
Derivative contracts	29	112
Other	17	47
Total	<u>85,391</u>	<u>81,610</u>
<b>Net regulatory assets</b>	<u>\$ 99,483</u>	<u>\$ 113,405</u>

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

**Derivative assets and liabilities:** Gains or losses resulting from commodity derivatives are typically required to be refunded to or recovered from customers through the gas cost adjustment. Accordingly, the Company evaluates 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.

**Environmental costs:** This regulatory asset represents deferred costs associated with the estimated costs to investigate and perform certain remediation activities at former manufactured gas plant (“MGP”) sites and related facilities. The Company’s rate plans provide for the recovery of previously-incurred costs over a 7-year recovery period. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

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

**Local distribution adjustment clause:** A mechanism by which the Company is required to adjust its rates semi-annually to recover or refund sundry costs, including energy efficiency expenditures, pension and PBOP costs, residential assistance costs, service quality penalties, and miscellaneous other amounts due to or from customers through rates.

**Postretirement benefits:** This amount 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. Also included within this amount are certain pension deferral amounts from prior to the 2007 acquisition of KeySpan by NGUSA, which are being recovered in rates over a 10-year period ending August 2017, and the non-cash accrual of net actuarial gains and losses.

**Profit sharing:** This regulatory liability represents a portion of deferred margins from off-system sale transactions. Under current rate orders, the Company is 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.

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

**Regulatory deferred tax asset:** 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, for these items, follows the book life of the underlying plant asset. The Company also has a recovery of historic unfunded deferred tax balances that are currently amortizing into rates at a set straight line amortization period under the current rate plan. The Company recorded an increase in the regulatory deferred tax asset in the current year as a result of the increase in deferred tax liabilities stemming from a Massachusetts state income tax rate change. The Company will address the recovery period of the regulatory asset created by the Massachusetts rate change in its next rate case.

**Revenue decoupling mechanism:** As approved by the DPU, the Company has a RDM which allows for seasonal (Winter/Summer) adjustments to the Company’s delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. Any difference between the allowed revenue per customer and the actual revenue per customer is recorded as a regulatory asset or regulatory liability.

The Company records carrying charges on regulatory balances related to postretirement benefits, RDM, gas costs (which includes the derivatives regulatory accounts), cost of removal, and environmental costs for which cash expenditures have been made and are subject to recovery, or for which cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made.



#### 4. RATE MATTERS

##### General Rate Case

In November 2010, the DPU issued an order in the Company's 2010 rate case approving a revenue increase of \$16.5 million based upon a 9.75% rate of return on equity and a 50% equity ratio. The Company filed two motions in response:

- Motion for recalculation of certain adjustments: the DPU awarded an increase of \$0.2 million of the additional \$5.5 million requested, effective November 1, 2011.
- Motion for reconsideration: the DPU upheld its decision on all of the financial matters raised by the Company except on the issue of merger related costs. The Company demonstrated that it had achieved savings related to its 1998 acquisition by the former Eastern Enterprises in excess of \$12.3 million per year, which is the full pre-tax annual level of merger costs amortized over the 30-year period ending August 31, 2039. This increased the full amount of annualized merger related costs by \$4.5 million from \$7.8 million to \$12.3 million.

The combined effect of the DPU's orders is a total revenue increase of \$21.2 million in this proceeding, with the \$4.5 million reflected in rates effective February 1, 2013.

##### DPU Audit Settlement

Associated with its general rate case, the DPU opened an investigation to address the allocation and assignment of costs to the Company by the NGUSA service companies. Subsequently, the Company filed a Settlement Agreement on May 19, 2014, which is now pending before the DPU. If the Settlement is approved, there would be no need for an audit and NGUSA would contribute \$1 million to the Massachusetts Association for Community Action that will be used for the benefit of Massachusetts gas and electric customers who are eligible for fuel assistance.

#### 5. PROPERTY, PLANT, AND EQUIPMENT

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

	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(in thousands of dollars)</i>	
Plant and machinery	\$ 672,668	\$ 630,830
Land and buildings	39,602	28,393
Assets in construction	22,825	35,419
Software and other intangibles	13,561	13,560
Total property, plant and equipment	<b>748,656</b>	708,202
Accumulated depreciation and amortization	<b>(228,274)</b>	(219,743)
Property, plant, and equipment, net	<b>\$ 520,382</b>	<b>\$ 488,459</b>

#### 6. DERIVATIVE CONTRACTS

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

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

## Volumes

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

	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(in thousands)</i>	
Gas purchase contracts (dths)	<b>1,331</b>	105
Gas swap contracts (dths)	<b>4,330</b>	4,650
Total:	<b>5,661</b>	4,755

## Amounts Recognized in the Accompanying Balance Sheets

	<b>Asset Derivatives</b>		<b>Liability Derivatives</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<i>(in thousands of dollars)</i>		<i>(in thousands of dollars)</i>	
<u>Current assets:</u>			<u>Current liabilities:</u>	
Rate recoverable contracts:			Rate recoverable contracts:	
Gas swap contracts	\$ 1,166	\$ 1,332	Gas swap contracts	\$ 60
Gas purchase contracts	<b>35</b>	4	Gas purchase contracts	-
	<b>1,201</b>	1,336		<b>4,024</b>
<u>Other non-current assets</u>			<u>Non-current liabilities:</u>	
Rate recoverable contracts:			Rate recoverable contracts:	
Gas swap contracts	<b>29</b>	112	Gas swap contracts	<b>6</b>
	<b>29</b>	112		<b>1</b>
Total	<b>\$ 1,230</b>	\$ 1,448	Total	<b>\$ 4,030</b>
				<b>\$ 9</b>

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 statements of income. The Company had no derivative contracts not subject to rate recovery as of March 31, 2014 and 2013.

## Credit and Collateral

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

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

The EPRMC monitors counterparty credit exposure and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company

enters into enabling agreements that allow for payment netting with its counterparties, which reduce its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties.

The Company's credit exposure for all derivative instruments, applicable payables and receivables net of collateral and instruments that are subject to master netting agreements, was a liability of \$2.3 million and \$1.4 million as of March 31, 2014 and 2013, respectively.

The aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position at March 31, 2014 and 2013 was \$0.1 million and zero, 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 \$0.3 million and zero additional collateral to its counterparties at March 31, 2014 and 2013, respectively.

### Offsetting Information for Derivatives Subject to Master Netting Arrangements

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

<b>ASSETS:</b>						
Description	Gross amounts of recognized assets <i>A</i>	Gross amounts offset in the Balance Sheets <i>B</i>	Net amounts of assets presented in the Balance Sheets <i>C=A+B</i>	Financial Instruments <i>Da</i>	Cash Collateral received <i>Db</i>	Net amount <i>E=C-D</i>
<b>Commodity Derivatives</b>						
Gas swap contracts	\$ 1,195	\$ -	\$ 1,195	\$ -	\$ -	\$ 1,195
Gas purchase contracts	35	-	35	-	-	35
Total	<u>\$ 1,230</u>	<u>\$ -</u>	<u>\$ 1,230</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,230</u>
<b>LIABILITIES:</b>						
Description	Gross amounts of recognized liabilities <i>A</i>	Gross amounts offset in the Balance Sheets <i>B</i>	Net amounts of liabilities presented in the Balance Sheets <i>C=A+B</i>	Financial Instruments <i>Da</i>	Cash Collateral paid <i>Db</i>	Net amount <i>E=C-D</i>
<b>Commodity Derivatives</b>						
Gas swap contracts	\$ 66	\$ -	\$ 66	\$ -	\$ -	\$ 66
Gas purchase contracts	3,964	-	3,964	-	-	3,964
Total	<u>\$ 4,030</u>	<u>\$ -</u>	<u>\$ 4,030</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,030</u>

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

<b>ASSETS:</b>						
Description	Gross amounts of recognized assets <i>A</i>	Gross amounts offset in the Balance Sheets <i>B</i>	Net amounts of assets presented in the Balance Sheets <i>C=A+B</i>	Financial Instruments <i>Da</i>	Cash Collateral received <i>Db</i>	Net amount <i>E=C-D</i>
<b>Commodity Derivatives</b>						
Gas swap contracts	\$ 1,444	\$ -	\$ 1,444	\$ -	\$ -	\$ 1,444
Gas purchase contracts	4	-	4	-	-	4
Total	<u>\$ 1,448</u>	<u>\$ -</u>	<u>\$ 1,448</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,448</u>
<b>LIABILITIES:</b>						
Description	Gross amounts of recognized liabilities <i>A</i>	Gross amounts offset in the Balance Sheets <i>B</i>	Net amounts of liabilities presented in the Balance Sheets <i>C=A+B</i>	Financial Instruments <i>Da</i>	Cash Collateral paid <i>Db</i>	Net amount <i>E=C-D</i>
<b>Commodity Derivatives</b>						
Gas swap contracts	\$ 9	\$ -	\$ 9	\$ -	\$ -	\$ 9
Total	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9</u>

## 7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value in the accompanying balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2014 and 2013:

	<b>March 31, 2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>(in thousands of dollars)</i>			
<b>Assets:</b>				
Derivative contracts				
Gas swap contracts	\$ -	\$ 1,195	\$ -	\$ 1,195
Gas purchase contracts	-	-	35	35
Total	<u>-</u>	<u>1,195</u>	<u>35</u>	<u>1,230</u>
<b>Liabilities:</b>				
Derivative contracts				
Gas swap contracts	-	66	-	66
Gas purchase contracts	-	4	3,960	3,964
Total	<u>-</u>	<u>70</u>	<u>3,960</u>	<u>4,030</u>
<b>Net assets (liabilities)</b>	<u>\$ -</u>	<u>\$ 1,125</u>	<u>\$ (3,925)</u>	<u>\$ (2,800)</u>

	<b>March 31, 2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>(in thousands of dollars)</i>			
<b>Assets:</b>				
Derivative contracts				
Gas swap contracts	\$ -	\$ 1,444	\$ -	\$ 1,444
Gas purchase contracts	-	4	-	4
Total	<u>-</u>	<u>1,448</u>	<u>-</u>	<u>1,448</u>
<b>Liabilities:</b>				
Derivative contracts				
Gas swap contracts	<u>-</u>	<u>9</u>	<u>-</u>	<u>9</u>
<b>Net assets</b>	<u>\$ -</u>	<u>\$ 1,439</u>	<u>\$ -</u>	<u>\$ 1,439</u>

**Derivative Contracts:** The Company's Level 2 fair value derivative instruments primarily consist of over-the-counter ("OTC") gas swap contracts and gas purchase contracts with pricing inputs obtained from the New York Mercantile Exchange and 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 purchase contracts, which are valued based on internally-developed models. Industry-standard valuation techniques, such as the Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. A derivative is designated Level 3 when it is valued based on a forward curve that is internally developed, extrapolated or derived from market observable curves with correlation coefficients less than 95%, where optionality is present, or if non-economic assumptions are made. The internally developed forward curves have a high level of correlation with Platts Mark-to-Market curves and are reviewed by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative contracts categorized in Level 2 and Level 3.

### Changes in Level 3 Derivatives

	<b>Years Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(in thousands of dollars)</i>	
Balance as of the beginning of the year	\$ -	\$ -
Total gains or losses included in regulatory assets and liabilities	<b>(7,443)</b>	(467)
Settlements	<b>3,518</b>	467
Balance as of the end of the year	<u>\$ (3,925)</u>	<u>\$ -</u>

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3, during the years ended March 31, 2014 or 2013.

The following table provides 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			
<i>(thousands of dollars)</i>							
<b>Physical</b>							
Gas	Gas Purchase Contracts	\$ -	\$ (3,960)	\$ (3,960)	Discounted Cash Flow	LNG Forward Curve	\$6.620 - \$11.010/Dth
	Gas Purchase Contracts	35	-	35	Discounted Cash Flow	Unobservable Basis Points	\$3.549 - \$4.329/Dth
		<u>\$ 35</u>	<u>\$ (3,960)</u>	<u>\$ (3,925)</u>			

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 derivatives are forward liquefied natural gas commodity prices and unobservable basis points. 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 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 \$145.5 million and \$154.4 million, respectively.

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

## 8. EMPLOYEE BENEFITS

### Pension Benefits

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

#### *Pension Plans*

The Pension Plans provide union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive programs provide additional defined pension benefits for certain executives. The Pension Plans' costs are allocated to the Company based on plan participant data as determined by the Company's actuaries. The Company contributed \$4.0 million and \$5.9 million for the years ended March 31, 2014 and 2013, respectively, to the trusts of its qualified Pension Plans. The Pension Plans' assets are commingled and cannot be allocated to an individual company. The Pension Plans' costs and liabilities are first directly charged to the Company based on the Company's employees that participate in the Pension Plans. Costs and liabilities associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. The Company's net pension expense directly charged and allocated from affiliated service companies, net of capital, for the years ended March 31, 2014 and 2013 was \$5.4 million and \$5.9 million, respectively. KeySpan's unfunded pension obligations at March 31, 2014 and 2013 were \$704.2 million and \$892.7 million at March 31, 2014 and 2013, respectively. The Company's portion of the unfunded pension obligations in the accompanying balance sheets at March 31, 2014 and 2013 was \$40.5 million and \$38.6 million, respectively. These liabilities are included in postretirement benefits in the accompanying balance sheets.

### Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For each of the years ended March 31, 2014 and 2013, the Company recognized an expense in the accompanying statements of income of \$0.4 million, for matching contributions.

### Other Postretirement Benefits

The PBOP plans have not been merged with other KeySpan plans and, therefore, continue to remain separate plans of the Company. 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 PBOP assets are commingled with the KeySpan Master Union Trust Plan, the Company's portion is approximately 0.2% for each of the years ended March 31, 2014 and 2013, respectively. PBOP expenses are included in operations and maintenance expense in the accompanying statements of income. The Company's unfunded PBOP obligations at March 31, 2014 and 2013 were \$29.0 million and \$31.2 million, respectively. These are included in postretirement benefits in the accompanying balance sheets.

### Components of Net Periodic PBOP Costs

	<b>Years Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(in thousands of dollars)</i>	
Service cost, benefits earned during the year	\$ 302	\$ 359
Interest cost	1,328	1,483
Expected return on plan assets	(84)	(79)
Amortization of prior service cost, net	373	404
Amortization of net actuarial gain	224	334
Curtailments	-	112
Total cost	<u>\$ 2,143</u>	<u>\$ 2,613</u>

### Amounts Recognized in Regulatory Assets

	<b>Years Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(in thousands of dollars)</i>	
Net actuarial gain	\$ (2,377)	\$ (1,093)
Amortization of loss	(224)	(334)
Amortization of prior service cost	(373)	(516)
Total	<u>\$ (2,974)</u>	<u>\$ (1,943)</u>

A portion of the estimated PBOP net actuarial loss and prior service cost of \$0.2 million and \$0.4 million, respectively, will be amortized from regulatory assets during the year ended March 31, 2015.

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

	<b>Years Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(in thousands of dollars)</i>	
Net actuarial loss	\$ 4,980	\$ 7,580
Prior service cost	981	1,354
Total	<u>\$ 5,961</u>	<u>\$ 8,934</u>

## Reconciliation of Funded Status to Amount Recognized

The following table represents the PBOP obligation, assets, and funded status:

	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(in thousands of dollars)</i>	
<b>Change in benefit obligation:</b>		
Benefit obligation as of the beginning of the year	\$ (32,516)	\$ (32,533)
Service cost	(302)	(359)
Interest cost on projected benefit obligation	(1,328)	(1,483)
Net actuarial gain	2,350	277
Benefits paid	1,378	780
Curtailments and settlements	-	802
Benefit obligation as of the end of the year	<u>(30,418)</u>	<u>(32,516)</u>
<b>Change in plan assets:</b>		
Fair value of plan assets as of the beginning of the year	1,308	1,229
Actual return on plan assets	110	93
Company contributions	1,370	766
Benefits paid	(1,378)	(780)
Fair value of plan assets as of the end of the year	<u>1,410</u>	<u>1,308</u>
<b>Funded status</b>	<u>\$ (29,008)</u>	<u>\$ (31,208)</u>

The Company is the sponsor of the PBOP plans. A portion of the participants of these plans work for certain other affiliates. As such, a portion of the PBOP expenses and the unfunded obligation has been allocated to these affiliates. The Company has recorded an intercompany receivable of \$18.1 million and \$19.0 million as of March 31, 2014 and 2013, respectively, for the amount of the unfunded obligation due from these affiliates.

## Expected Benefit Payments

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

<i>(in thousands of dollars)</i>	
<u>Years Ending March 31,</u>	
2015	\$ 1,246
2016	1,341
2017	1,440
2018	1,517
2019	1,578
Thereafter	<u>9,355</u>
Total	<u>\$ 16,477</u>



## Assumptions Used for Employee Benefits Accounting

	<u>Years Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Benefit Obligations		
Discount rate	<b>4.80%</b>	4.70%
Expected return on plan assets	<b>7.00% - 7.25%</b>	7.25%
Net Periodic Benefit Costs		
Discount rate	<b>4.70%</b>	5.10%
Expected return on plan assets	<b>7.25%</b>	7.50%

The Company selects its discount rate assumption based on 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

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

### Sensitivity to Changes in Assumed Health Care Cost Trend Rates

<u>(in thousands of dollars)</u>	<u>March 31, 2014</u>	
1% Point Increase		
Total of service costs plus interest cost	\$	4,039
Postretirement benefit obligation		233
1% Point Decrease		
Total of service costs plus interest cost		(3,308)
Postretirement benefit obligation		(188)

The Company expects to make \$2.3 million in contributions to the PBOP plans during the year ending March 31, 2015.

## Plan Assets

NGUSA 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 plan's 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. Investment risk and return are reviewed by NGUSA'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%	40%	40%
Global equities	7%	7%	6%	6%
Global tactical asset allocation	10%	10%	9%	9%
Non-U.S. equities	10%	10%	21%	21%
Fixed income	40%	40%	24%	24%
Private equity	5%	5%	-	-
Real estate	5%	5%	-	-
Infrastructure	3%	3%	-	-
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## 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
	<i>(in thousands of dollars)</i>			
<b>PBOP Assets:</b>				
Cash and cash equivalents	\$ 13	\$ 25	\$ -	\$ 38
Accounts receivable	2	-	-	2
Accounts payable	(1)	-	-	(1)
Equity	191	586	41	818
Fixed income securities	3	427	-	430
Private equity	-	-	13	13
Global tactical asset allocation	40	57	13	110
Total	<b>\$ 248</b>	<b>\$ 1,095</b>	<b>\$ 67</b>	<b>\$ 1,410</b>

	<b>March 31, 2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>(in thousands of dollars)</i>			
<b>PBOP Assets:</b>				
Cash and cash equivalents	\$ 23	\$ 69	\$ -	\$ 92
Accounts receivable	4	-	-	4
Accounts payable	(3)	-	-	(3)
Equity	206	476	25	707
Global tactical asset allocation	37	52	11	100
Fixed income securities	18	363	2	383
Private equity	-	-	20	20
Alternative investments	-	-	5	5
Total	<b>\$ 285</b>	<b>\$ 960</b>	<b>\$ 63</b>	<b>\$ 1,308</b>

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 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 make up 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:** 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, 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

	<b>Years Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(in thousands of dollars)</i>	
Balance as of the beginning of the year	\$ 63	\$ 63
Transfers out of Level 3	(79)	(8)
Transfers in to Level 3	64	2
Actual gain or loss on plan assets		
Realized gain	3	7
Unrealized loss	(1)	(4)
Purchases	46	33
Sales	(29)	(30)
Balance as of the end of the year	<u>\$ 67</u>	<u>\$ 63</u>

### Other Benefits

During the fiscal year ended March 31, 2014, NGUSA improved its methodology for allocating to its subsidiaries the expense and liability for workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR"). In prior fiscal years, such costs and liabilities were allocated to NGUSA's subsidiaries based on each subsidiary's pro-rata share of known outstanding case reserves. As of and for the year ended March 31, 2014, such IBNR amounts are

allocated proportionally based on various factors including revenue, payroll, and number of fleet vehicles, as applicable to the related exposure source. Management believes this improved methodology provides a more accurate and appropriate allocation to each of its subsidiaries. The estimated change in allocation methodology was a decrease in income before income taxes of approximately \$3.3 million in the current fiscal year. At March 31, 2014 and 2013, the Company had accrued IBNR of \$4.0 million and \$0.8 million respectively.

## 9. CAPITALIZATION

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

<i>(in thousands of dollars)</i>	
<u>Years Ending March 31,</u>	
2015	\$ -
2016	-
2017	-
2018	-
2019	-
Thereafter	<u>125,000</u>
Total	<u>\$ 125,000</u>

The Company is obligated to meet certain financial and non-financial covenants. During the years ended March 31, 2014 and 2013, the Company was in compliance with all such covenants.

## 10. INCOME TAXES

### Components of Income Tax Expense

	<u>Years Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
<i>(in thousands of dollars)</i>		
Current tax expense:		
Federal	\$ 4,871	\$ 3,964
State	<u>1,484</u>	<u>1,761</u>
Total current tax expense	<u>6,355</u>	<u>5,725</u>
Deferred tax expense (benefit):		
Federal	2,826	4,864
State	<u>(254)</u>	<u>(40)</u>
Total deferred tax expense	<u>2,572</u>	<u>4,824</u>
Amortized investment tax credits <sup>(1)</sup>	<u>(203)</u>	<u>(203)</u>
Total deferred tax expense	<u>2,369</u>	<u>4,621</u>
Total income tax expense	<u>\$ 8,724</u>	<u>\$ 10,346</u>

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

## Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2014 and 2013 are 37% and 40%, 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
	<i>(in thousands of dollars)</i>	
Computed tax	\$ 8,300	\$ 9,134
Change in computed taxes resulting from:		
State income tax, net of federal benefit	799	1,118
Investment tax credits	(203)	(203)
Other items, net	(172)	297
Total	<u>424</u>	<u>1,212</u>
Federal and state income taxes	<u>\$ 8,724</u>	<u>\$ 10,346</u>

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

In September 2013, the Internal Revenue Service ("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, \$0.7 million of deferred tax liabilities have been classified as current in the Company's 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, 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 carry forward tax attribute. As of March 31, 2014, the Company re-measured its deferred tax assets and liabilities, increasing its deferred tax liability by \$5.4 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.

## Deferred Tax Components

	March 31,	
	2014	2013
	<i>(in thousands of dollars)</i>	
<b>Deferred tax assets:</b>		
Other regulatory liabilities, net	\$ 27,985	\$ 29,645
Pensions, PBOP and other employee benefits	22,812	29,412
Future federal benefit on state taxes	10,355	8,490
Reserve - environmental	3,141	1,752
Allowance for uncollectible accounts	2,113	1,681
Other items	1,468	1,967
Total deferred tax assets <sup>(1)</sup>	<u>67,874</u>	<u>72,947</u>
<b>Deferred tax liabilities:</b>		
Property related differences	123,972	112,020
Regulatory assets - merger savings	87,854	89,896
Regulatory assets - pensions and PBOP	12,523	16,249
Other items	3,997	5,243
Total deferred tax liabilities	<u>228,346</u>	<u>223,408</u>
Net deferred income tax liabilities	160,472	150,461
Deferred investment tax credits	47	250
Net deferred income tax liability and investment tax credits	<u>160,519</u>	<u>150,711</u>
Current portion of deferred income tax assets, net	<u>28,306</u>	<u>25,129</u>
<b>Deferred income tax liabilities, net</b>	<u>\$ 188,825</u>	<u>\$ 175,840</u>

(1) There were no valuation allowances for deferred tax assets at March 31, 2014 or 2013.

As of March 31, 2014 and 2013, the Company's current federal income taxes balances payable to the Parent are \$8.5 million and \$13.5 million, respectively.

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

Expiration of net operating losses:	Federal	
	<i>(in thousands of dollars)</i>	
03/31/2030	\$	9
03/31/2031		-
03/31/2032		-
03/31/2033		-
03/31/2034		4,998

## Unrecognized Tax Benefits

As of March 31, 2014 and 2013, the Company's unrecognized tax benefits totaled \$8.4 million and \$16.1 million, respectively, none of which would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in accounts payable to affiliates in the accompanying balance sheets.

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

	<b>Years Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<i>(in thousands of dollars)</i>	
Balance as of the beginning of the year	\$ 16,084	\$ 15,418
Gross increases - tax positions in prior periods	1,362	-
Gross decreases - tax positions in prior periods	(977)	(58)
Gross increases - current period tax positions	1,614	829
Gross decreases - current period tax positions	-	(105)
Settlements with tax authorities	(9,675)	-
Balance as of the end of the year	<u>\$ 8,408</u>	<u>\$ 16,084</u>

As of March 31, 2014 and 2013, the Company has accrued for interest related to unrecognized tax benefits of \$3.0 million and \$2.6 million, respectively. During the years ended March 31, 2014 and 2013, the Company recorded interest expense of \$0.4 million and \$0.5 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in other interest, including affiliate interest. Related penalties, if applicable, are recorded to other income, net in the accompanying statements of income. No penalties were recognized during the years ended March 31, 2014 and 2013.

It is reasonably possible that other events will occur during the next 12 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 2009. These examinations were completed on March 27, 2014 and March 31, 2014, respectively, with an agreement on the majority of income tax issues for the years referenced above, as well as an acknowledgment that certain discrete items remain disputed. NGNA is in the process of appealing the disputed issues with the IRS Office of Appeals. The Company does not anticipate a change in its unrecognized tax positions in the next twelve months as a result of the appeals. However, pursuant to the Company's tax sharing agreement, the audit or appeals may result in a change to allocated tax.

The 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:

<b>Jurisdiction</b>	<b>Tax Year</b>
Federal	August 24, 2007*
Massachusetts	March 31, 2010

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



## **11. ENVIRONMENTAL MATTERS**

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

Within the Commonwealth of Massachusetts, the Company is aware of numerous former MGP sites and related facilities within the existing or former service territories of the Company. Investigation and remediation expenditures incurred for the years ended March 31, 2014 and 2013 were \$0.3 million and \$0.4 million, respectively.

Upon the acquisition of KeySpan by NGUSA, the Company recognized 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.

The Company estimated the remaining costs of environmental remediation activities were \$7.3 million and \$6.0 million at March 31, 2014 and 2013, respectively. The Company's environmental obligation is discounted at a rate of 6.5%: the undiscounted amount of environmental liabilities at March 31, 2014 and 2013 was \$8.6 million and \$7.0 million, respectively. These costs are expected to be incurred over the next 35 years, and the discounted amounts have been recorded as liabilities in the accompanying balance sheets. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers, and, where appropriate, the Company may seek recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders, the DPU has provided for the recovery of site investigation and remediation costs. Accordingly, as of March 31, 2014 and 2013, the Company has recorded environmental regulatory assets of \$5.1 million and \$3.9 million, respectively.

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

## **12. COMMITMENTS AND CONTINGENCIES**

### **Purchase Commitments**

The Company has entered into various contracts for gas delivery, storage and supply services that are accounted for as executory contracts. Certain of these contracts require payment of annual demand charges. The Company is 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 as follows:

<i>(in thousands of dollars)</i>		Capital	
<u>Years Ending March 31,</u>	<u>Gas</u>	<u>Expenditures</u>	
2015	\$ 55,057	\$ 11,905	
2016	32,777	-	
2017	28,343	-	
2018	24,456	-	
2019	23,463	-	
Thereafter	35,468	-	
Total	<u>\$ 199,564</u>	<u>\$ 11,905</u>	

### Sales and Use Tax

The Company is subject to periodic sales and use tax audits by the state authorities. In 2013, the state commenced a sales and use tax audit for the January 2006 through December 2010 period, subsequent years remain subject to examination. The audits are in preliminary phases and the potential liability cannot be estimated. As of March 31, 2014 and 2013, the Company has not established a reserve for the current audit cycle.

### 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.

## 13. RELATED PARTY TRANSACTIONS

### Accounts Receivable from and Accounts Payable to Affiliates

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

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

	<u>Accounts Receivable</u>		<u>Accounts Payable</u>	
	<u>from Affiliates</u>		<u>to Affiliates</u>	
	<u>March 31,</u>		<u>March 31,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	<i>(in thousands of dollars)</i>		<i>(in thousands of dollars)</i>	
KeySpan Corporation	\$ -	\$ -	\$ 2,266	\$ 17,951
Boston Gas	4,001	8,019	-	-
NGUSA Service Company	-	-	17,368	20,568
Transgas Inc.	3,844	3,920	-	-
The Narragansett Electric Company	-	-	1,133	11,440
Other	443	1	693	946
Total	<u>\$ 8,288</u>	<u>\$ 11,940</u>	<u>\$ 21,460</u>	<u>\$ 50,905</u>

At March 31, 2014 and 2013, the non-current portion of accounts receivable from affiliates represents the PBOP liability of \$18.1 million and \$19.0 million, respectively, allocated to various affiliated entities as disclosed in Note 8, "Employee Benefits".

### **Intercompany Money Pool**

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

The Regulated Money Pool is funded by operating funds from participants. Collectively, NGUSA and KeySpan, have the ability to borrow up to \$3 billion from National Grid plc for working capital needs including funding of the intercompany money pools, if necessary. The Company had short-term intercompany money pool investments of \$18.2 million and \$12.7 million at March 31, 2014 and 2013, respectively. The average interest rates for the intercompany money pool were 0.7% and 1.4% for the years ended March 31, 2014 and 2013, respectively.

### **Service Company Charges**

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, total transmission and distribution expenditures. Lastly, when a specific cost/causation principle is not determinable, costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment, and operations and maintenance expense.

Charges from the service companies of NGUSA to the Company for the years ended March 31, 2014 and 2013 were \$37.3 million and \$41.1 million, respectively.

### **Holding Company Charges**

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the U.K.) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected on these financial statements. Were these amounts allocated to the Company, the estimated effect on net income would be \$0.8 million before taxes, and \$0.5 million after taxes, for each of the years ended March 31, 2014 and 2013.