New England Power Company

Financial Statements

For the years ended March 31, 2014 and 2013

NEW ENGLAND POWER COMPANY

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Independent Auditor's Report

To the Shareholders and Board of Directors
of New England Power Company

We have audited the accompanying financial statements of New England Power Company (the "Company"), which comprise the balance sheets as of March 31, 2014 and 2013, and the related statements of income, comprehensive income, cash flows, capitalization, and changes in shareholders' equity for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 New England Power 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

September 5, 2014

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NEW ENGLAND POWER COMPANY
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2014	**2013**
Operating revenues	**$ 383,258**	$ 381,668
Operating expenses:		
Purchased electricity	**55,442**	78,663
Operations and maintenance	**96,909**	99,398
Depreciation and amortization	**41,648**	41,822
Other taxes	**35,056**	30,335
Total operating expenses	**229,055**	250,218
Operating income	**154,203**	131,450
Other income and (deductions):		
Interest on long-term debt	**(2,593)**	(2,899)
Other interest, including affiliate interest	**(4,581)**	784
Other income, net	**6,935**	8,637
Total other (deductions) income, net	**(239)**	6,522
Income before income taxes	**153,964**	137,972
Income tax expense	**61,191**	54,018
Net income	**$ 92,773**	$ 83,954

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

NEW ENGLAND POWER COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2014	**2013**
Net income	**$ 92,773**	$ 83,954
Other comprehensive income:		
Unrealized gains on securities, net of $351 and $164 tax expense	**526**	254
Reclassification of gains into net income, net of $274 and $73 tax expense	**(411)**	(113)
Total other comprehensive income	**115**	141
Comprehensive income	**$ 92,888**	$ 84,095

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

NEW ENGLAND POWER COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,	
	2014	**2013**
Operating activities:		
Net income	**$ 92,773**	$ 83,954
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**41,648**	41,822
Provision for deferred income taxes	**20,646**	32,850
Income from equity investments	**(96)**	(152)
Allowance for equity funds used during construction	**(5,550)**	(8,662)
Net postretirement benefit contributions	**(894)**	(2,596)
Net environmental remediation payments	**34**	4,900
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**(68,876)**	(7,874)
Accounts receivable from/payable to affiliates, net	**-**	23,972
Inventory	**1,242**	(58)
Regulatory assets and liabilities, net	**82,959**	(11,379)
Prepaid and accrued taxes	**46,261**	17,373
Accounts payable and other liabilities	**(10,005)**	(6,427)
Accrued Yankee nuclear plant costs	**9,286**	(5,200)
Other, net	**(42)**	575
Net cash provided by operating activities	**209,386**	163,098
Investing activities:		
Capital expenditures	**(154,344)**	(183,899)
Affiliated money pool investing and receivables/payables, net	**(238,718)**	-
Cost of removal and other	**(12,576)**	(11,195)
Net cash used in investing activities	**(405,638)**	(195,094)
Financing activities:		
Dividends paid to National Grid USA	**-**	(95,000)
Dividends paid on preferred stock	**(67)**	(67)
Parent loss tax allocation	**-**	3,169
Affiliated money pool borrowing and receivables/payables, net	**(180,712)**	102,933
Advance from affiliate	**375,000**	-
Net cash provided by financing activities	**194,221**	11,035
Net increase in cash and cash equivalents	**(2,031)**	(20,961)
Cash and cash equivalents, beginning of period	**2,746**	23,707
Cash and cash equivalents, end of period	**$ 715**	$ 2,746
Supplemental disclosures:		
Interest paid	$ 2,312	$ 3,282
Income taxes (refunded) paid	(462)	7,730
State income taxes paid	327	2,145
Significant non-cash item:		
Capital-related accruals included in accounts payable	15,988	12,935

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

NEW ENGLAND POWER COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 715**	$ 2,746
Accounts receivable	**60,431**	49,406
Other receivable	**57,851**	-
Accounts receivable from affiliates	**11,724**	25,542
Intercompany money pool	**264,079**	-
Inventory	**3,122**	4,364
Current portion of deferred income tax assets	**18,855**	1,103
Prepaid taxes	**3,333**	248
Other	**104**	100
Total current assets	**420,214**	83,509
Equity investments and other	**1,856**	1,870
Property, plant, and equipment, net	**1,811,878**	1,685,132
Other non-current assets:		
Regulatory assets	**129,247**	172,163
Goodwill	**337,614**	337,614
Postretirement benefits asset	**7,386**	-
Other	**12,259**	11,368
Total other non-current assets	**486,506**	521,145
Total assets	**$ 2,720,454**	$ 2,291,656

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

NEW ENGLAND POWER COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2014	2013
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 33,302**	$ 34,619
Accounts payable to affiliates	**37,085**	58,625
Advance from affiliate	**375,000**	-
Taxes accrued	**57,199**	7,872
Regulatory liabilities	**57,851**	-
Intercompany money pool	**-**	147,629
Other	**16,590**	23,625
Total current liabilities	**577,027**	272,370
Other non-current liabilities:		
Regulatory liabilities	**57,362**	71,569
Accrued Yankee nuclear plant costs	**31,323**	10,820
Purchased power obligations	**-**	614
Deferred income tax liabilities	**433,764**	385,846
Postretirement benefits	**-**	10,056
Environmental remediation costs	**8,377**	8,238
Other	**10,434**	22,797
Total other non-current liabilities	**541,260**	509,940
Commitments and contingencies (Note 12)		
Capitalization:		
Shareholders' equity	**1,191,817**	1,098,996
Long-term debt	**410,350**	410,350
Total capitalization	**1,602,167**	1,509,346
Total liabilities and capitalization	**$ 2,720,454**	$ 2,291,656

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

NEW ENGLAND POWER COMPANY
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2014	2013
Total shareholders' equity			**$ 1,191,817**	$ 1,098,996
Long-term debt:	Interest Rate	Maturity Date		
Polution control revenue bonds				
Connecticut Development Authority	Variable	October 15, 2015	**38,500**	38,500
Massachusetts Development Finance Agency 1	Variable	March 1, 2018	**79,250**	79,250
Business Finance Authority of the State of New Hampshire	Variable	November 1, 2020	**135,850**	135,850
Business Finance Authority of the State of New Hampshire	Variable	November 1, 2020	**50,600**	50,600
Massachusetts Development Finance Agency 2	Variable	October 1, 2022	**106,150**	106,150
			410,350	410,350
Total capitalization			**$ 1,602,167**	$ 1,509,346

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

NEW ENGLAND POWER COMPANY
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars, except per share and number of shares data)

	Common Stock,	Cumulative Preferred Stock,	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Available for Sale Securities	Accumulated Other Comprehensive Income (Loss): Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2012	**$ 72,398**	**$ 1,112**	**$ 734,903**	**$ 582**	**$ 582**	**$ 297,804**	**$ 1,106,799**
Net income	-	-	-	-	-	83,954	83,954
Other comprehensive income (loss):							
Unrealized gains on securities, net of $164 tax expense	-	-	-	254	254	-	254
Reclassification of gains into net income,							
income, net of $73 tax expense	-	-	-	(113)	(113)	-	(113)
Total comprehensive income							84,095
Parent loss tax allocation	-	-	3,169	-	-	-	3,169
Dividends on common stock	-	-	-	-	-	(95,000)	(95,000)
Dividends on preferred stock	-	-	-	-	-	(67)	(67)
Balance as of March 31, 2013	**72,398**	**1,112**	**738,072**	**723**	**723**	**286,691**	**1,098,996**
Net income	-	-	-	-	-	92,773	92,773
Other comprehensive income (loss):							
Unrealized gains on securities, net of $351 tax expense	-	-	-	526	526	-	526
Reclassification of gains into net income,							
net of $274 tax expense	-	-	-	(411)	(411)	-	(411)
Total comprehensive income							92,888
Dividends on preferred stock	-	-	-	-	-	(67)	(67)
Balance as of March 31, 2014	**$ 72,398**	**$ 1,112**	**$ 738,072**	**$ 838**	**$ 838**	**$ 379,397**	**$ 1,191,817**

The Company had 3,619,896 shares of common stock authorized, issued and outstanding, with a par value of $20 per share and 11,117 shares of preferred stock authorized, 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.

NEW ENGLAND POWER COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

New England Power Company (the "Company") operates electric transmission facilities in Massachusetts, New Hampshire, Rhode Island, Maine and Vermont. The Company 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 Company also owns non-controlling interests in three companies (the "Yankees") which own nuclear generating facilities that are permanently retired and are being decommissioned (refer to Note 6, Equity Investments).

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 ratemaking practices of the applicable regulatory authorities.

During 2014, the Company recorded out-of-period adjustments that resulted in a net increase to net income of $2.8 million. The adjustments primarily related to the correction of operations and maintenance expense. Management concluded that the impact of recording these adjustments was not material to the current fiscal year or any prior period.

The Company has evaluated subsequent events and transactions through September 5, 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 Federal Energy Regulatory Commission ("FERC") regulates the rates the Company charges its customers. In certain cases, the rate actions of the FERC or the regulatory Commissions of Massachusetts, New Hampshire, Rhode Island, Maine and Vermont can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from or refunded to customers through future rates. Regulatory assets and liabilities are amortized to the statements of income consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

The Company has two primary sources of revenue: transmission and stranded cost recovery. Transmission revenues are based on a formula rate that recovers the Company's 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 (affiliated companies Massachusetts Electric Company ("MECO") and The Narragansett Electric Company ("NECO"), Granite State Electric Co. and the Towns of Merrimac, Groveland and Littleton) in connection with the Company's divestiture of its electricity generation investments.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of electricity. 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.

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.

Inventory

Inventory is comprised of materials and supplies. 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.

Fair Value Measurements

The Company measures 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”).

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 regulatory bodies. The average composite rates for each of the years ended March 31, 2014 and 2013 was 2.3%. The average service lives for each of the years ended March 31, 2014 and 2013 was 30 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 of removal recovered in excess of costs incurred of $12.3 million and $18.8 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, (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 $5.6 million and $8.7 million and AFUDC related to debt of $1.1 million and $0.4 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 4.6% and 5.8%, 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.

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 balance sheets. Changes in the fair value of the assets are recorded within other comprehensive income.

Employee Benefits

The Company participates with other subsidiaries in defined benefit pension plans ("Pension Plans") and postretirement benefit other than pension ("PBOP") plans for its employees, administered by NGUSA. The Company recognizes its portion of the Pension Plans' and PBOP plans 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' and PBOP plans assets are commingled and cannot be allocated to an individual company. The Company measures and records its share of pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2014

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 accumulated other comprehensive income ("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.

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.

	March31,	
	2014	2013
	(in thousands of dollars)	
Regulatory assets		
Non-current:		
CTC charges	-	41,614
Environmental response costs	**9,067**	8,822
Postretirement benefits	**64,733**	84,268
Regulatory deferred tax asset	**22,363**	13,570
Yankee nuclear decomissioning costs	**32,913**	23,628
Other	**171**	261
Total	**129,247**	**172,163**
Regulatory liabilities		
Current:		
CTC Decommissioning rebate	**57,851**	-
Total	**57,851**	-
Non-current:		
Cost of removal	**12,266**	18,820
CTC buyout revenues	**2,943**	3,261
CTC charges	**31,229**	35,151
Revaluation - pension and PBOPs	**8,927**	12,299
Other	**1,997**	2,038
Total	**57,362**	**71,569**
Net regulatory assets	**$ 14,034**	**$ 100,594**

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

CTC buyout revenues: An upfront payment was made by the Towns of Littleton, Groveland and Merrimac for termination of their contracts with NEP in 1998 representing their share of total estimated CTC. The upfront payment is being amortized annually over the life of the CTC contact through December 2020.

CTC charges: Stranded cost recovery revenues are collected through a CTC, which is billed to former wholesale customers of the Company in connection with the Company’s divestiture of its electricity generation investments. CTC related liabilities consist of obligations to customers that resulted from the sale of certain stranded assets. These amounts are being refunded to customers as determined per rate filings.

CTC Decommissioning Rebate: Represents the U.S. Department of Energy (“DOE”) litigation awards for spent fuel storage costs that had been incurred through 2001 and 2008. These decommissioning rebates will be returned to customers.

Environmental 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.

Postretirement benefits: This amount represents the non-cash accrual of net actuarial gains and losses.

Revaluation - pension and PBOPs: As a result of the fiscal year 2000 merger of the Company with NGUSA and the fiscal year 2001 acquisition of Montaup Electric Co., the Company revalued its pension and other post-retirement benefit plans and recognized previously unrecognized net gains in these benefit plans. These gains were deferred as a regulatory liability which is being returned to customers over a 15 year period.

Yankee nuclear decommissioning costs: The Yankees operated nuclear generating units which have been permanently decommissioned. Spent nuclear fuel remains on each site, awaiting fulfillment by the DOE of its statutory obligation to remove it. In addition, groundwater monitoring is ongoing at each site. The Company has recorded a regulatory asset reflecting the estimated future decommissioning billings and the remaining asset retirement obligation from the Yankees.

Regulatory deferred tax asset: This amount represents unrecovered federal 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 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 as well as an existing balance representing a historic unrecovered rate change in its next rate case.

The Company records carrying charges on all regulatory balances, except environmental response costs and postretirement benefits, 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

Stranded Cost Recovery

Under settlement agreements approved by state commissions and the FERC, the Company 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). The Company earns an ROE of approximately 11% on stranded cost recovery. The Company will recover remaining non-nuclear stranded costs through 2020. See the "Decommissioning Nuclear Units" in Note 12 "Commitments and Contingencies," for a discussion of ongoing costs associated with decommissioned nuclear units.

Transmission Return on Equity ("ROE")

The Company's transmission rates currently 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 Company's transmission facilities are included under RNS rates. The Company 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 1.25% ROE on its portion of New England East West Solution (NEEWS) as described below.

New England East-West Solution ("NEEWS")

In September 2008, the Company, its affiliate NECO, 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. 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.

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 thousands of dollars)	
Plant and machinery	**1,971,502**	1,673,875
Land and buildings	**88,741**	87,312
Assets in construction	**148,258**	292,216
Software and othe intangibles	**2,282**	2,282
Total property, plant and equipment	**2,210,783**	2,055,685
Accumulated depreciation and amortization	**(398,905)**	(370,553)
Property, plant and equipment, net	**1,811,878**	1,685,132

6. EQUITY INVESTMENTS

Yankee Nuclear Power Companies

The Company has non-controlling interests in Yankee Atomic (34.5%), Connecticut Yankee (19.5%), and Maine Yankee (24.0%), which own nuclear generating units that have been permanently decommissioned. Spent nuclear fuel remains on each site, awaiting fulfillment by the DOE of its statutory obligation to remove it. In addition, groundwater monitoring is ongoing at each site. The Company has power contracts with each of the Yankees that require the Company to pay an amount equal to its share of total fixed and operating costs of the plant plus a return on equity.

Summarized balance sheet and statement of operations data for the Yankees are as follows:

	As of and for the Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Property, plant and equipment	**$ 882**	$ 882
Current assets	**255,770**	20,145
Other non-current assets	**877,367**	949,119
Total assets	**1,134,019**	970,146
Current liabilities	**2,206**	1,956
Other non-current liabilities	**1,126,373**	962,897
Equity	**5,440**	5,293
Total liabilities and equity	**1,134,019**	970,146
Operating revenue	**21,642**	60,684
Operating expenses	**21,332**	60,280
Other deductions, net	**161**	145
Total expenses	**21,493**	60,425
Net income	**$ 149**	$ 259

7. FAIR VALUE MEASUREMENTS

The following tables present available for sale securities 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:

	March 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Assets:				
Available for sale securities	$ 3,679	$ 5,065	$ -	$ 8,744
Total				

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Available for sale securities	$ 3,413	$ 4,610	$ -	$ 8,023

Available-for-sale securities are included in other non-current assets in the accompanying 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).

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.

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 estimated using quoted market prices for similar debt. The fair value of this debt at both March 31, 2014 and 2013 was $410.4 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

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

The Pension Plan is a defined benefit plan which provides union employees, as well as non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental nonqualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. The PBOP Plan provides health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage.

During the years ended March 31, 2014 and 2013, the Company made contributions of approximately $2.4 million and $7.5 million, respectively, to the Plan.

Plan assets are commingled and cannot be allocated to an individual company. The Plan's costs are first directly charged to the Company based on the Company's employees that participate in the Plan. Costs 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 applies deferral accounting for pension and PBOP expenses associated with its regulated electric operations. Any differences between actual pension costs and amounts used to establish rates are deferred and collected from or refunded to customers in subsequent periods. Pension and PBOP expense is included in operations and maintenance expense in the accompanying statements of income.

The NGUSA companies' pension and PBOP plans that the Company participates in have unfunded obligations at March 31, 2014 and 2013 as follows:

	March 31,	
	2014	2013
	(in thousands of dollars)	
Pension	**$ 402,928**	$ 471,000
PBOP	**302,360**	368,100
	$ 705,288	$ 839,100

The Company's net pension and PBOP expenses directly charged and allocated from affiliated service companies, net of capital, for the years ended March 31, 2014 and 2013 are as follows:

	March 31,	
	2014	2013
	(in thousands of dollars)	
Pension	**$ 6,208**	$ 7,310
PBOP	**2,328**	2,877
	$ 8,536	$ 10,187

Other Benefits

During the 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 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 an increase in income before taxes of approximately $3.9 million in the current fiscal year. At March 31, 2014 and 2013, the Company had accrued IBNR of $4.3 million and $0.8 million respectively.

9. CAPITALIZATION

Debt Authorizations

The Company had regulatory approval from the FERC to issue up to $750 million of short-term debt, which expired on November 30, 2013. Effective April 2014, the Company entered into an Equity Contribution Agreement with NGUSA which provides the Company with the ability to call upon NGUSA for contributions to the Company's capital, in an aggregate amount equal to the short-term borrowing limit until such time as regulatory approval for short-term borrowing is regained. The Company has not made use of this facility since its effective date. The Company had no short-term debt outstanding to third parties as of March 31, 2014 or 2013.

Long-term Debt

At March 31, 2014, the Company had $410.4 million outstanding of Pollution Control Revenue Bonds in tax exempt commercial paper mode with maturity dates ranging from October 2015 to October 2022. The debt is remarketed at periods of 1-270 days, and had variable interest rates ranging from 0.29% to 0.50% and from 0.35% to 0.55% for the years ended March 31, 2014 and 2013, respectively.

The Company has a Standby Bond Purchase Agreement ("SBPA") of $410.4 million which expires on November 20, 2015. This agreement was available to provide liquidity support for $410.4 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 if is not able to remarket it. At March 31, 2014 and 2013, there were no bond purchases made by the banks participating in this agreement.

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

(in thousands of dollars)	
Years Ending March 31,	
2015	$ -
2016	38,500
2017	-
2018	79,250
2019	-
Thereafter	292,600
Total	$ 410,350

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.

Dividend Restrictions

Pursuant to provisions in connection with the New England Electric System and Eastern Utilities Associates merger, payment of dividends on common stock are not permitted if, after giving effect to such payment of dividends, common equity becomes less than 30% of total capitalization. At March 31, 2014 and 2013 common equity was 74.4% and 72.8% of total capitalization, respectively. Under these provisions, none of the Company's retained earnings at March 31, 2014 and 2013 were restricted as to common dividends.

Cumulative Preferred Stock

The Company has non-participating cumulative preferred stock outstanding which can be redeemed at the option of the Company. There are no mandatory redemption provisions on the Company's cumulative preferred stock, and the stock is non-callable. A summary of cumulative preferred stock is as follows:

	Shares Outstanding		**Amount**	
	March 31,		**March 31,**	
Series	**2014**	2013	**2014**	2013
		(in thousands of dollars)		
$100 par value - 6.00% Series	**11,117**	11,117	**$ 1,112**	$ 1,112

The Company did not redeem any preferred stock during the years ended March 31, 2014 or 2013. The annual dividend requirement for cumulative preferred stock was $0.07 million for the years ended March 31, 2014 and 2013.

10. INCOME TAXES

The components of federal and state income tax expense for the years ended March 31, 2014 and 2013 are as follows:

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Current tax expense:		
Federal	**$ 30,066**	$ 14,245
State	**10,479**	6,923
Total current tax expense	**40,545**	21,168
Deferred tax expense (benefit):		
Federal	**19,909**	33,419
State	**1,118**	(180)
	21,027	33,239
Amortized investment tax credits [1]	**(381)**	(389)
Total deferred tax expense	**20,646**	32,850
Total income tax expense	**$ 61,191**	$ 54,018

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

The Company's effective tax rate for the years ended March 31, 2014 and 2013 is 39.7% and 39.2%, respectively. Reconciliation between the expected federal income tax expense, using the federal statutory rate of 35% to the Company's actual income tax expense for the years ended March 31, 2014 and 2013 is as follows:

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Computed tax	**$ 53,888**	$ 48,290
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**7,539**	4,383
Investment tax credit	**(381)**	(389)
Other items - net	**145**	1,734
Total	**7,303**	5,728
Federal and state income taxes	**$ 61,191**	$ 54,018

The Company is a member of the National Grid North America Inc. ("NGNA") and subsidiaries consolidated federal income tax return. 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 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, $3.5 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 liquidity.

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 will increase from 6.5% to 8.0%. Also, any unitary NOL generated post-2013 and allocated to the utilities will be allowed as a carry forward tax attribute. As of March 31, 2014, all state deferred tax balances at the regulated utilities were remeasured to the 8% rate, resulting in an increase in deferred tax liabilities of $10.9 million with an offset to 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 liquidity.

Significant components of the Company's net deferred tax assets and liabilities at March 31, 2014 and March 31, 2013 are as follows:

	March 31,	
	2014	2013
	(in thousands of dollars)	
Deferred tax assets:		
Future federal benefit on state taxes	**$ 21,120**	$ 15,913
Other Regulatory assets/liabilities - net	**34,952**	-
Reserve - nuclear and decommissioning	**4,595**	4,217
Reserve - environmental	**3,365**	3,206
Pensions, OPEB and other employee benefits	**-**	4,769
Other items	**726**	483
Total deferred tax assets [(1)]	**64,758**	57,176
Deferred tax liabilities:		
Property related differences	**437,756**	365,221
Regulatory Assets - pension and OPEB	**23,418**	29,471
Other items	**14,678**	14,443
Total deferred tax liabilities	**475,852**	409,135
Net deferred income tax liabilities	**411,094**	380,547
Deferred investment tax credits	**3,815**	4,196
Net deferred income tax liability and investment tax credits, net	**414,909**	384,743
Current portion of net deferred income tax asset, net	**18,855**	(1,103)
Deferred income tax liablilities, net	**$ 433,764**	$ 385,846

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

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

Expiration of net operating losses:	Federal
	(in thousands of dollars)
03/31/2029	$ 13,779
03/31/2033	$ 1,872

Unrecognized Tax Benefits

As of March 31, 2014 and 2013, the Company's unrecognized tax benefits totaled $8.8 million and $17.5 million, respectively, of which none would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other deferred liabilities in the accompanying balance sheets.

The following table reconciles the changes to the Company's unrecognized tax benefits for the years ended March 31, 2014 and 2013:

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Beginning balance	**$ 17,514**	$ 19,391
Gross increases related to prior period	**2,081**	49
Gross decreases related to prior period	**(228)**	(2,057)
Gross increases related to current period	**300**	131
Settlements with tax authorities	**(10,874)**	-
Ending balance	**$ 8,794**	$ 17,514

As of March 31, 2014 and 2013, the Company has accrued for interest related to unrecognized tax benefits of $2.6 million and $0.8 million, respectively. During the years ended March 31, 2014 and 2013, the Company recorded interest expense of $1.8 million and $0.1 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in other interest, including affiliate interest in the accompanying statement of income. Related penalties, if applicable, are recorded to other (deductions) income, net. 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 their results of operations, financial position, or liquidity.

Federal income tax returns have been examined and all appeals and issues have been agreed with the IRS and the NGNA consolidated filing group, through March 31, 2007.

During fiscal year 2014 the IRS has concluded its examination of the NGNA consolidated filing group's corporate income tax returns for the periods ended March 31, 2008 and March 31, 2009. The examinations were completed on March 31, 2014, with an agreement on the majority of income tax issues for the years referenced above, as well as an acknowledgment that certain discrete items remain disputed. NGNA is in the process of appealing these disputed items 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.

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

The Company is a member of the National Grid USA 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	March 31, 2008*
Massachusetts	March 31, 2010
New Hampshire	March 31, 2009

*The NGNA consolidated filing group is in the process of appealing certain disputed issues with the IRS Office of Appeals for the fiscal years ended March 31, 2008 through March 31, 2009.

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.

During the year ended March 31, 2013, the Company established a new environmental reserve relating to a previously divested power plant that was recently sold to a new owner and for which the Company may potentially be liable to remediate contamination at the location. The extent of environmental remediation that will ultimately be required at the site is not known. The remediation will be dependent on environmental conditions at the site and the nature of the redevelopment. Remediation costs may be shared with other responsible parties. As of March 31, 2014 and 2013, the Company's reserve for the divested power plant was $7.5 million and $7.3 million, respectively.

The Company is currently conducting a program to investigate and remediate, as necessary to meet current environmental standards, certain properties which the Company has learned may be contaminated with industrial waste as to which it may be determined that the Company has contributed. The Company has also been advised that various federal, state or local agencies believe certain properties require investigation and has prioritized the sites based on available information in order to enhance the management of investigation and remediation, if necessary.

The Company believes that obligations imposed on it because of environmental laws will not have a material impact on its results of operations or financial position.

12. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has several long-term contracts for the purchase of electric power. Substantially all of these contracts require power to be delivered before the Company is obligated to make payment. Additionally, 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 thousands of dollars) Years Ending March 31,	Energy Purchases	Capital Expenditures
2015	$ 62,068	$ 39,185
2016	56,928	2,233
2017	38,635	-
2018	18,947	-
2019	-	-
Thereafter	-	-
Total	$ 176,578	$ 41,418

The Company purchases additional energy to meet load requirements from independent power producers other utilities, energy merchants or the ISO-NE at market prices.

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.

Decommissioning Nuclear Units

The Company is a minority equity owner of, and former purchaser of electricity from the Yankees. The Yankees have been permanently shut down and physically decommissioned. Spent nuclear fuel remains on each site awaiting fulfillment by the DOE of its statutory and contractual obligation to remove it. Future estimated billings, which are included in accrued costs of the Yankees and other current liabilities in the accompanying 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 the Company. 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 DOE and each of the Yankees. The Company 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 the Company, 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 US 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 the Company 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 ($35.8M and $73.3M respectively). Connecticut Yankee received a partial payment of $90M of the expected $126.3M. The balance was received in April, 2014.

On April 29, 2014, the Yankees submitted informational filings to FERC in order to flow through the DOE Phase II proceeds to their Sponsor companies, including the Company, in accordance with financial analyses that were performed earlier this year and supported by stakeholders from CT, MA and ME. The filings will allow for the flow through of the proceeds to the Sponsors, including the Company, with a proposed rate effective date of June 1, 2014. The Company’s aggregate share will be approximately $58 million, which is recorded in other receivable in the accompanying balance sheets. The Company 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 DC Circuit directed the 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.

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 the Company, 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 FERC issues its final order. In response to the ALJ's Initial Decision, the Company 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, FERC issued an order modifying the ALJ's findings and its previous methodology for establishing ROE. 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 establish and quantify growth rates applicable to the ROE. In response, the Company 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 December 27, 2012, a new 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, FERC issued an order setting the complaint for investigation and a trial-type, evidentiary hearing. 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

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

Guarantees

Three affiliates of NGUSA were created to construct and operate transmission facilities to transmit power from Hydro Quebec (a power company in Quebec, Canada) to New England. Under the financial and organizational agreements entered into at the time these transmission facilities were constructed, the Company agreed to guarantee a portion of the project debt. At March 31, 2014, the Company had guaranteed approximately $1.8 million of project debt with terms through 2015. Costs associated with these agreements are recoverable from the Company's customers through CTCs.

13. RELATED PARTY TRANSACTIONS

Advance from Affiliate

In December 2008, the Company entered into an agreement with NGUSA whereby the Company can borrow up to $400 million from time to time for working capital needs. The advance is non-interest bearing. At March 31, 2014 and 2013, the Company had an outstanding advance from affiliate of $375 million and zero, respectively.

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 intercompany money pool.

A summary of net outstanding accounts receivable from affiliates and accounts payable to affiliates balances is as follows:

	Accounts receivable from Affiliates		Accounts payable to Affiliates	
	March 31,		March 31,	
	2014	2013	**2014**	2013
	(in thousands of dollars)		*(in thousands of dollars)*	
Massachusetts Electric Company	**$ 7,110**	$ 23,565	**$ -**	$ -
Nation Grid Generation LLC	**2,116**	-	**-**	-
Niagara Mohawk Power Corp	**648**	843	**-**	-
The Narragansett Electric Company	**-**	-	**11,664**	18,030
NGUSA Service Company	**-**	-	**24,754**	39,595
Other	**1,850**	1,134	**667**	1,000
Total	**$ 11,724**	$ 25,542	**$ 37,085**	$ 58,625

Approximately 81% and 84% of the Company's local transmission service was provided to MECO, NECO and Nantucket.

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 its subsidiary 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 $264.1 million and borrowings of $147.6 million at March 31, 2014 and 2013, respectively. The average interest rates for the intercompany money pool were 0.7% and 0.6% 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, all other 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 $85.5 million and $169.8 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 $2.3 million and $1.4 million before taxes, and $1.4 million and $0.9 million after taxes, for each of the years ended March 31, 2014 and 2013.