KeySpan Corporation and Subsidiaries

Consolidated Financial Statements
For the years ended March 31, 2013 and March 31, 2012

KEYSPAN CORPORATION AND SUBSIDIARIES

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Independent Auditor's Report

To the Shareholders and Board of Directors of KeySpan Corporation and Subsidiaries:

We have audited the accompanying consolidated financial statements of KeySpan Corporation and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of March 31, 2013 and March 31, 2012, and the related consolidated statements of income, comprehensive income, cash flows, capitalization and changes in shareholders' equity for the years then ended.

Management's Responsibility for the Consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KeySpan Corporation and Subsidiaries at March 31, 2013 and March 31, 2012, 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

August 30, 2013

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KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions of dollars)

	March 31, 2013	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 594**	$ 754
Accounts receivable	**1,167**	705
Allowance for doubtful accounts	**(119)**	(109)
Other receivable	**67**	-
Accounts receivable from affiliates	**424**	11
Advances to affiliates	**2,276**	1,274
Unbilled revenues	**616**	298
Material, supplies and gas in storage	**249**	344
Derivative contracts	**26**	37
Regulatory assets	**265**	275
Current portion of deferred income tax assets	**-**	37
Prepaid and other current assets	**135**	122
Current assets held for sale	**-**	49
Total current assets	**5,700**	3,797
Equity investments	**179**	164
Property, plant, and equipment, net	**8,490**	8,358
Property, plant, and equipment, net related to held for sale	**-**	260
Total	**8,490**	8,618
Deferred charges and other assets:		
Regulatory assets	**2,153**	2,258
Goodwill	**3,766**	3,767
Derivative contracts	**4**	40
Loans to affiliate	**80**	80
Financial investments	**146**	141
Other deferred charges	**99**	131
Deferred assets held for sale	**-**	78
Total deferred charges and other assets	**6,248**	6,495
Total assets	**$ 20,617**	$ 19,074

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions of dollars)

	March 31, 2013	March 31, 2012
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	$ 593	$ 444
Accounts payable to affiliates	58	26
Intercompany moneypool - regulated and unregulated	1,418	-
Other tax liabilities	22	20
Current portion of long-term debt	160	10
Taxes accrued	54	158
Customer deposits	52	65
Interest accrued	85	117
Regulatory liabilities	170	168
Derivative contracts	7	55
Current portion of deferred income tax liabilities	19	-
Other current liabilities	108	190
Current liabilities held for sale	-	20
Total current liabilities	2,746	1,273
Deferred credits and other liabilities:		
Regulatory liabilities	1,210	1,197
Asset retirement obligations	88	101
Deferred income tax liabilities	1,609	1,206
Postretirement benefits	2,217	2,175
Environmental remediation costs	693	694
Derivative contracts	6	21
Other deferred liabilities	263	175
Deferred liabilities held for sale	-	149
Total deferred credits and other liabilities	6,086	5,718
Capitalization:		
Shareholders' equity	8,330	8,464
Long-term debt	3,455	3,619
Total capitalization	11,785	12,083
Total liabilities and capitalization	$ 20,617	$ 19,074

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in millions of dollars)

	Years Ended March 31,	
	2013	2012
Operating revenues:		
Gas distribution	**$ 3,810**	$ 3,892
Electric services	**1,757**	1,216
Other	**28**	30
Total revenues	**5,595**	5,138
Operating expenses:		
Purchased gas	**1,565**	1,714
Operations and maintenance	**2,409**	1,810
Depreciation and amortization	**413**	373
Decommissioning charges	**-**	45
Impairment of intangible assets	**-**	102
Other taxes	**594**	584
Total operating expenses	**4,981**	4,628
Operating income	**614**	510
Other income and (deductions):		
Interest on long-term debt	**(196)**	(175)
Other interest, including affiliate interest	**(19)**	(44)
Equity income in unconsolidated subsidiaries	**36**	26
Gain on sale of investments	**-**	99
Other (deductions) income, net	**(8)**	45
Total other deductions, net	**(187)**	(49)
Income before income taxes	**427**	461
Income taxes:		
Current	**(26)**	52
Deferred	**198**	156
Income tax expense	**172**	208
Income from continuing operations	**255**	253
Net income from discontinued operations, net of taxes	**17**	39
Net income	**$ 272**	$ 292

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions of dollars)

	Years Ended March 31,	
	2013	2012
Operating revenue:		
Net income	**$ 272**	$ 292
Other Comprehensive Income:		
Unrealized gains on securities, net of $1 and $ 1 tax expense	**1**	1
Changes in pension and other postretirement obligation, net of $37 and $158 tax benefit	**(56)**	(227)
Reclassification adjustment for gains included in net income, net of $33 and $31 tax expense	**49**	44
Other comprehensive loss	**(6)**	(182)
Comprehensive income	**$ 266**	$ 110

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions of dollars)

	Years Ended March 31,	
	2013	2012
Operating activities:		
Net income	**$ 272**	$ 292
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
Depreciation and amortization	**413**	373
Provision for deferred income taxes	**198**	156
Bad debt expense	**46**	42
Equity income in unconsolidated subsidiaries, net of dividends received	**4**	15
Gain on sale of investments	**-**	(99)
Decommissioning charges	**-**	45
Impairment of intangible assets and property, plant and equipment	**-**	102
Regulatory deferral and other amortization	**65**	37
Pension and other postretirement contributions	**(341)**	(251)
Pension and other postretirement expense	**335**	182
Net environmental payments	**(85)**	(66)
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenue	**(916)**	376
Materials, supplies and gas in storage	**95**	(75)
Accounts payable and accrued expenses	**121**	(100)
Prepaid and accrued taxes	**(79)**	68
Other liabilities	**74**	109
Accounts receivable from/payable to affiliates, net	**84**	-
Regulatory assets and liabilities, net	**39**	(131)
Other, net	**(6)**	23
Net cash provided by continuing operating activities	**319**	1,098
Investing activities:		
Capital expenditures	**(639)**	(619)
Net proceeds from disposal of discontinued operations and subsidiary assets	**223**	163
Advance to affiliate	**(1,002)**	(1,221)
Equity investments in unconsolidated subsidiaries	**(19)**	(6)
Cost of removal and other	**(31)**	(48)
Net cash used in continuing investing activities	**(1,468)**	(1,731)
Financing activities:		
Unregulated affiliated money pool borrowing	**223**	-
Regulated affiliated money pool borrowing	**908**	-
Dividend on common stock	**(12)**	-
Capitalization of affiliates	**(82)**	-
Repayments of long-term debt	**(10)**	(10)
Parent loss tax allocation	**6**	26
Proceeds from issuance of long-term debt	-	550
Other	**1**	(4)
Net cash provided by continuing financing activities	**1,034**	562
Net decrease in cash and cash equivalents from continuing operations	**(115)**	(71)
Net cashflow from discontinued operations - operating	**(42)**	(50)
Net cashflow from discontinued operations - investing	**(3)**	13
Cash and cash equivalents, beginning of year	**754**	862
Cash and cash equivalents, end of year	**$ 594**	$ 754
Supplemental disclosures:		
Interest paid	**$ 191**	$ 145
Income taxes paid	**14**	134
Supplemental non-cash items:		
Capital-related accruals included in accounts payable	**20**	13
Capitalization of affiliates	**313**	-
Service companies merger assets and liabilities transferred within operating activities	**176**	-
Service companies merger assets and liabilities transferred within investing activities	**315**	-
Service companies merger assets and liabilities transferred within financing activities	**(491)**	-

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(in millions of dollars)

			March 31, 2013	March 31, 2012
Total shareholders' equity			**$ 8,330**	$ 8,464
Long - term debt:	Interest Rate	Maturity Date		
Medium and long-term notes	3.30% - 9.75%	October 2014 - March 2042	**2,550**	2,560
Gas facilities revenue bonds	Variable	December 2020 - July 2026	**230**	230
Gas facilities revenue bonds	4.70% - 6.95%	April 2020 - July 2026	**411**	411
Total			**641**	641
Promissory notes to LIPA				
Pollution control revenue bonds	5.15%	March 2016	**108**	108
Electric facilities revenue bonds	5.30%	November 2023 - August 2025	**47**	47
Total			**155**	155
Industrial development bonds	5.25%	June 2027	**128**	128
First mortgage bonds	6.90% - 8.80%	July 2022 - April 2028	**75**	75
State Authority financing notes	Variable	December 2027 - October 2028	**66**	66
Total long-term debt			**3,615**	3,625
Other			**-**	4
Current maturities			**(160)**	(10)
Total long-term debt			**3,455**	3,619
Total capitalization			**$ 11,785**	$ 12,083

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in millions of dollars, except per share and number of shares data)

	Common Stock, Par Value $0.10 per share		Preferred Stock, Par Value $1 per Share				Accumulated Other Comprehensive Income			
	Issued and Outstanding Shares	Amount	Issued and Outstanding Shares	Amount	Additional Paid-in Capital	Retained Earnings	Available for Sale Securities and Other Investments	Pension and Postretirement Benefit Plans	Total Accumulated Other Comprehensive Income	Total
Balance as of March 31, 2011	100	$ -	-	$ -	$ 7,574	$ 1,123	$ 30	$ (399)	$ (369)	$ 8,328
Net income	-	-	-	-	-	292	-	-	-	292
Comprehensive income:										
Unrealized losses on investments, net of $1 tax benefit	-	-	-	-	-	-	1	-	1	1
Changes in pension and other postretirement obligations, net of $158 tax benefit	-	-	-	-	-	-	-	(227)	(227)	(227)
Reclassification adjustment for gains included in net income, net of tax $31 expense	-	-	-	-	-	-	-	44	44	44
Total comprehensive income										110
Parent loss tax allocation					26					26
Issuance of preferred stock	-	-	1	-	-	-	-	-	-	-
Balance as of March 31, 2012	100	-	1	-	7,600	1,415	31	(582)	(551)	8,464
Net income						272	-	-	-	272
Comprehensive income:										
Unrealized gains on investments, net of $1 tax expense	-	-	-	-	-	-	1	-	1	1
Changes in pension and other postretirement obligations, net of $37 tax benefit	-	-	-	-	-	-	-	(56)	(56)	(56)
Reclassification adjustment for gains included in net income, net of $33 tax expense	-	-	-	-	-	-		49	49	49
Total comprehensive income										266
Parent loss tax allocation	-	-	-	-	6	-	-	-	-	6
Share based compensation allocation	-	-	-	-	1	-	-	-	-	1
Capitalization of affiliates					(395)					(395)
Dividend on common stock	-	-	-	-	-	(12)	-	-	-	(12)
Balance as of March 31, 2013	100	$ -	1	$ -	$ 7,212	$ 1,675	$ 32	$ (589)	$ (557)	$ 8,330

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

KEYSPAN CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

KeySpan Corporation ("KeySpan", the "Company", "we", and "our") is a public utility holding company that distributes natural gas to customers in New York City, Long Island, Massachusetts. We also own and operate electric generating plants in Nassau and Suffolk Counties on Long Island, New York, which produce 4,100 megawatts ("MW") of electricity and manage the electricity network on Long Island under an agreement with Long Island Power Authority ("LIPA"). The Company owns 3,640 MW dedicated to serving LIPA under a Power Supply Agreement ("PSA") and has commitments for an additional 159.9 MWs under separate power purchase agreements ("PPA"s). KeySpan's other operating subsidiaries are primarily involved in gas production and development, and liquefied natural gas storage. We also invest and participate in the development of natural gas pipelines and other energy-related projects.

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 an indirectly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

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

Gas Distribution

The Gas Distribution business currently consists of four gas distribution subsidiaries. The Brooklyn Union Gas Company ("Brooklyn Union") provides gas distribution services to customers in the New York City boroughs of Brooklyn, Queens and Staten Island. KeySpan Gas East Corporation ("KeySpan Gas East") provides gas distribution services to customers in the Long Island Counties of Nassau and Suffolk and the Rockaway Peninsula of Queens County, New York. The remaining gas distribution subsidiaries, Boston Gas Company ("Boston Gas") and Colonial Gas Company ("Colonial Gas") provide gas distribution service to customers in Massachusetts.

On July 3, 2012, our previous subsidiary, EnergyNorth Natural Gas, Inc., ("EnergyNorth") was sold to Liberty Energy Utilities Co. ("Liberty Energy"), a subsidiary of Algonquin Power & Utilities Corp. The results of EnergyNorth and Seneca-Upshur Petroleum, Inc. ("Seneca-Upshur") are reflected as discontinued operations in the accompanying consolidated statements of income and the assets and liabilities of EnergyNorth and Seneca-Upshur are classified as assets held for sale in the accompanying consolidated balance sheets at March 31, 2012.

Electric Services

Certain of the Company's subsidiaries provide operational and energy management services, supplies capacity to and produces energy for the use of LIPA's customers. These services are provided through the following contractual arrangements. The Management Service Agreement (the "MSA"), expiring on December 31, 2013, provides operation, maintenance and construction services and significant administrative services relating to the Long Island electric transmission and distribution system. The PSA provides LIPA with electric generating capacity, energy conversion and ancillary services from our Long Island generating units. The Energy Management Agreement (the "EMA"), which expired on May 28, 2013, provides management of all aspects of the fuel supply for our Long Island generating facilities. In total, these contracts represent approximately 32% of KeySpan's annual revenue.

In October 2012, the Company and LIPA reached an agreement to amend and restate the current PSA for a maximum term of 15 years as discussed in Note 10 "Commitments and Contingencies" under "LIPA Agreements".

On June 3, 2010, LIPA issued a Request for Proposal for an operating and maintenance services provider to furnish the services currently provided under the MSA after the MSA expires. On December 15, 2011 LIPA announced that it will not renew the MSA contract with the Company beyond its current term expiring on December 31, 2013,

subject to certain regulatory approvals. This contract represents approximately 23% of the Company's annual revenue and 2.6% of its operating income, because the majority of the costs related to the contract is passed through to LIPA. The non-renewal of the contract is not expected to significantly impact the continuing operations of the Company. Pursuant to the MSA, the Company will be required to perform transition assistance.

Other Services

The Energy Services business includes companies that provide energy-related services to customers located primarily within the northeastern United States. Subsidiaries operate and maintain and design energy systems for commercial, institutional and industrial customers.

The Energy Investments business consists of our gas production and development investments, as well as certain other domestic energy-related investments. KeySpan's gas production and development activities included its wholly-owned subsidiary Seneca-Upshur, which was sold in October 2011, as discussed in Note 12. Seneca-Upshur was engaged in gas production and development activities primarily in West Virginia. Additionally, through the Company's wholly-owned subsidiary, National Grid LNG, it owns a 600,000 barrel liquefied natural gas storage and receiving facility in Providence, Rhode Island.

The Company's consolidated financial statements also include a 26.25% interest in Millennium Pipeline Company LLC and a 20.4% interest in Iroquois Gas Transmission System, which are accounted for under the equity method of accounting.

Under our holding company structure, we have no independent operations or source of income of our own and conduct all of our operations through our subsidiaries and, as a result, we depend on the earnings and cash flow of, and dividends or distributions from, our subsidiaries to provide the funds necessary to meet our debt and contractual obligations. Furthermore, a substantial portion of our consolidated assets, earnings and cash flow is derived from the operations of our regulated utility subsidiaries, whose legal authority to pay dividends or make other distributions to us is subject to regulation by state regulatory authorities.

The Company has evaluated subsequent events and transactions through August 30, 2013, the date of issuance of these consolidated financial statements, and concluded that there were no events or transactions that require adjustment to or disclosure in the consolidated financial statements as of and for the year ended March 31, 2013.

B. Basis of Presentation

The consolidated financial statements for the years ended March 31, 2013 and March 31, 2012 are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") including the accounting principles for rate-regulated entities with respect to the Company's subsidiaries engaged in the transmission and distribution of gas and electricity. The consolidated financial statements reflect the rate-making practices of the applicable regulatory authorities.

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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

The Company uses the equity method of accounting for its investments in affiliates, which are 50% or less owned, as the Company has the ability to exercise significant influence over the operating and financial policies of the affiliates but does not control the affiliates. The Company's share of the earnings or losses of the affiliates is included as equity income in unconsolidated subsidiaries in the accompanying consolidated statements of income.

On November 5, 2012, the net assets of two service companies previously owned by KeySpan were transferred out and merged with NGUSA in exchange for shares of common stock. The services that had been provided to the Company's subsidiaries by these two service companies are now provided by NGUSA at cost.

For the purposes of presentation in the statement of cash flows, it is assumed that all amounts that are settled through the money pool are constructive cash receipts and payments, and therefore are presented as such.

C. Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC"), the New York State Public Service Commission ("NYPSC"), and the Massachusetts Department of Public Utilities ("DPU") provide the final determination of the rates that the Company's subsidiaries charge their customers. In certain cases, the rate actions of the FERC and the state regulatory bodies 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 or refunded through the rate-making process, which would result in a corresponding increase or decrease in future rates.

D. Revenue Recognition

Gas Distribution

Customers are generally billed on a monthly basis. Revenues include unbilled amounts related to the estimated gas usage that occurred from the most recent meter reading to the end of each month.

The cost of gas used is recovered when billed to customers through the operation of a cost of gas adjustment factor ("CGAF") included in utility tariffs. The CGAF provision requires an annual reconciliation of recoverable gas costs and revenues. Any difference is deferred pending recovery from, or refund to customers.

The four gas distribution subsidiaries of the Company are subject to revenue decoupling for certain customer classes. Revenue decoupling is a rate-making mechanism that breaks the link between the Company's base revenue requirement and sales. This mechanism allows the Company to offer various energy efficiency measures to its customers without financial detriment to the Company resulting from reductions in gas usage. The Revenue Decoupling Adjustment Factor ("RDAF") requires the Company's gas distribution subsidiaries to adjust base rates semi-annually to reflect the over or under recovery of the Company's targeted base distribution revenues from the prior season.

The gas distribution business is influenced by seasonal weather conditions. The New York and Long Island gas utility tariffs contain weather normalization adjustments that provide for recovery from, or refund to customers of material shortfalls or excesses of delivery revenues (revenues less applicable gas costs and revenue taxes) during a heating season due to variations from normal weather. Revenues are adjusted each month as the clause is in effect. The New England gas utility rate structures contain no weather normalization feature; therefore net revenues are subject to weather related demand fluctuations. As a result, fluctuations from normal weather may have a significant positive or negative effect on the results of these operations.

Electric Services

Electric revenues are derived from billings to LIPA for the electric generation capacity and, to the extent requested, energy from our existing oil and gas-fired generating plants. Sales of capacity and energy are made under terms of the PSA with rates approved by the FERC. Revenues are determined based on these billings plus an estimate for unbilled energy delivered between the bill date and the end of each month. These amounts are billed to customers in the next billing cycle following the month end. Revenues under the MSA, which include billings for operation, maintenance and repair of the LIPA transmission and distribution system, as well as the fulfillment of certain administrative functions, are recognized in accordance with the terms of the agreement as services are provided.

Other Revenues

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

E. Property, Plant and Equipment

Property, plant and equipment is stated at original cost. The cost of additions to property, plant and equipment and replacements of retired units of property are capitalized. Costs include direct material, labor, overhead and

allowance for funds used during construction ("AFUDC") for regulated operations and the interest cost of debt used to finance capital expenditures for non-regulated operations. The cost of renewals and betterments that extend the useful life of property, plant and equipment are also capitalized. The cost of repairs, replacements and major maintenance projects, which do not extend the useful life or increase the expected output of the asset, are expensed as incurred. Depreciation is generally computed over the estimated useful life of the assets using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved for regulated entities by the state regulatory authorities. Whenever property, plant and equipment in the regulated subsidiaries 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 average composite rates and average service lives for the years ended March 31, 2013 and March 31, 2012 are as follows:

	March 31,			
	Electric		**Gas**	
	2013	2012	**2013**	2012
Composite rates - depreciation	**3.3%**	3.5%	**2.6%**	2.6%
Composite rates - cost of removal	**-**	-	**0.4%**	0.4%
Total composite rates	**3.3%**	3.5%	**3.0%**	3.0%
Average service life	**30 years**	29 years	**38 years**	38 years

The Company's depreciation expenses for its regulated subsidiaries include estimated costs to remove property, plant and equipment, which is recovered through the rates charged to customers. At March 31, 2013 and March 31, 2012, KeySpan had cumulative costs recovered in excess of costs incurred totaling $772 million and $700 million, respectively. These amounts are reflected as regulatory liabilities in the accompanying consolidated balance sheets.

In accordance with applicable regulatory accounting guidance, the Company records AFUDC, which represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities. The equity component of AFUDC is a non-cash amount within the consolidated statements of income. AFUDC is capitalized as a component of the cost of property, plant and equipment, with an offsetting credit to other income, net for the equity component and other interest expense for the debt component in the accompanying consolidated statements of income. After construction is completed, the Company is permitted to recover these costs through inclusion in its rate base and corresponding depreciation expense for regulated entities.

The components of AFUDC capitalized and composite AFUDC rates for the years ended March 31, 2013 and March 31, 2012 are as follows:

	March 31,	
	2013	2012
	(in millions of dollars)	
Debt	**$ 3**	$ 4
Equity	**5**	4
	$ 8	$ 8
Composite AFUDC rate	6.9%	6.9%

In addition, approximately $1 million of interest was capitalized for construction of non-regulated generation projects.

F. Goodwill and Other Intangible Assets

Goodwill

Goodwill represents the excess of the purchase price of a business over the fair value of the tangible and intangible assets acquired, net of the fair value of liabilities assumed and the fair value of any non-controlling interest in the acquisition. The Company tests goodwill for impairment annually on January 31, and whenever events occur or

circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

The goodwill impairment analysis is comprised of two steps. In the first step, the estimated fair value of the reporting unit is compared with its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further analysis is required. If the carrying value exceeds the 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.

Goodwill is required to be analyzed and tested for impairment at a level of reporting referred to as a reporting unit. A reporting unit is an operating segment or one level below an operating segment (referred to as a component). KeySpan has defined its reporting units as its gas distribution operations which hold substantially all of its goodwill and its electric services operations.

The Company calculated the fair value of the reporting unit in the performance of its annual goodwill impairment test for the fiscal year ended March 31, 2013 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, 2013 to March 31, 2018; (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 US 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 we believe is appropriate based on comparison of our business with the benchmark companies.

The Company ultimately determined the fair value of the business using 50% weighting for each valuation methodology.

Intangible Assets

Intangible assets represent finite-lived assets that are amortized over their respective estimated useful lives and, along with other long-lived assets, are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable. During the year ended March 31, 2012, the Company recorded a non-cash impairment charge of $102 million to reduce the net carrying value of its MSA LIPA contract intangible asset to a fair value of zero, which was determined using an income-based approach.

G. Impairment of Long-Lived Assets

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

H. Available-For-Sale Securities

The Company holds available-for-sale securities that are classified as long-term investments which primarily include equity securities for which the equity method is not applied, municipal bonds and corporate bonds. These

investments are recorded at fair value and are included in financial investments in the accompanying consolidated balance sheets. Increases and decreases in the value of these assets are recorded through other comprehensive income.

I. Cash and Cash Equivalents

The Company classifies short-term investments that are highly liquid and that have original maturities of three months or less as cash equivalents. Cash and cash equivalents are carried at cost which approximates fair value.

J. Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is calculated by applying a reserve factor to outstanding receivables. The reserve factor is based upon historical write-off experience and assessment of customer collectability.

K. Materials, Supplies, and Gas in Storage

Materials and supplies are stated at the lower of weighted average cost or market, and are expensed or capitalized into specific capital additions as used. At March 31, 2013 and March 31, 2012, materials and supplies were $107 million and $95 million, respectively. 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, 2013 and March 31, 2012.

Gas in storage is stated at weighted average cost, and is expensed when delivered to customers. Existing rate orders allow the Company to pass through the cost of gas purchased directly to customers along with any applicable authorized delivery surcharge adjustments. Accordingly, the value of gas in storage does not fall below the cost to the Company. Gas costs passed through to customers are subject to periodic regulatory approvals and are reported periodically to the state authorities. At March 31, 2013 and March 31, 2012, gas in storage was $142 million and $249 million, respectively.

L. Income and Other Taxes

Federal and state income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the consolidated financial statement carrying amounts and the tax basis of existing assets and liabilities. National Grid North America Inc. (“NGNA”, formerly National Grid Holdings Inc.), an indirectly-owned subsidiary of National Grid plc and the intermediate holding company of NGUSA, files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary company is included in the consolidated group and 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 included subsidiaries. Benefits allocated by NGNA are treated as capital contributions.

Deferred income taxes reflect the tax effect of net operating losses, capital losses and general business credit carryforwards and the net tax effects of temporary differences between the carrying amounts of assets and liabilities for consolidated financial statement and income tax purposes, as determined under enacted tax laws and rates. 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. Additionally, the Company follows the current accounting guidance relating to uncertainty in income taxes which applies to all income tax positions reflected in the accompanying consolidated balance sheets that have been included in previous tax returns or are expected to be included in future tax returns. The accounting guidance for uncertainty in income taxes provides that the financial effects of a tax position shall initially be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information.

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

The Company collects certain taxes from customers such as sales taxes, along with 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). Where these taxes, such as gross receipts taxes, excise tax or other surcharges or fees are imposed on the Company, the Company accounts for these taxes on a gross basis.

Other taxes in the accompanying consolidated statements of income primarily include excise tax, property tax and payroll tax. Gas distribution revenues include the collection of excise taxes, while other taxes include the related expense.

M. Employee Benefits

The Company follows the accounting guidance related to the accounting for defined benefit pension and postretirement benefit ("PBOP") plans for recording pension expenses and resulting plan asset and liability balances. The guidance requires employers to fully recognize all pension and postretirement plans' funded status on the consolidated balance sheets as a net liability or asset and requires an offsetting adjustment to accumulated other comprehensive income in shareholders' equity. In the case of regulated entities, this offsetting entry is recorded as a regulatory asset or liability when the balance will be recovered from or refunded to customers in future rates. The Company has determined that such amounts for its regulated subsidiaries will be included in future rates and follows the regulatory format for recording the balances. For its electric services, the Company measures and records its pension and PBOP assets at the year-end date. Pension and PBOP assets are measured at fair value, using the year-end market value of those assets.

N. Supplemental Executive Retirement Plans

KeySpan has corporate assets recorded on the consolidated balance sheets representing funds designated for Supplemental Executive Retirement Plans. These funds are invested in corporate owned life insurance policies. These investments are measured at cash surrender value with increases and decreases in the value of these assets being recorded through earnings in the consolidated statements of income.

O. Derivatives

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange, credit spreads, commodities, equity or other indices. Derivatives enable their users to manage their exposure to these markets or credit risks. The Company uses derivative instruments to manage our operational market risks from commodities and economically hedge a portion of the Company's exposure to commodity price risk. When economic hedge positions are in effect, the Company is exposed to credit risks in the event of non-performance by counterparties to derivative contracts (hedging transactions), as well as non-performance by the counterparties of the underlying transactions.

Commodity Derivative Instruments – Regulated Accounting

All of the Company's derivative financial instruments are held by regulated subsidiaries. The Company utilizes derivatives to reduce the cash flow variability associated with the purchase price for a portion of future natural gas purchases. The Company's strategy is to minimize fluctuations in firm gas sales costs to the Company's customers. The accounting for these derivative instruments is subject to the current accounting guidance for rate-regulated enterprises. Therefore, the fair value of these derivatives is recorded as current or deferred assets and liabilities, with offsetting positions recorded as regulatory assets and regulatory liabilities in the accompanying consolidated balance sheets. Gains or losses on the settlement of these contracts are initially deferred and then refunded to or collected from the Company's customers consistent with regulatory requirements.

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

Balance Sheet Offsetting

Accounting guidance related to derivatives permits the offsetting of fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instrument(s) recognized at fair value executed with the same counterparty under a master netting arrangement. The Company's accounting policy is to not offset fair value amounts recognized for derivative instruments and related cash collateral receivable or payable with the same counterparty under a master netting agreement, and to record and present the fair value of derivative instrument(s) on a gross basis.

P. Fair Value Measurements

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

Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;

Level 2 — inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data; and

Level 3 — unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs.

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

Q. New and Recent Accounting Guidance

<u>*Accounting Guidance Adopted in Fiscal Year 2013*</u>

Fair Value Measurements

In May 2011, the Financial Accounting Standards Board ("FASB") issued accounting guidance that amended existing fair value measurement guidance. The amendment was issued with a goal of achieving common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards. Consequently, the guidance changes the wording used to describe many of the requirements in GAAP for measuring fair value, requires new disclosures about fair value measurements, and changes specific applications of the fair value measurement guidance. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements including, but not limited to: fair value measurement of a portfolio of financial instruments; fair value measurement of premiums and discounts; and additional disclosures about fair value measurements. This guidance became effective for financial statements issued for annual periods (for non-public entities such as the Company) beginning after December 15, 2011. The Company adopted this guidance for the fiscal year ended March 31, 2013, which only impacted its fair value disclosures. There were no changes to the Company's approach to measuring fair value as a result of adopting this new guidance.

Goodwill Impairment

In September 2011, the FASB issued accounting guidance related to goodwill impairment testing, whereby an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not required. Otherwise, the entity is required to perform the two-step impairment test. This guidance became effective

for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company adopted this guidance in its fiscal year ended March 31, 2013 and did not elect the option to perform a qualitative analysis.

Other Comprehensive Income

In June 2011, the FASB issued accounting guidance that eliminated the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This new guidance seeks to improve financial statement users' ability to understand the causes of an entity's change in financial position and results of operations. As a result of this guidance entities are required to either present the statement of income and statement of comprehensive income in a single continuous statement or in two separate, but consecutive statements of net income and other comprehensive income. This guidance does not change the items that are reported in other comprehensive income or any reclassification of items to net income. In addition, the new guidance does not change an entity's option to present components of other comprehensive income net of or before related tax effects. This guidance became effective for non-public companies for fiscal years ending after December 15, 2012, and for interim and annual periods thereafter, and it is to be applied retrospectively. The Company adopted this guidance for the fiscal year ended March 31, 2013, with no impact on its financial position, results of operations, or cash flows.

Accounting Guidance Not Yet Adopted

Offsetting Assets and Liabilities

In December 2011, the FASB issued accounting guidance requiring enhanced disclosure related to offsetting assets and liabilities. Under the new guidance, reporting entities will be 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. In January 2013, the FASB issued additional guidance to clarify that the specific instruments and activities that should be considered in these disclosures will be limited to recognized derivatives, repurchase and reverse repurchase agreements, and securities lending transactions. This guidance is effective for fiscal years, and interim periods within those years, beginning after January 1, 2013, and is to be applied retrospectively. The Company will begin including the new required disclosures in its fiscal year 2014 interim financial statements as applicable and does not expect any impact on its financial position, results of operations, or cash flows.

Reclassifications From Accumulated Other Comprehensive Income

In February 2013, the FASB issued accounting guidance that requires an entity to report information about significant reclassifications out of accumulated other comprehensive income. The new guidance requires presentation either in a single footnote or parenthetically on the financial statements, of the effect of significant amounts reclassified out of accumulated other comprehensive income based on the corresponding line items in the statement of net income. For amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity would cross-reference other disclosures that provide additional detail about those amounts. The amendments do not change the current requirements for reporting net income or other comprehensive income in the financial statements. For non-public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Company is evaluating the impact, if any, on its financial position, results of operations, and cash flows..

R. Reclassifications

As discussed in Note 13, "Discontinued Operations," the Company completed the sale of its subsidiary EnergyNorth in fiscal year 2013. Included in the current year's income from discontinued operations and in other comprehensive income is a $14 million gain and a $12 million gain, respectively, representing a correction of errors in calculating the original impairment loss and tax basis of the assets determined at the time EnergyNorth became a discontinued operation in fiscal year 2011.

Certain reclassifications have been made to the financial statements to conform prior year's data to the current year's presentation. These reclassifications had no effect on the Company's results of operations and cash flows.

Note 2. Rates and Regulation

The following table presents the Company's regulatory assets and regulatory liabilities included in the accompanying consolidated balance sheets at March 31, 2013 and March 31, 2012:

	March 31,	
	2013	2012
	(in millions of dollars)	
Regulatory assets		
Current:		
Gas costs	**$ 90**	$ 61
Environmental costs	**77**	13
Postretirement benefits	**39**	63
Revenue decoupling	**17**	42
Derivative contracts	**7**	55
Recovery of acquisition premium	**8**	8
Property and other taxes	**4**	4
PSC assessment	**-**	3
Other	**23**	26
Total	**265**	275
Non-current:		
Environmental costs	**1,027**	1,276
Postretirement benefits	**584**	569
Recovery of acquisition premium	**208**	216
Capital tracker	**59**	-
Property and other taxes	**25**	61
Regulatory deferred tax asset	**24**	19
Gas costs	**24**	-
Derivative contracts	**6**	21
Other	**196**	96
Total	**2,153**	2,258
Regulatory liabilities		
Current:		
Gas costs	**90**	76
Alliance profit	**43**	23
Derivative contracts	**26**	37
Statement of policy buyback	**-**	20
Other	**11**	12
Total	**170**	168
Non-current:		
Cost of removal	**772**	700
Net delivery rate adjustment	**130**	111
Excess earnings	**95**	94
Postretirement benefits	**45**	40
Derivative contracts	**4**	40
Environmental costs	**10**	77
Property and other taxes	**3**	59
Other	**151**	76
Total	**1,210**	1,197
Net regulatory assets	**$ 1,038**	$ 1,168

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 state authorities. These amounts will be refunded to or recovered from 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 Colonial Gas' assets in the 1998 acquisition of Colonial Gas by Eastern Enterprises, Inc. ("Eastern"). In exchange for certain rate concessions and the achievement of certain merger savings targets, the DPU has allowed Colonial Gas to recover the acquisition premium through rates for the next 26 years (through August 2039).

Postretirement benefits: The amount in regulatory assets primarily represents the excess costs of the Company's pension and postretirement benefits plans over amounts received in rates that are deferred to a regulatory asset to be recovered in future periods and the non-cash accrual of net actuarial gains and losses. The amount in regulatory liabilities primarily represents accrued carrying charges as calculated in accordance with the Company's Pension and PBOP internal reserve mechanism.

Capital tracker: Brooklyn Union and Keyspan Gas East have capital tracker mechanisms that reconcile their capital expenditures to the amounts permitted in rates. The mechanism provides for a two way (upward and downward) tracker for City and State Construction ("CSC") related expenditures and a one way (downward only) tracker for all other capital expenditures. Brooklyn Union and Keyspan Gas East defer the full revenue requirement equivalent of CSC expenditures above or below the CSC rate allowance and defer the revenue requirement equivalent of any other unspent capital expenses below the rate allowance for all other capital expenditures. Brooklyn Union's recent rate settlement, discussed below, eliminated the CSC tracker effective January 1, 2013. The effect of the tracker is to adjust the Company's return on common equity capital ("ROE") for the difference between actual capital expenditures and the amount provided in rates.

Alliance profit: 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 at the balance sheet date will be refunded to customers over the next year.

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

Net delivery rate adjustment and Environmental costs: A $15 million combined annual surcharge for the recovery of regulatory assets ("Delivery Rate Surcharge") was implemented in January 2008 and January 2009 for Brooklyn Union and KeySpan Gas East, respectively. The Delivery Rate Surcharge increased by $5 million for the first five years of the Brooklyn Union's rate plan and increased by $10 million per year in rate years 2010 through 2012 of KeySpan Gas East's rate plan, resulting in the combined aggregate recovery of approximately $175 million. The first $25.2 million collected from the Delivery Rate Surcharge ("DRS") was used to offset deferred special franchise taxes with the remainder deferred and used to offset future increases in rates for the costs such as Site Investigation and Remediation ("SIR") or other costs deferrals. The DRS expired on December 31, 2012. In January 2010, the New York Gas Companies submitted a filing on the status of its regulatory deferrals so that the NYPSC could determine if the New York Gas Companies should adjust their revenue levels under the rate plan so as to minimize outstanding deferral balances. On November 28, 2012, the NYPSC issued an order authorizing the Companies to recover a combined $215.6 million of SIR deferral balances through the implementation of an SIR surcharge that supersedes the expired DRS. The SIR surcharge is designed to collect a combined $65.0 million per year beginning January 1, 2013, to amortize the SIR balance approved for recovery by the NYPSC.

In addition, this regulatory asset includes 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.

Excess earnings: The base rates in Brooklyn Union's and Keyspan Gas East's rate plans (2008-12) provide for a 9.8% ROE. At the end of each rate year (calendar year), these entities are required to provide the NYPSC with a computation of its ROE. If the level of earned common equity in the applicable rate year exceeds 10.5%, the company is required to defer a portion of the revenue equivalent associated with any over earnings for the benefit of customers. Brooklyn Union's recent rate settlement modified its ROE and revenue sharing mechanism for the rate year beginning January 1, 2013, as described below.

Carrying Charges

The Company records carrying charges on the regulatory balances related to gas costs, postretirement benefits, environmental costs and revenue decoupling 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. The Company anticipates recovering these costs in the rates concurrently with future cash expenditures. If recovery is not concurrent with the cash expenditures, the Company will record the appropriate level of carrying charges. Carrying charges are not earned on regulatory deferred tax assets, acquisition premium, derivative contracts and certain postretirement benefits and environmental costs.

The following table presents the carrying charges that were recognized in the accompanying consolidated statements of income during the years ended March 31, 2013 and March 31, 2012:

	March 31,	
	2013	2012
	(in millions of dollars)	
Other interest, including affiliate interest	**$ (5)**	$ (26)
Other income (deductions), net	**(26)**	41
	$ (31)	$ 15

The Company's regulated operating companies are involved in several regulatory rate cases, as follows:

Brooklyn Union and KeySpan Gas East (the "New York Gas Companies")

Carrying Charges

During fiscal year 2013, the New York Gas Companies received an order from the NYPSC relating to SIR as described above, requiring that carrying charges on SIR related balances be calculated net of deferred taxes. As a result, management concluded that all of its carrying charges should be calculated in the same manner and recognized impairment on existing carrying charges deferred within regulatory assets of $62.7 million and derecognized existing carrying charges accrued within regulatory liabilities of $32.2 million.

Rate Matters

The New York Gas Companies are subject to a rate plan with a primary term of five years (through December 31, 2012) that remains in effect until modified by the NYPSC. Base delivery rates are based on an allowed ROE of 9.8%. An earnings sharing mechanism in the rate plan is triggered if annual earnings result in a ROE that exceeds 10.5%. Earnings above this threshold are shared with customers. Brooklyn Union recorded excess earnings sharing of $35 million related to the rate year ending December 31, 2011.

On February 25, 2013, a joint proposal was filed with the NYPSC that memorialized an agreement between Department of Public Service Staff ("Staff") and Brooklyn Union for a two year rate settlement covering Brooklyn Union's rate years ending December 31, 2013 and December 31, 2014. On June 13, 2013, the NYPSC issued an order adopting the settlement. As a result, Brooklyn Union's revenue requirements for calendar years 2013 and 2014 have changed as follows: (i) there is no change in base delivery rates, other than those previously approved by the Commission in the rate plan, (ii) the allowed return on equity has decreased from 9.8% to 9.4%, and (iii) the common equity ratio in the capital structure has increased from 45% to 48%. Additionally, the joint proposal provides that 80% of any earnings above the 9.4% allowed return will be applied as a credit to Brooklyn Union's SIR balance for the benefit of customers.

Other Regulatory Matters

In June 2009, the New York Gas Companies made a compliance filing with the NYPSC regarding the implementation of the Temporary State Energy & Utility Conservation Assessment ("Temporary State Assessment"). The NYPSC authorized recovery of the revenues required for payment of the Temporary State Assessment subject to reconciliation over five years, July 1, 2009 through June 30, 2014. On June 14, 2013, the

New York Gas Companies submitted a compliance filing proposing to maintain the currently effective combined surcharge of $38.9 million for the July 1, 2013 through June 30, 2014 collection period. The New York Gas Companies had a combined deferred payable balance related to the Temporary State Assessment in the amount of $12.7 million at March 31, 2013. The New York Gas Companies had a combined deferred receivable balance related to the Temporary State Assessment in the amount of $4.6 million at March 31, 2012.

In February 2011, the NYPSC selected Overland Consulting Inc., a management consulting firm, to perform a management audit of National Grid's affiliate cost allocation, policies and procedures. The audit of these service company charges sought to determine if any service company transactions have resulted in unreasonable costs to New York customers for the provision of delivery service. A final report was provided to the New York Gas Companies by the NYPSC in October 2012. In its January 16, 2013 Order Directing Submission of Implementation Plan and Establishing Further Findings, the NYPSC disclosed the findings of the Overland Audit of the affiliate cost allocations, policies and procedures of National Grid's service companies as applicable to its New York utilities. The final audit report concluded that the New York Gas Companies were overcharged $35.5 million in service company related costs. The New York Gas Companies dispute the audit conclusions as they believe that sampling amounts found by Overland to be in error should not have been extrapolated to the larger population. The NYPSC has ordered that further proceedings be conducted to address the New York Gas Companies' disagreement with the testing results and statistical extrapolation. The New York Gas Companies do not believe that the outcome of this matter will have a material impact on its financial position, results of operations, or cash flows.

On December 2009, the NYPSC adopted the terms of a Joint Proposal between Staff and the New York Gas Companies that provided for a revenue decoupling mechanism ("RDM") to take effect as of January 1, 2010. The RDM applies only to the New York Gas Companies' firm residential heating sales and transportation customers, and permits the New York Gas Companies to reconcile actual revenue per customer to target revenue per customer for the affected customer classes on an annual basis. The RDM is designed to eliminate the disincentive for the New York Gas Companies to implement energy efficiency programs by breaking the link between sales volumes and revenues. The New York Gas Companies had deferred receivable balances related to the RDM in the amount of $3.7 million at March 31, 2013. Payable balances are fully refundable and receivable balances fully recoverable from the affected customer class.

In February 2013, the NYPSC initiated a comprehensive management and operational audit of National Grid's New York gas businesses, including the New York Gas Companies, pursuant to the Public Service Law requirement that requires major electric and gas utilities to undergo an audit every five years. The audit commenced in June 2013. At the time of the issuance of these financial statements, the Company cannot predict the outcome of this management and operational audit.

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

In November 2010, the DPU issued an order in the Massachusetts Gas Companies' 2010 rate case approving a combined revenue increase of $58 million based upon a 9.75% rate of ROE and a 50% equity ratio. In November 2010, the Massachusetts Gas Companies filed two motions in response to the DPU's November 2010 rate case order, whereby in its motion for recalculation, the Massachusetts Gas Companies had requested that the DPU recalculate certain adjustments that it made in determining the $58 million increase approved in its order, which would resulted in an additional $10.4 million in revenue. On October 26, 2011, the DPU ruled on the Massachusetts Gas Companies' Motion for recalculation awarding them a combined increase of $2.8 million effective November 1, 2011 less than the $10.4 million requested. On January 31, 2013, the DPU ruled on the Massachusetts Gas Companies' motion for reconsideration and upheld its decision on all of the financial matters raised by the Massachusetts Gas Companies, including the disallowance of fixed asset additions of $11.3 million from calendar years 1996 to 1998 and associated depreciation expense of approximately $0.8 million, with the exception of the issue of Colonial Gas merger related costs. The combined effects of the DPU's orders are a total revenue increase of $65.3 million, with the $4.5 million reflected in rates effective February 1, 2013.

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In May 2011, May 2012 and May 2013, the Massachusetts Gas Companies made filings with the DPU for recovery of cumulative capital costs related to infrastructure replacement of approximately $10.4 million, $24.4 million and $37 million, respectively, (the incremental investments were $14 million and $12.6 million for the May 2012 and May 2013 filings, respectively). The May 2011 and May 2012 requests have been reflected in rates effective on the following November 1, with a final resolution pending before the DPU. The May 2013 request is currently being reviewed by the DPU and, if approved, will be reflected in rates effective November 1, 2013. Boston Gas filed a revision to its May 2013 request in July 2013 based on revised cumulative capital costs of $32.5 million.

On August 3, 2012, the Massachusetts Gas Companies submitted their peak RDM filing with the DPU proposing to surcharge customers $28.6 million, and deferring $27.7 million which exceeded the allowable cap under the Massachusetts Gas Companies' RDM. The Massachusetts Gas Companies have the opportunity to recover the $27.7 million in the future. On October 12, 2012, the DPU approved the Massachusetts Gas Companies' RDAF, effective November 1, 2012, subject to further investigation and reconciliation. On January 31, 2013, the Massachusetts Gas Companies submitted their off peak RDM filing with the DPU proposing a surcharge to customers of $3.1 million, which is below the allowable cap. As with the peak RDM filing, on March 29, 2013, the DPU approved the off peak RDAF effective May 1, 2013.

Other Regulatory Matters

In August 2011, the Massachusetts Gas Companies sought approval for six natural gas asset management services agreements between the Massachusetts Gas Companies and one of five counterparties. On October 17, 2011, the DPU approved the agreements, which commenced on November 1, 2011 and expired on March 31, 2012. Under these agreements, the Massachusetts Gas Companies were eligible to share in 25% of the asset management fees that are clearly attributable to capacity release activities above the prior year's margin threshold as directed in the DPU's Order, and pursuant to the incentive sharing mechanism set forth in DPU 91-141-A. The Massachusetts Gas Companies earned $1 million from May 2011 to April 2012 per the mechanism. Effective February 20, 2013, by order of the DPU, the mechanism for the sharing of margins under such optimization transactions has been revised whereby the Massachusetts Gas Companies retain 10% of all margins earned from contracts entered into after the effective date, without regard to a threshold. There were no such agreements in effect as of March 31, 2013.

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

Associated with its general rate case, the DPU opened an investigation to address the allocation and assignment of costs to the Massachusetts Gas Companies by the National Grid service companies. In June 2011, the Attorney General's Office requested that the DPU expand the scope of the audit to address the allocation and assignment of costs to the Massachusetts Gas Companies' electric distribution affiliates by the National Grid service companies and to review National Grid's cost allocation practices. The Massachusetts Gas Companies have agreed to expand the scope of the audit to its Massachusetts electric distribution affiliates. On March 12, 2012 the DPU issued an order confirming that the scope of the audit would include the Massachusetts electric distribution companies and directing the Massachusetts Gas Companies to revise their draft request for proposal consistent with the DPU's order and re-file it within seven days. The Massachusetts Gas Companies cannot predict the outcome of this proceeding.

Energy Efficiency

The Massachusetts Gas Companies operate a single combined Three-Year Energy Efficiency Plan. The recent Plan covering the period 2013 through 2015 was approved by the DPU on January 31, 2013 with a three-year budget of $290.8 million ($94.2 million for 2013, $97.0 million for 2014, and $99.6 million for 2015). In addition, the Massachusetts Gas Companies have the opportunity to recover a total performance incentive over the three-year Plan of approximately $8.3 million dollars with a fixed amount to be collected in the budget for each year of the Plan. After the conclusion of the Plan, the Massachusetts Gas Companies will reconcile the energy efficiency surcharge amounts as well as amount collected for the performance incentives.

<u>National Grid Generation</u>

In January 2009, our indirectly-owned subsidiary, National Grid Generation filed an application with the FERC for a rate increase of $92 million for the final five year rate term of the fifteen year contract under the PSA. In December 2009, the FERC approved the proposed tariff rates, effective from February 1, 2009, subject to refund and the outcome of any proceedings instituted by the FERC. In October 2009, LIPA and National Grid Generation filed a settlement with the FERC for a revenue requirement of $436 million, an annual increase of approximately $66

million, a ROE of 10.75% and a capital structure of 50% debt and 50% equity, which was approved by the FERC in January 2010. All outstanding balances associated with the revenue increases were settled in March 2010.

On October 2, 2012, National Grid Generation Company announced it had reached an agreement with LIPA to amend and restate the current PSA upon expiration of the current agreement. Pursuant to the amended and restated PSA, LIPA will continue to purchase all of the energy and capacity from the PSA generating units. The PSA has a term of fifteen years, expiring April 2028, provided LIPA has the option to terminate the agreement as early as April 2025 on two years advance notice. On May 23, 2013, the FERC accepted the PSA, and approved a revenue requirement of $418.6 million, an annual decrease of $27.4 million, a ROE of 9.75% and a capital structure of 50% debt and 50% equity. The PSA became effective as of May 28, 2013.

Note 3. Employee Benefits

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

Pension Plans

The Pension Plans are comprised of both qualifying and non-qualifying plans. The qualified pension plans provide union employees and non-union employees hired before January 1, 2011 with a retirement benefit. Supplemental nonqualified, non-contributory executive programs provide additional defined pension benefits for certain executives. We fund the qualified plans by contributing at least the minimum amount required under Internal Revenue Service ("IRS") regulations. The Company expects to contribute approximately $176 million to the qualified pension plans during fiscal year 2014.

PBOP Plans

The PBOP Plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. The PBOP plans are funded based on the rate agreements with various regulatory jurisdictions in which the Company operates. The Company expects to contribute approximately $145 million to the PBOP Plans during fiscal year 2014.

Defined Contribution Plans

The Company offers two defined contribution plans to eligible union and management employees. These plans are defined contribution plans subject to the Employee Retirement Income Security Act, which requires disclosure of financial and other information concerning plans to beneficiaries and minimum standards for pension plans. In the plans, eligible employees contribute to their own participant account. In addition, employees may receive certain employer contributions, including matching contributions and a 15% discount on the purchase of National Grid plc common stock.

Net Periodic Costs and Amount Recognized in Regulatory Assets and Other Comprehensive Income

The following table summarizes the Company's Pension and PBOP Plan costs during the years ended March 31, 2013 and March 31, 2012:

	Pension Plans		PBOP Plans	
	March 31,		**March 31,**	
	2013	2012	**2013**	2012
	(in millions of dollars)			
Service cost, benefits earned during the year	**$ 69**	$ 60	**$ 35**	$ 30
Interest cost	**189**	192	**93**	96
Expected return on plan assets	**(211)**	(208)	**(47)**	(44)
Net amortization and deferral	**119**	82	**45**	31
Settlement / Curtailment	**1**	-	**(4)**	1
Special termination benefits	**-**	1	**-**	-
Total cost	**$ 167**	$ 127	**$ 122**	$ 114

The Company's gas distribution subsidiaries have regulatory recovery of these costs which are included in regulatory assets in the accompanying consolidated balance sheets. We record amounts for our unregulated subsidiaries within operations and maintenance expenses in the accompanying consolidated statements of income.

The following table summarizes changes in amounts recorded to regulatory assets and accumulated other comprehensive income during the years ended March 31, 2013 and March 31, 2012:

	Pension Plans		PBOP Plans	
	March 31,		**March 31,**	
	2013	2012	**2013**	2012
	(in millions of dollars)			
Net actuarial loss	**$ 101**	$ 402	**$ 124**	$ 166
Prior service cost	**11**	2	**-**	1
Amortization of gain	**(118)**	(81)	**(41)**	(32)
Amortization of prior service cost	**(2)**	(2)	**-**	-
Total	**$ (8)**	$ 321	**$ 83**	$ 135
Included in regulatory assets	**5**	108	**16**	38
Included in accumulated other comprehensive income	**(13)**	213	**67**	97
Total	**$ (8)**	$ 321	**$ 83**	$ 135

The Company's gas distribution subsidiaries have regulatory recovery of these obligations are included in regulatory liabilities in the accompanying consolidated balance sheets. Other subsidiaries that do not get regulatory recovery of these costs, including our electric generation distribution business are recorded as part of accumulated other comprehensive income in the accompanying consolidated balance sheets.

The following table summarizes the Company's amounts in regulatory assets and other comprehensive income on the accompanying balance sheets that have not yet been recognized as components of net actuarial loss at March 31, 2013 and March 31, 2012 and the amount expected to be amortized during the year ended March 31, 2014:

	Pension Plans		PBOP Plans		Expected Amortization
	March 31,		**March 31,**		**March 31,**
	2013	2012	**2013**	2012	2014
			(in millions of dollars)		
Net loss	**$ 894**	$ 911	**$ 481**	$ 397	**$ 186**
Prior service cost	**24**	15	**-**	1	**3**
Total	**$ 918**	$ 926	**$ 481**	$ 398	**$ 189**
Included in regulatory assets	**$ 322**	$ 317	**$ 134**	$ 118	
Included in accumulated other comprehensive income	**596**	609	**347**	280	
Total	**$ 918**	$ 926	**$ 481**	$ 398	

Changes in Benefit Obligations and Assets

The following table summarizes the change in the benefit obligation plans funded status:

	Pension Plans		PBOP Plans	
	March 31,		**March 31,**	
	2013	2012	**2013**	2012
		(in millions of dollars)		
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ (3,844)**	$ (3,320)	**$ (1,869)**	$ (1,673)
Service cost	**(69)**	(60)	**(35)**	(30)
Interest cost on projected benefit obligation	**(189)**	(192)	**(93)**	(96)
Plan amendments	**(11)**	(2)	**-**	(1)
Net actuarial loss	**(211)**	(456)	**(140)**	(269)
Benefits paid	**195**	186	**83**	80
Actual Medicare Part D Subsidy received	**-**	-	**(11)**	(1)
Curtailments and settlements	**50**	1	**8**	2
Other	**-**	(1)	**(5)**	119
Benefit obligation at end of year	**$ (4,079)**	$ (3,844)	**$ (2,062)**	$ (1,869)
Change in plan assets:				
Fair value of plan assets at beginning of year	**$ 2,914**	$ 2,676	**$ 605**	$ 567
Actual return on plan assets	**309**	262	**56**	26
Company contributions	**196**	162	**145**	92
Benefits paid	**(195)**	(186)	**(83)**	(80)
Divestitures/settlements	**(38)**	-	**(1)**	-
Fair value of plan assets at end of year	**$ 3,186**	$ 2,914	**$ 722**	$ 605
Funded status	**$ (893)**	$ (930)	**$ (1,340)**	$ (1,264)

The benefit obligation shown above is the projected benefit obligation ("PBO") for the Pension Plans and the accumulated benefit obligation ("ABO") for the PBOP Plans. The Company is required to reflect the funded status of its Pension Plans above in terms of the PBO, which is higher than the ABO, because the PBO includes the impact of expected future compensation increases on the pension obligation. The Pension Plans had ABO balances that exceeded the fair value of plans assets as of March 31, 2013 and March 31, 2012. The aggregate ABO balances for the Company Pension Plans were $3.9 billion and $3.6 billion as of March 31, 2013 and March 31, 2012, respectively.

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2013	2012	**2013**	2012
	(in millions of dollars)			
Current liabilities	**$ (12)**	$ (12)	**$ (7)**	$ (7)
Noncurrent liabilities	**(881)**	(918)	**(1,333)**	(1,257)
Total	**$ (893)**	$ (930)	**$ (1,340)**	$ (1,264)

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2013:

For the Years Ended March 31,	Pension Benefits	Postretirement Benefits
	(in millions of dollars)	
2014	$ 197,424	$ 79,442
2015	204,370	83,197
2016	210,877	86,701
2017	216,990	89,521
2018	222,817	92,081
2019 - 2023	1,194,973	494,442
Total	$ 2,247,451	$ 925,384

Assumptions

The weighted-average assumptions used to determine the benefit obligations for the years ended March 31, 2013 and March 31, 2012 are as follows:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2013	2012	**2013**	2012
Discount rate	**4.70%**	5.10%	**4.70%**	5.10%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%
Expected return on plan assets	**7.25%**	7.25%	**7.45%**	7.50%

The weighted-average assumptions used to determine the net periodic cost for the years ended March 31, 2013 and March 31, 2012 are as follows:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2013	2012	**2013**	2012
Discount rate	**5.10%**	5.90%	**5.10%**	5.90%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%
Expected return on plan assets	**7.25%**	7.75%	**7.45%**	7.75%

The Company selects its discount rate assumption based upon rates of return on high quality corporate bond yields in the marketplace as of each measurement date. Specifically, the Company uses the Aon Hewitt AA Only 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.

The assumed health care cost trend used to develop the benefit obligations are as follows:

	March 31,	
	2013	2012
Ultimate rate to which cost trend rate gradually declines	**5.00%**	5.00%
Year ultimate rate is reached		
Pre 65	**2019**	2018
Post 65	**2018**	2017
Prescription	**2020**	2019

A one-percentage-point change in the assumed health care trend rate would have the following effects:

One-Percentage-Point	Increase	/ Decrease
	(in millions of dollars)	
Effect on post-retirement obligations as of March 31, 2013	328	(260)
Effect on annual combined service and interest cost for 2013	25	(19)

Plan Assets

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

The target asset allocations for Pension and PBOP Plans as of March 31, 2013 and March 31, 2012 are as follows:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2013	2012	**2013**	2012
U.S. equities	**20%**	20%	**40%**	40%
Global equities (including U.S.)	**7%**	7%	**6%**	6%
Global tactical asset allocation	**10%**	10%	**9%**	9%
Non-U.S. equities	**10%**	10%	**21%**	21%
Fixed income	**40%**	40%	**24%**	24%
Private equity	**5%**	5%	**-**	-
Real estate	**5%**	5%	**-**	-
Infrastructure	**3%**	3%	**-**	-
	100%	100%	**100%**	100%

Fair Value Measurements

The Company determines the fair value of plan assets using unadjusted quoted prices in active markets (Level 1) or pricing inputs that are observable (Level 2) whenever that information is available. The Company uses unobservable inputs (Level 3) to estimate fair value only when relevant observable inputs are not available. Assets are classified within this fair value hierarchy based on the lowest level of inputs which significantly affect the fair value measurement.

The following tables depict by level, within the fair value hierarchy, the plan assets as of March 31, 2013 and March 31, 2012:

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
	(in millions of dollars)			
Pension Plans Accounts				
Cash and cash equivalents	$ 1	$ 69	$ -	$ 70
Accounts receivable	85	-	-	85
Accounts payable	(74)	-	-	(74)
Equity	546	861	24	1,431
Fixed income securities	-	1,201	5	1,206
Global tactical asset allocation	-	127	23	150
Preferred securities	4	-	-	4
Private equity	-	-	189	189
Real estate	-	-	125	125
Total	$ 562	$ 2,258	$ 366	$ 3,186
PBOP Plans Accounts				
Cash and cash equivalents	$ 12	$ 38	$ -	$ 50
Accounts receivable	2	-	-	2
Accounts payable	(1)	-	-	(1)
Equity	113	268	9	390
Fixed income securities	-	210	1	211
Global tactical asset allocation	20	29	6	55
Private equity	-	-	15	15
Total	$ 146	$ 545	$ 31	$ 722

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in millions of dollars)			
Pension Plans Accounts				
Cash and cash equivalents	$ 2	$ 74	$ -	$ 76
Accounts receivable	132	8	-	140
Accounts payable	(139)	-	-	(139)
Equity	643	630	26	1,299
Fixed income securities	-	1,097	4	1,101
Global tactical asset allocation	-	113	22	135
Preferred securities	3	-	-	3
Private equity	-	-	185	185
Real estate	-	-	114	114
Total	$ 641	$ 1,922	$ 351	$ 2,914
PBOP Plans Accounts				
Cash and cash equivalents	$ 4	$ 7	$ -	$ 11
Accounts receivable	2	-	-	2
Accounts payable	(2)	-	-	(2)
Equity	136	189	9	334
Fixed income securities	-	195	-	195
Global tactical asset allocation	17	26	6	49
Private equity	-	-	16	16
Total	$ 157	$ 417	$ 31	$ 605

Cash and Cash Equivalents

Cash and cash equivalents are classified as Level 1 as they can be priced daily. Deposits and other active reserve funds, reserve deposits, commercial paper, repurchase agreements and commingled cash equivalents are classified as Level 2 as they can be valued using other significant observable inputs.

Accounts Receivable and Accounts Payable

Accounts receivable and accounts payable are classified in the same level as the investments to which they relate.

Equity and preferred securities

Common stocks, preferred stocks, and real estate 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 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, therefore they would be 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 ask prices, and these measurements would be classified as Level 2 investments. Investments that are not publicly traded and valued using unobservable inputs would be classified as Level 3 investments. Funds with publicly quoted prices and active trading are classified as Level 1 investments. For 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 is classified as Level 2 investments. Investments in funds with redemption restrictions and that use NAV are classified as Level 3 investments.

Fixed Income Securities

Fixed income securities (which include corporate debt securities, municipal fixed income securities, US 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 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. Funds with publicly quoted prices and active trading are classified as Level 1 investments. For 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 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. These assets are invested through commingled funds, which are generally classified as Level 2. However, assets are classified as Level 3 when fund prices are based on uncorroborated and unobservable inputs.

Private Equity and Real Estate

Commingled equity funds, commingled special equity funds, limited partnerships, real estate, venture capital and other investments are valued using valuations (NAV per fund share), based on proprietary models, or based on the net asset value.

Investments in private equity and real estate funds comprise primarily 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 majority of the underlying assets is valued using significant unobservable inputs and often requires 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. The funds utilize valuation techniques consistent with the market, income, and cost approaches to measure the fair value of certain real estate investments. As a result, the Company classifies these investments as Level 3 investments.

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

The following is a summary of changes in the fair value of the Pension Plans' and PBOP Plans' Level 3 investments:

	Pension Plan		PBOP Plan	
	March 31,		**March 31,**	
	2013	2012	**2013**	2012
	(in millions of dollars)			
Balance at beginning of year	**$ 351**	$ 427	**$ 31**	$ 48
Transfers out of Level 3	**(2)**	(191)	**-**	(20)
Transfers in to Level 3	**6**	56	**1**	-
Actual gain or loss on plan assets				
included in regulatory assets and liabilities	**27**	22	**1**	1
Purchases	**43**	79	**14**	9
Sales	**(59)**	(42)	**(16)**	(7)
Balance at end of year	**$ 366**	$ 351	**$ 31**	$ 31

Other Benefits

The Company accrued approximately $49 million at March 31, 2013 and March 31, 2012, regarding workers compensation, auto and general insurance claims which have been incurred but not yet reported

Note 4. Property, Plant and Equipment

At March 31, 2013 and March 31, 2012, property, plant and equipment, at cost, along with accumulated depreciation and amortization are as follows:

	March 31,	
	2013	2012
	(in millions of dollars)	
Plant and machinery	**$ 7,909**	$ 7,683
Land and buildings	**729**	1,055
Assets in construction	**382**	205
Software	**333**	360
Total	**9,352**	9,303
Accumulated depreciation	**(862)**	(945)
Property, plant and equipment, net	**$ 8,490**	$ 8,358

Note 5. Derivatives

In the normal course of business, KeySpan and its subsidiaries enter into commodity derivative instruments, such as options, swaps, and physical forwards contracts that are principally used to manage commodity prices associated with natural gas distribution operations. These financial exposures are monitored and managed as an integral part of KeySpan's overall financial risk management policy. KeySpan generally engages in activities at risk only to the extent that those activities fall within commodities and financial markets to which it has a physical market exposure in terms and volumes consistent with its core business.

The Company utilizes derivative financial instruments to reduce the cash flow variability associated with the purchase price for a portion of future natural gas purchases associated with the Company's New York and Massachusetts gas service territories. The Company's strategy is to minimize fluctuations in gas sales prices to the Company's customers.

The following are commodity volumes in dekatherms ("dths") associated with derivative contracts as of March 31, 2013 and March 31, 2012:

		March 31,	
		2013	2012
		(in thousands)	
Physical Contracts:	Gas purchases (dths)	**36,982**	97,899
Financial Contracts:	Gas swaps (dths)	**47,194**	66,119
	Gas options (dths)	**3,200**	5,250
		87,376	169,268

The following table presents the Company's derivative assets and liabilities at March 31, 2013 and March 31, 2012 that are included in the accompanying consolidated balance sheets for the above contracts:

	Asset Derivatives March 31,			Liability Derivatives March 31,	
	2013	2012		**2013**	2012
	(in millions of dollars)			*(in millions of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	**$ 15**	$ 18	Gas purchase contracts	**$ 2**	$ 12
Gas swap contracts	**10**	19	Gas swap contracts	**5**	41
Gas options contracts	**1**	-	Gas options contracts	**-**	2
	26	37		**7**	55
Deferred charges and other assets:			Deferred charges and other liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	**3**	40	Gas purchase contracts	**6**	18
Gas swap contracts	**1**	-	Gas swap contracts	**-**	3
	4	40		**6**	21
Total	**$ 30**	$ 77	Total	**$ 13**	$ 76

The changes in fair value of our 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 on the accompanying consolidated statements of income.

The following table presents the impact the change in the fair value of the Company's derivative contracts had on the accompanying consolidated balance sheets and consolidated statements of income for the years ended March 31, 2013 and March 31, 2012:

	March 31, 2013	March 31, 2012
	(in millions of dollars)	
Regulatory assets:		
Gas purchase contracts	**$ (22)**	$ (9)
Gas swap contracts	**(39)**	27
Gas options contracts	**(2)**	2
	(63)	20
Regulatory liabilities:		
Gas purchase contracts	**(40)**	6
Gas swap contracts	**(8)**	18
Gas options contracts	**1**	-
	(47)	24
Total decrease in net regulatory assets	**$ (16)**	$ (4)
Other income (deductions):		
Gas swap contracts	**$ -**	$ (1)
	$ (16)	$ (5)

The change in the fair value of the derivative contracts not subject to rate recovery are included in other income in the accompanying consolidated statements of income during the year ended March 31, 2012. During the year ended March 31, 2013, the Company did not hold any such contracts and did not record any income or expenses associated with such contracts.

Credit and Collateral

Derivative contracts are primarily used to manage exposure to market risk arising from changes in commodity prices. In the event of non-performance by a counterparty to a derivative contract, the desired impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively minimized by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is owned and monitored by the NGUSA Energy Procurement Risk Management Committee ("EPRMC"), and establishes controls and procedures to determine, monitor and minimize the credit risk of counterparties. Counterparty credit exposure is monitored, 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 reduces its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. The Company's credit exposure for all derivative instruments, normal purchase normal sale contracts, and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements are $17 million and $1 million as of March 31, 2013 and March 31, 2012, respectively.

In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, we may limit our 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 aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position of $4.1 million and $45.6 million on March 31, 2013 and March 31, 2012, respectively. The Company had no collateral posted for these instruments at March 31, 2013 and had $1.1 million posted as collateral at March 31, 2012. 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 $4.2 million additional collateral to its counterparties.

Note 6. Fair Value Measurements

The Company measures commodity derivatives and available for sale securities at fair value. The following table presents 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, 2013 and March 31, 2012.

	March 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
	(in millions of dollars)			
Assets:				
Financial derivative contracts	$ -	$ 11	$ 1	$ 12
Physical derivative contracts	-	-	18	18
Available for sale securities	50	-	-	50
Total assets	50	11	19	80
Liabilities:				
Financial derivative contracts	-	5	-	5
Physical derivative contracts	-	-	8	8
Total assets	-	5	8	13
Net asset	$ 50	$ 6	$ 11	$ 67

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in millions of dollars)			
Assets:				
Financial derivative contracts	$ -	$ 16	$ -	$ 16
Physical derivative contracts	-	-	61	61
Available for sale securities	44	3	-	47
Total assets	44	19	61	124
Liabilities:				
Financial derivative contracts	-	44	2	46
Physical derivative contracts	-	-	30	30
Total assets	-	44	32	76
Net asset (liabilities)	$ 44	$ (25)	$ 29	$ 48

The following is a description of the inputs to and valuation techniques used to measure the fair values above:

Derivative contracts

The Company's Level 2 fair value derivative instruments consist of over-the-counter ("OTC") gas swaps and forward physical gas deals pricing inputs obtained from the New York Mercantile Exchange ("NYMEX") and Intercontinental Exchange ("ICE"), except in cases in which ICE publishes seasonal averages or there were no transactions within the last seven days. We may utilize discounting based on quoted interest rate curves that may include a liquidity reserve calculated based on the bid/ask spread for our 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.

Level 3 fair value derivative instruments consist of the Company's complex and structured OTC physical gas transactions 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 instrument is designated Level 3 when it is valued based on a forward curve that is internally developed, extrapolated or derived from a market observable curve with correlation coefficients less than 95%, 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.

Available for Sale Securities

Available for sale securities primarily included equities and investments based on quoted market prices in active markets (Level 1), and municipal and corporate bonds based on quoted prices of similar traded assets in open markets (Level 2).

Year to Date Level 3 Movement Table

The following table presents the fair value reconciliation of Level 3 derivative assets and liabilities measured at fair value on a recurring basis during the years ended March 31, 2013 and March 31, 2012:

	Years Ended March 31,	
	2013	**2012**
	(in millions of dollars)	
Balance at beginning of year	**$ 29**	$ 16
Transfers into Level 3	**-**	1
Total gains or losses included in regulatory assets and liabilities	**(27)**	25
Purchases	**3**	(7)
Settlements	**6**	(6)
Balance at end of year	**$ 11**	$ 29
The amount of total gains or losses for the period included in net income attributed to the change in unrealized gains or losses related to non-regulatory assets and liabilities at year end	**$ -**	$ -

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable. 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 transfers out of level 3 for the years ended March 31, 2013 and March 31, 2012, respectively.

Additional Information Regarding Level 3 Measurements

For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivatives valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. The EPRMC approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of risk exposures. The EPRMC is also responsible for approving transaction strategies, annual supply plans as well as all valuation and control procedures. The EPRMC is chaired by Global Tax and Treasury Director and includes the Global Tax and Treasury Director, Senior Vice President ("SVP") Regulatory Affairs, SVP US General Counsel and Regulatory, and Vice President US Treasury. The EPRMC reports to the Finance Committee. The forward curves used for financial reporting are developed and verified by the middle office. NGUSA considers nonperformance risk and liquidity risk in the valuation of derivative contracts categorized in Levels 2 and Level 3.

The following table provides detail surrounding significant Level 3 valuations, of which the most significant positions are gas forwards. Long term gas supply contracts are measured at fair value using both actively traded pricing points as well as unobservable inputs such as gas prices beyond observable periods and long term basis quotes and accordingly, the fair value measurements are classified in Level 3.

Quantitative Information About Level 3 Fair Value Measurements

Commodity	Level 3 Position	Fair Value as of March 31, 2013			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
Physical		*(in millions of dollars)*					
Gas	Gas Purchase Contract [(A)]	$ 18	$ (8)	$ 10	Discounted Cash Flow	Forward Curve	(A)
Financial							
Gas	Gas Option Contract [(B)]	1	-	1	Discounted Cash Flow	Forward Curve	(B)
	Total	$ 19	$ (8)	$ 11			

(A) Includes long-term gas supply contracts with various unobservable inputs and valuation assumptions. Unobservable inputs include long term basis prices, forward capacity costs, etc. In addition, valuation assumption are made while estimating the fair value of physical gas options. Natural gas prices range between $3.53/Dth to $6.41/Dth for the term of open positions.

(B) Included gas option contracts which are immaterial at March 31, 2013.

Significant unobservable inputs listed above would have a direct impact on the fair values of the above Level 3 instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement commodity derivatives are forward commodity prices, forward capacity costs, variable charges to the pipeline, etc. Relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates. In addition, contracts that include release of a storage or pipeline capacity to the counterparty may be impacted by changes in the capacity costs for such assets.

Other Fair Value Measurements

The Company's consolidated balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was estimated based on the quoted market prices for similar issues or on the current rates offered to the Company and its subsidiaries for debt of the same remaining maturity. The fair value of this debt at March 31, 2013 and March 31, 2012 was $4.2 billion and $4.1 billion, respectively.

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

Note 7. Income Taxes

The components of federal and state income tax expense (benefit) at March 31, 2013 and March 31, 2012 are as follows:

	March 31,	
	2013	2012
	(in millions of dollars)	
Current tax expense (benefit):		
Federal	**$ (1)**	$ (7)
State	**(25)**	59
Total current tax (benefit) expense	**(26)**	52
Deferred tax expense:		
Federal	**191**	156
State	**8**	1
	199	157
Amortized investment tax credits [(1)]	**(1)**	(1)
Total deferred tax expense	**198**	156
Total income tax expense	**$ 172**	$ 208

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

A reconciliation of expected federal income tax expense, using the federal statutory rate of 35 percent, to the Company's actual income tax expense for 2013 and 2012 are as follows:

	Years Ended March 31,	
	2013	2012
	(in millions of dollars)	
Computed tax	**$ 150**	$ 162
Change in computed taxes resulting from:		
State income tax (including reserve movements), net of federal benefit	**20**	39
Other items, net	**2**	7
Total	**22**	46
Federal and state income taxes	**$ 172**	$ 208

Significant components of the Company's net deferred tax liabilities at March 31, 2013 and March 31, 2012 are as follows:

	March 31,	
	2013	2012
	(in millions of dollars)	
Deferred tax assets:		
Pensions, PBOP and other employee benefits	**$ 587**	$ 1,020
Reserve - environmental	**303**	303
Future federal benefit on state taxes	**98**	95
Other items, net	**193**	114
Total deferred tax assets [1]	**1,181**	1,532
Deferred tax liabilities:		
Property related differences	**1,941**	1,867
Regulatory assets - environmental	**512**	534
Regulatory assets - other	**145**	236
Property taxes	**69**	52
Other items, net	**137**	6
Total deferred tax liabilities	**2,804**	2,695
Net deferred income tax liabilities	**1,623**	1,163
Deferred investment tax credits	**5**	6
Net deferred income tax liabilities and investment tax credit	**1,628**	1,169
Current portion of net deferred tax (liability) asset	**(19)**	37
Non-current portion of net deferred income tax liability and Investment Tax Credit	**$ 1,609**	$ 1,206

(1) There was a valuation allowance of $5.8 million and zero for deferred tax assets at March 31, 2013 and March 31, 2012, respectively.

The following table presents the amounts and expiration dates of operating losses as of March 31, 2013:

Expiration of state and city net operating losses	NYS	NYC
	(in thousands of dollars)	
03/31/2024	$ 590	$ -
03/31/2025	80,987	81,424
03/31/2028	7,996	7,105
03/31/2029	182,792	37,268
03/31/2030	58,448	27,603
03/31/2031	74	-
03/31/2032	32,508	9,900
03/31/2033	57,296	1,289

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

As of March 31, 2013 and March 31, 2012, the Company's unrecognized tax benefits totaled $437 million and $420 million, respectively, of which $61 million and $73 million would affect the effective tax rate, if recognized.

The following table reconciles the changes to the Company's unrecognized tax benefits for the years ended March 31, 2013 and March 31, 2012:

	March 31,	
	2013	2012
	(in millions of dollars)	
Balance at beginning of the year	**$ 420**	$ 406
Gross increases related to prior period	**12**	$ 44
Gross decreases related to prior period	**(14)**	$ (17)
Gross increases related to current period	**25**	16
Gross decreases related to current period	**(2)**	(29)
Settlements with tax authorities	**(4)**	-
Balance at the end of the year	**$ 437**	$ 420

As of March 31, 2013 and March 31, 2012, the Company has accrued for interest related to unrecognized tax benefits of $51 million and $53 million, respectively. During the years ended March 31, 2013 and March 31, 2012, the Company recorded interest expense of $0.3 million and $7 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in interest expense or interest income and related penalties, if applicable, in operating expenses in the accompanying consolidated statements of income. No tax penalties were recognized during the years ended March 31, 2013 and March 31, 2012.

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 the results of operations, financial position, or liquidity.

In September 2011, the IRS commenced an audit of KeySpan Corporation and subsidiaries for the short year ended August 24, 2007 and NGNA and subsidiaries for the fiscal years ended March 31, 2008 and March 31, 2009. Fiscal years ended March 31, 2010 through March 31, 2013 remaining subject to examination by the IRS.

The State of New York is in the process of examining the Company's NYS income tax returns for the years ended December 31, 2003 through March 31. 2008. The tax returns for the fiscal years ended March 31, 2009 through March 31, 2013 remain subject to examination by the State of New York. The Company has filed New York Investment Tax Credit claims for the tax years ended December 31, 2000 through March 31, 2010. New York State has disallowed the claims for December 31, 2000 through December 31, 2006 during audit, and also denied them on appeal to the New York Tax Tribunal, which decision was further appealed to the Supreme Court, Appellate Division. On June 6, 2013, the Company received an adverse decision from the Supreme Court, Appellate Division, and therefore expects to make a payment with regard to tax and interest within the next 12 months.

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, 2013 remain subject to examination by the State of Massachusetts.

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

	Tax Year
Federal	August 24, 2007
Massachusetts	March 31, 2009
New York	December 31, 2000*

*The 2000-2002 years are only open with respect to the NY ITC claims.

Note 8. Debt

Authorization to Issue Debt

The Company has previously been provided from the NYPSC to issue, prior to March 31, 2014, up to $1.0 billion in new long term debt securities. The Company has $500 million in Senior Unsecured Notes outstanding under this authority.

Notes Payable

At March 31, 2013, Brooklyn Union and KeySpan Gas East had outstanding $400 million and $100 million of Senior Unsecured Notes, respectively, at 5.6% due November 29, 2016. Additionally, KeySpan Gas East had outstanding $500 million of Senior Unsecured Notes at 5.82% due April 1, 2041. KeySpan and its subsidiaries also had $250 million notes issued due 2030, $307 million of 5.8% notes due April 2035, and $443 million notes with interest rates ranging from 4.7% to 9.8% with maturity dates from 2013 to 2033. In February 2012, Boston Gas issued $500 million of Senior Unsecured Notes at 4.487% due February 15, 2042. In March 2012, Colonial Gas issued two tranches of $25 million each of Senior Unsecured Notes at 3.296% due March 15, 2022 and 4.628% due March 15, 2042.

Gas Facilities Revenue Bonds

Brooklyn Union has outstanding tax-exempt Gas Facilities Revenue Bonds ("GFRB") issued through the New York State Energy Research and Development Authority. There are no sinking fund requirements for any of the Company's GFRB. At March 31, 2013 and March 31, 2012, $640.5 million of GFRBs were outstanding; $230 million of which are variable-rate, auction rate bonds. The interest rate on the various variable rate series due starting December 1, 2020 through July 1, 2026 is reset weekly and ranged from 0.14% to 2.17% during the year ended March 31, 2013 and 0.21% to 2.17% during the year ended March 31, 2012. The bonds are currently in the auction rate mode and are backed by bond insurance. These bonds cannot be put back to Brooklyn Union and in the case of a failed auction, the resulting interest rate on the bonds would revert to the maximum rate which depends on the current appropriate, short term benchmark rates and the senior unsecured rating of the Brooklyn Union's bonds. The effect of the failed auctions on interest expense has not been material at this time.

Promissory Notes to LIPA

KeySpan issued promissory notes to LIPA to support certain debt obligations assumed by LIPA. At March 31, 2013 and March 31, 2012, $155 million of these promissory notes remained outstanding with maturity dates between March 2016 and August 2025. Interest rates range from 5.15% to 5.30%. Under these promissory notes, KeySpan is required to obtain letters of credit to secure its payment obligations if its long-term debt is not rated at least in the "A" range by at least two nationally recognized statistical rating agencies. At March 31, 2013 and March 31, 2012, KeySpan was in compliance with this requirement.

Industrial Development Revenue Bonds

At March 31, 2013 and March 31, 2012, KeySpan had outstanding $128 million of tax-exempt bonds with a 5.25% coupon maturing in June 2027, $53 million of these Industrial Development Revenue Bonds were issued on its behalf through the Nassau County Industrial Development Authority for the construction of the Glenwood Energy Center, an electric-generation peaking plant, and the balance of $75 million was issued on its behalf by the Suffolk County Industrial Development Authority for the Port Jefferson Energy Center an electric-generation peaking plant. KeySpan has guaranteed all payment obligations of these subsidiaries with regard to these bonds.

First Mortgage Bonds

The assets of Colonial Gas are subject to liens and other charges and are provided as collateral over borrowings of $75 million of non-callable First Mortgage Bonds ("FMB") at March 31, 2013 and March 31, 2012. Colonial Gas' FMB indenture includes, among other provisions, limitations on the issuance of long-term debt. At March 31, 2013, these bonds have interest rates ranging from 6.9% to 8.8% and maturities that range from 2022 to 2028.

Authority Financing Notes

Certain of our electric generation subsidiaries can issue tax-exempt bonds through the NYSERDA. At March 31, 2013 and March 31, 2012, $41.1 million of 1999 Series A Pollution Control Revenue Bonds due October 1, 2028 were outstanding. The interest rates are reset weekly and ranged from 0.25% to 1.60% for the year ended March 31, 2013, and as of March 31, 2013 the rate was 0.61%. The interest rate ranged from 0.35% to 3.00% for the year ended March 31, 2012, and as of March 31, 2012 the rate was 0.97%.

The Company's electric generation subsidiaries also have outstanding $24.9 million variable rate 1997 Series A Electric Facilities Revenue Bonds due December 1, 2027. The interest rate on these bonds is reset weekly and during the year ended March 31, 2013 ranged from 0.10% to 0.27%. The interest rate was 0.12% and 0.20% at March 31, 2013 and March 31, 2012, respectively.

Debt Maturity

The aggregate maturities of long-term debt subsequent to March 31, 2013 are as follows:

(in millions of dollars) Years Ending March 31,		
2014	$	160
2015		2
2016		118
2017		510
2018		8
Thereafter		2,817
Total	$	3,615

The Company is obligated to meet certain financial and non-financial covenants. The Company's subsidiaries also have restrictions on the payment of dividends which relate to their debt to equity ratios. During the years ended March 31, 2013 and March 31, 2012, respectively, the Company was in compliance with all such covenants and restrictions.

Note 9. Goodwill and Other Intangible Assets

At March 31, 2013 and March 31, 2012, the carrying amount of the goodwill, net of accumulated impairment losses are as follows:

	March 31,			
	2013		2012	
	(in millions of dollars)			
Goodwill, beginning of year	**$**	**3,767**	$	3,767
Regulatory authority recovery		**(1)**		-
Goodwill, end of year	**$**	**3,766**	$	3,767

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

The Company's subsidiary, Colonial Gas, was acquired by Eastern in 1998 pursuant to a business combination transaction ("the Eastern Merger"). Subsequent to the Eastern Merger, Colonial Gas and Eastern entered into business combinations with the Company in 2000 and then with NGUSA in 2007. In 1998, Eastern and the Colonial Gas applied with the Massachusetts Department of Telecommunications and Energy ("DTE") for recovery of acquisition premium incurred during the Eastern Merger. The amount of acquisition premium related to the merger was approximately $246.0 million ($149.5 million, net of tax). Colonial Gas and Eastern agreed to a ten-year rate freeze as well as reduction of the price of burner-tip gas for customers as a required condition for the recovery of

acquisition premium over the course of a 30 year recovery period ending in August 2039. Further, pursuant to DTE 98-128, the recovery of acquisition premium was contingent upon substantiated proof of merger savings achieved.

On November 1, 2010, the DPU issued DPU 10-55 which authorized the recovery of $234.8 million of goodwill ($141.5 million of acquisition premium, plus tax of $93.3 million). During the year ended March 31, 2011, Colonial Gas recorded a regulatory asset of $234.8 million, along with corresponding credits to a newly created deferred tax liability of $93.3 million and a reclassification of $141.5 million to reduce goodwill.

In November 2010, Colonial Gas filed a Motion for Reconsideration with the DPU for approval to recover the remaining unrecovered acquisition premium. On January 31, 2013, the DPU ruled that Colonial Gas was able to demonstrate that it had fully achieved the merger savings related to its 1998 acquisition, and granted recovery of the remaining unrecovered acquisition premium. As a result, Colonial Gas recorded adjustments to the previously-established regulatory asset, deferred tax liability, and goodwill balances. The regulatory asset for the recovery of the acquisition premium was $216.6 million at March 31, 2013, and will be amortized on a straight-line basis as it is recovered through rates at $8.2 million per year through August 2039.

Impairment

During the year ended March 31, 2012, the Company recorded a non-cash impairment charge of $102 million to reduce the net carrying value of its finite-lived net intangible assets, related to the MSA LIPA contract, to a fair value of zero, which was determined using an income-based approach. The impairment was triggered by LIPA announcing on December 15, 2011 that it will terminate the service agreement contract on December 31, 2013.

Note 10. Commitments and Contingencies

Operating Lease Obligations

The Company has various operating leases for buildings, office equipment, vehicles and power operating equipment which is utilized by both the Company and its affiliates. A portion of the lease expense is allocated to affiliated entities that benefit from its use by the service company. Total rental expense for operating leases included in operations and maintenance expense in the accompanying consolidated statement of income was $61.4 million and $30.0 million for the years ended March 31, 2013 and March 31, 2012, respectively.

A summary of future minimum lease payments due each year subsequent to March 31, 2013 is as follows:

(in millions of dollars) Years Ending March 31,		
2014	$	87
2015		60
2016		59
2017		58
2018		58
Thereafter		123
Total	$	445

Gas Purchase and Capital Expenditure Commitments

The Company and its subsidiaries have entered into various contracts for gas delivery, storage and supply services. Certain of these contracts require payment of annual demand charges. The Company 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 years subsequent to March 31, 2013, are summarized in the table below:

(in millions of dollars) Years Ending March 31,	Gas Purchase	Capital Commitment
2014	$ 770	$ 142
2015	524	126
2016	436	72
2017	348	2
2018	297	-
Thereafter	1,200	-
Total	$ 3,575	$ 342

Pursuant to the May 2013 PSA, the Company is required to invest in capital improvements in accordance with prudent utility practice. Such investments may approach the range of $500 million to $590 million subject to certain provisions in the contract.

Asset Retirement Obligations

KeySpan has various asset retirement obligations primarily associated with its gas distribution and electric generation activities.

On June 23, 2011, the Company's subsidiary and LIPA entered into an amendment to the existing purchase and sale agreement with LIPA (the "Ramp Down Amendment"), pursuant to which the parties agreed to ramp down electric generating units located at the Glenwood and Far Rockaway New York generating facilities ("the Facilities"). The Ramp Down Amendment was approved by (i) the New York State Comptroller and the New York State Attorney General; and (ii) has been accepted by the FERC. Under the Ramp Down Amendment, the Ramp Down of Glenwood and Far Rockaway will be deemed to have occurred for purpose of calculating the economic impact (the net of items (a) and (b) above) on May 27, 2011. Notwithstanding, the Company will continue to provide capacity, energy, and ancillary services from Glenwood and Far Rockaway to LIPA until such time as the units become eligible for retirement, pending completion of certain transmission projects in the area currently served by these facilities. The electric generation subsidiary of the Company has a legal obligation to remediate/demolish after these Facilities became eligible for retirement in June 2012. Pursuant to the existence of this legal obligation, the Company recorded an asset retirement obligation of $45 million during the year ended March 31, 2012.

The following table represents the changes in the asset retirement obligations for the years ended March 31, 2013 and March 31, 2012:

	March 31,	
	2013	2012
	(in millions)	
Asset retirement obligation, at beginning of year	**$ 101**	$ 53
Electric generation retirement obligation	**-**	45
Accretion expense	**5**	4
Liabilities settled	**(18)**	(1)
Asset retirement obligation, at end of year	**$ 88**	$ 101

Financial Guarantees

KeySpan has issued financial guarantees in the normal course of business, on behalf of its subsidiaries, to various third-party creditors. At March 31, 2013, the following amounts would have to be paid by KeySpan in the event of non-payment by the primary obligor at the time payment is due:

(in millions of dollars)	Amount of Exposure		Expiration Dates
Guarantees for Subsidiaries:			
(i) Industrial development revenue bonds	$	128	June 2027
(ii) Surety bonds		74	Revolving
(iii) Commodity guarantees and other		44	May 2013 through June 2032
(iv) Letters of credit		78	May 2013 through December 2014
	$	324	

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

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

(ii) KeySpan has agreed to indemnify the issuers of various surety and performance bonds associated with certain construction projects being performed by certain current and former subsidiaries. In the event that the subsidiaries fail to perform their obligations under contracts, the injured party may demand that the surety make payments or provide services under the bond. KeySpan would then be obligated to reimburse the surety for any expenses or cash outlays it incurs. Although KeySpan is not guaranteeing any new bonds for any of the former subsidiaries, KeySpan's indemnity obligation supports the contractual obligation of these former subsidiaries. KeySpan has also received from a former subsidiary an indemnity bond issued by a third-party insurance company, the purpose of which is to reimburse KeySpan in an amount up to $80 million in the event it is required to perform under all other indemnity obligations previously incurred by KeySpan to support such company's bonded projects existing prior to divestiture.

(iii) KeySpan has guaranteed commodity-related payments for certain subsidiaries. These guarantees are provided to third-parties to facilitate physical and financial transactions involved in the purchase and transportation of natural gas, oil and other petroleum products for gas and electric production and marketing activities. The guarantees cover actual purchases by these subsidiaries that are still outstanding as of March 31, 2013.

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

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

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

Transfer Tax

As a condition of the acquisition by NGUSA of KeySpan in 2007, NGUSA was required to divest the acquired Ravenswood merchant generating unit, and completed the disposal in August 2008. Ravenswood was accounted for as a business held for sale, which required NGUSA to record Ravenswood at fair value, including valuing at approximately $36 million certain contingencies relating to potential disposal costs where there was uncertainty as to whether they would be payable. These contingencies have been resolved through the expiration of the relevant statute of limitations, resulting in no payments being necessary and hence a gain of $36 million was recorded in fiscal 2012 within net income from discontinued operations in the accompanying consolidated statement of income.

Legal Matters

A collective and class action lawsuit has been filed by Local 1049 and its members alleging violations of the Fair Labor Standards Act and the New York Labor Law as a result of the payroll irregularities that occurred after the Company's implementation in November 2012 of its back office financial system has been discontinued and is now subject to a settlement agreement.

In addition to the above matter, the Company is subject to various legal proceedings, primarily injury claims, arising out of the ordinary course of its business. Except as described below, the Company does not consider any of such proceedings to be material, individually or in aggregate, to its business or likely to result in a material adverse effect on its results of operations, financial position or cash flows.

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, 2012, Brooklyn Union received new information concerning the proposed remediation plans for a site in downstate New York which resulted in Brooklyn Union increasing its environmental reserve by approximately $107 million. During the year ended March 31, 2013, the Company increased its environmental reserve by approximately $17 million. After recording an offsetting increase in regulatory assets relating to environmental remediation, there was no impact to the net assets of the Company.

Air

Our generating facilities are subject to increasingly stringent emissions limitations under current and anticipated future requirements of the EPA and the DEC. In addition to efforts to improve both ozone and particulate matter air quality, there has been an increased focus on greenhouse gas emissions in recent years. Our previous investments in low NOx boiler combustion modifications, the use of natural gas firing systems at our steam electric generating stations, and the compliance flexibility available under cap and trade programs have enabled the Company to achieve its prior emission reductions in a cost-effective manner. Future investments will include the installation of enhanced NOx controls and efficiency improvement projects at certain of our Long Island based electric generating facilities. The total cost of these improvements is estimated to be approximately $100 million; a mechanism for recovery from LIPA of these investments has been established. We are currently developing a compliance strategy to address anticipated future requirements. At this time, we are unable to predict what effect, if any, these future requirements will have on our results of operation, financial position, and cash flows.

Water

Additional capital expenditures associated with the renewal of the surface water discharge permits for our power plants will likely be required by the DEC at each of the Long Island power plants pursuant to Section 316 of the Clean Water Act to mitigate the plants' alleged cooling water system impacts to aquatic organisms. We are currently engaged in discussions with the DEC and environmental groups regarding the nature of capital upgrades or other mitigation measures necessary to reduce any impacts. Although these discussions have been productive and have led to mutually agreeable final permits at some of the plants, it is possible that the determination of required capital improvements and the issuance of final renewal permits for the remaining plants could involve adjudicatory hearings

among the Company, the agency, and the environmental groups. Capital costs for expected mitigation requirements at the plants had been estimated on the order of approximately $100 million and did not anticipate a need for cooling towers at any of the plants. Depending on the outcome of the adjudicatory process, which could extend beyond the next fiscal year, ultimate costs could be substantially higher. Costs associated with any finally ordered capital improvements would be reimbursable from LIPA under the PSA.

Land, Manufactured Gas Plants and Related Facilities

Within the State of New York, the Company has identified numerous MGP sites and related facilities, which were owned or operated by the Company or its predecessors. These former sites, some of which are no longer owned by the Company, have been identified to the NYPSC and the DEC for inclusion on appropriate site inventories. ACOs or Voluntary Cleanup Agreements ("VCA") have been executed with the DEC to address the investigation and remediation activities associated with certain sites. The Company is also aware of numerous former MGP sites and related facilities within the existing or former service territories of the Company in the Commonwealth of Massachusetts.

Expenditures incurred for the years ended March 31, 2013 and March 31, 2012 were $84 million and $65 million, respectively.

Upon the acquisition by NGUSA, the Company recognized environmental liabilities at fair value. The fair values included discounting of the reserve at a rate of 6.5%, which is being accreted over the period for which remediation is expected to occur. Following the acquisition of KeySpan, these environmental liabilities are recognized in accordance with the current accounting guidance for environmental obligations.

The Company estimated the remaining costs of environmental remediation activities were $671 million and $672 million at March 31, 2013 and March 31, 2012, respectively. The Company's environmental obligation is net of a discount rate of 6.5%, and the undiscounted amount of environmental liabilities at March 31, 2013 and March 31, 2012 was $830 million and $840 million, respectively. These costs are expected to be incurred over the next 44 years, and the discounted amounts have been recorded as reserves in the accompanying balance sheets. However, remediation costs for each site may be materially higher than estimated, depending upon 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 PRPs, but it is uncertain whether, and to what extent, such efforts will be successful.

Through various rate orders issued by the NYPSC and MADPU, costs related to MGP environmental cleanup activities are recovered in rates charged to gas distribution customers. Accordingly, KeySpan has reflected a regulatory asset of $1.1 billion and $1.2 billion on the balance sheets at March 31, 2013 and March 31, 2012, respectively.

Non-Utility Sites

The Company is aware of two non-utility sites for which it may have or share environmental remediation or ongoing maintenance responsibility. Expenditures incurred were approximately $1 million for each of the years ended March 31, 2013 and March 31, 2012. The Company presently estimates the remaining cost of the environmental cleanup activities for these two non-utility sites will be approximately $22 million, which has been accrued at March 31, 2013 and March 31, 2012. The Company's environmental obligation is net of a discount rate of 6.5%, and the undiscounted amount totaled $27 million in liabilities at both March 31, 2013 and March 31, 2012. The Company believes this to be a reasonable estimate of probable costs for known sites; however, remediation costs for each site may be materially higher than noted, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered.

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

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

LIPA Agreements

On October 2, 2012, the Company announced it had reached an agreement with LIPA to amend and restate the current PSA (the "A&R PSA") upon expiration of the current agreement. Pursuant to the A&R PSA, LIPA will continue to purchase all of the energy and capacity from the PSA generating units. The A&R PSA has a term of fifteen years, expiring April 2028, provided LIPA has the option to terminate the agreement as early as April 2025 on two years advance notice. In March 2013, the Company received the required regulatory approvals from the New York State Comptroller and the New York State Attorney General and it has been accepted by the FERC.

In June 2011, LIPA and the Company executed an amendment to the current PSA pursuant to which the parties agreed that LIPA would reduce purchases of capacity from specified generating facilities, specifically the Glenwood and Far Rockaway, New York steam facilities. The Company has retired these generating facilities and removed them from the PSA and is in the process of demolishing these facilities over the next two years. As part of this amendment, the Company is required to make an Economic Equivalent Payment ("EEP") of $18 million which represents the economic benefit to LIPA which would have been realized under the original agreement. One-half of the EEP was paid in June 2012 upon confirmation from LIPA that requisite transmission improvements were completed and units became retirement eligible. The remaining balance was paid to LIPA on May 27, 2013. The EEP is being accrued on a straight-line basis over the 24-month term, from June 2011 through May 2013, as a reduction in operating revenues.

KeySpan's compensation for managing the electric transmission and distribution system owned by LIPA under the MSA consists of two components: a minimum fixed compensation component of $224 million per year and a variable component based on electric sales. The fixed component remained unchanged for three years commencing January 2006 and thereafter increased annually by 1.7%, plus inflation. The variable component is based on electric sales adjusted for inflation.

Pursuant to the EMA, KeySpan procures and manages fuel supplies for LIPA to fuel KeySpan's Long Island based generating facilities. In exchange for these services, KeySpan earns an annual fee of $750,000. The EMA expired on May 28, 2013.

Storm Costs Recovery

In October 2012, SuperStorm Sandy hit the northeastern United States affecting gas and power supply to customers in the Company's service territory. Total costs from SuperStorm Sandy associated with gas customers' service restoration through March 31, 2013 for the New York Gas Companies were approximately $150.5 million. The Company has recorded an Other Receivable on the consolidated balance sheets at March 31, 2013 in the amount of $67 million relating to claims filed against property damage and business interruption insurance policies, net of insurance deductibles. Total costs from SuperStorm Sandy associated with electricity customers' service restoration charged to LIPA through March 31, 2013, were approximately $676.7 million. The Company had outstanding accounts receivable from LIPA of $328.6 million at March 31, 2013,

Note 11. Related Party Transactions

Accounts Receivable from Affiliates and Accounts Payable to Affiliates

KeySpan engages in various transactions with NGUSA and its subsidiaries. Certain activities and costs, primarily executive and administrative and some human resources, legal, and strategic planning are shared between KeySpan and NGUSA. At March 31, 2013 KeySpan had a net receivable balance from NGUSA subsidiaries of $366 million. At March 31, 2012 KeySpan had a net payable balance to NGUSA subsidiaries of $15 million.

Money Pool

The settlement of the Company's various transactions with NGUSA and its affiliates generally occurs via the money pool. As of November 1, 2012, NGUSA and its affiliates established a new Regulated Money Pool and an

Unregulated Money Pool. Financing for the Company's working capital and gas inventory needs are obtained through participation in both the Regulated and Unregulated Money Pools. The Company, as a participant in the Money Pool, can both borrow and lend funds. Borrowings from the Regulated and Unregulated Money Pools bear interest in accordance with the terms of the applicable money pool agreement.

The Regulated and Unregulated Money Pools are funded by operating funds from participants in the applicable pool. Collectively, the Company and its parent, NGUSA, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Money Pools, if necessary. The Company had a short-term Unregulated Money Pool payable of $978 million and short-term Regulated Money Pool payable of $440 million at March 31, 2013. The average interest rate for the money pool was approximately 1.45% for the year ended March 31, 2013.

Advances to Affiliates

In January 2008, the Company and NGUSA entered into an agreement whereby either party can borrow up to $2.5 billion from time to time for working capital needs. These advances do not bear interest rates. At March 31, 2013 and March 31, 2012, the Company had outstanding advances to affiliates of $2.3 billion and $1.3 billion, respectively.

Capitalization of Affiliates

In October 2012, the Company and NGUSA's service company entered into an agreement whereby the Company transferred to NGUSA's service company $313 million of debt as part of the merger of two service companies that KeySpan previously owned. In addition, the Company advanced an additional $82 million in cash to NGUSA's service company. The Company has accounted for this transaction as a capitalization of the service companies' merger and has reflected these amounts as a reduction of the Company's additional paid in capital. Dividends are to be paid semi-annually at a rate of 3.3%. $5.4 million of dividends were received from NGUSA's service company during the fiscal year ended March 31, 2013 which have been recorded in other interest on the consolidated statements of income.

Loans to Affiliates

In December 2009, the Company and an affiliate of NGUSA entered into a loan agreement whereby the Company loaned the affiliate $80 million at an interest rate of 5.8%, due April 2035. The loan was issued for the purpose of the Company providing an investment in information systems technology which is expected to be utilized by the Company and its subsidiaries. At March 31, 2013 and March 31, 2012, the outstanding balance on this loan was $80 million.

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 consolidated financial statements. Were these amounts allocated to KeySpan, the estimated effect on net income would be approximately $17.6 million and $16.8 million before taxes and $11.5 million and $10.9 million after taxes, for the years ended March 31, 2013 and March 31, 2012, respectively.

Note 12. Preferred Stock

In connection with the acquisition of KeySpan by NGUSA, the Company became subject to a requirement to issue a class of preferred stock having one share (the "Golden Share"), subordinate to any existing preferred stock. The holder of the Golden Share would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation, receivership or similar proceeding without the consent of the holder of the Golden Share. The NYPSC subsequently authorized the issuance of the Golden Share to a trustee, GSS Holdings, Inc. ("GSS"), who will hold the Golden Share subject to a Services and Indemnity Agreement requiring GSS to vote the Golden Share in the best interests of New York State. The Golden Share was issued by the Company on July 8, 2011. The Golden Share has a par value of $1 dollar.

Note 13. Discontinued Operations

On December 8, 2010, NGUSA and Liberty Energy entered into a stock purchase agreement which was subsequently amended and restated on January 21, 2011, pursuant to which NGUSA sold and Liberty Energy purchased all of the common stock of EnergyNorth. The sale of EnergyNorth was consummated on July 3, 2012 for proceeds of $223 million.

On September 23, 2011, National Grid Development Holdings Corp., a wholly-owned subsidiary of KeySpan, entered into a purchase agreement to sell all of its outstanding membership interest in Seneca-Upshur Petroleum, LLC to PDC Mountaineer, LLC. The sale was completed on October 3, 2011 for proceeds of $163 million with a related gain on sale of investment of $99 million recorded in the quarter ended December 31, 2011. The Company has recorded a $30 million reserve at March 31, 2012 for a post-closing due diligence period of six months, which expired in April 2012, for certain indemnifications. As of the date of this report, the Company has incurred $30 million of expenses against these indemnifications.

The information below highlights the major classes of revenues and expenses of EnergyNorth and Seneca-Upshur for the years ended March 31, 2013 and March 31, 2012:

	Years Ended March 31,	
	2013	2012
	(in millions of dollars)	
Revenues	**$ 20**	$ 134
Operating expenses:		
Purchased gas	**8**	73
Operations and maintenance	**8**	(13) (i)
Other taxes	**1**	8
Total operating expenses	**17**	68
Operating income	**3**	66
Income tax (benefit) expense	**(14)**	27
Income from discontinued operations	**$ 17**	$ 39

(i) Includes $36 million of Ravenswood transfer tax contingency now resolved, as discused in Note 11. "Commitments and Contingencies".