KeySpan Corporation and Subsidiaries

Consolidated Financial Statements

For the years ended March 31, 2016 and 2015

KEYSPAN CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

Independent Auditor's Report

To the Board of Directors
of KeySpan Corporation

We have audited the accompanying consolidated financial statements of KeySpan Corporation and its subsidiaries (the Company), which comprise the consolidated balance sheets and statements of capitalization as of March 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 its subsidiaries at March 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 16, 2016

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

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

	Years Ended March 31, 2016	Years Ended March 31, 2015
Operating revenues:		
Gas distribution	**$ 3,468**	$ 4,232
Electric services	**494**	464
Other	**25**	29
Total operating revenues	**3,987**	4,725
Operating expenses:		
Purchased gas	**1,017**	1,751
Operations and maintenance	**1,487**	1,508
Depreciation and amortization	**391**	371
Other taxes	**602**	599
Total operating expenses	**3,497**	4,229
Operating income	**490**	496
Other income and (deductions):		
Interest on long-term debt	**(178)**	(177)
Other interest, including affiliate interest	**(59)**	(31)
Income from equity investments	**34**	41
Gain on sale of assets	**76**	-
Unrealized gains on investment in Dominion Midstream Partners, LP	**53**	-
Other income, net	**21**	28
Total other deductions, net	**(53)**	(139)
Income before income taxes	**437**	357
Income tax expense	**183**	141
Income from continuing operations	**254**	216
Loss from discontinued operations, net of taxes	**(16)**	(2)
Net income	**$ 238**	$ 214

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,	
	2016	2015
Net income	**$ 238**	$ 214
Other comprehensive (loss) income:		
Unrealized losses on securities	**(1)**	-
Change in pension and other postretirement obligations	**86**	-
Total other comprehensive income	**85**	**-**
Comprehensive income	**$ 323**	$ 214
Related tax benefit (expense):		
Unrealized losses on securities	**$ 1**	$ -
Change in pension and other postretirement obligations	**(60)**	-
Total tax expense	**$ (59)**	$ -

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, 2016	2015
Operating activities:		
Net income	$ 238	$ 214
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	391	371
Regulatory amortizations	108	103
Provision for deferred income taxes	100	61
Bad debt expense	65	66
Income from equity investments, net of dividends received	(9)	(1)
Gain on sale of assets	(76)	-
Unrealized gains on investment in Dominion Midstream Partners, LP	(53)	-
Net postretirement benefits expense	95	263
Net environmental remediation payments	(62)	(61)
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenues	351	204
Inventory	(28)	(28)
Regulatory assets and liabilities, net	(107)	125
Derivative instruments	1	12
Prepaid and accrued taxes	31	(36)
Accounts payable and other liabilities	(12)	(74)
Other, net	16	21
Net cash provided by operating activities	1,049	1,240
Investing activities:		
Capital expenditures	(1,136)	(975)
Affiliated regulated money pool investing and receivables/payables, net	(431)	(3)
Affiliated unregulated money pool investing and receivables/payables, net	(399)	(467)
Advances to affiliate	272	(72)
Cost of removal	(60)	(53)
Insurance proceeds applied to capital expenditures	-	2
Other	10	(12)
Net cash used in investing activities	(1,744)	(1,580)
Financing activities:		
Payments on long-term debt	(138)	(2)
Proceeds from long-term debt	1,221	-
Affiliated regulated money pool borrowing and receivables/payables, net	(460)	(85)
Affiliated unregulated money pool borrowing and receivables/payables, net	6	28
Parent loss tax allocation	43	84
Net cash provided by financing activities	672	25
Net decrease in cash and cash equivalents	(23)	(315)
Net cashflow from discontinued operations - operating	13	114
Net cashflow from discontinued operations - financing	11	31
Cash and cash equivalents, beginning of year	21	191
Cash and cash equivalents, end of year	$ 22	$ 21
Supplemental disclosures:		
Interest paid	$ (177)	(190)
Income taxes refunded (paid)	17	(28)
Significant non-cash items:		
Capital-related accruals included in accounts payable	98	46

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,	
	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 22**	$ 21
Accounts receivable	**770**	1,075
Allowance for doubtful accounts	**(130)**	(108)
Accounts receivable from affiliates	**1,130**	1,075
Intercompany money pool	**1,821**	1,612
Advances to affiliates	**1,799**	2,071
Unbilled revenues	**189**	278
Inventory	**246**	239
Regulatory assets	**163**	136
Derivative instruments	**6**	16
Other	**96**	120
Current assets related to discontinued operations	**202**	241
Total current assets	**6,314**	6,776
Equity investments	**121**	186
Property, plant and equipment, net	**10,682**	9,784
Other non-current assets:		
Regulatory assets	**2,254**	2,164
Goodwill	**3,766**	3,766
Derivative instruments	**2**	15
Loan to affiliate	**80**	80
Financial investments	**375**	184
Other	**74**	78
Other non-current assets related to discontinued operations	**37**	-
Total other non-current assets	**6,588**	6,287
Total assets	**$ 23,705**	$ 23,033

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, 2016		March 31, 2015	
LIABILITIES AND CAPITALIZATION				
Current liabilities:				
Accounts payable	**$**	**428**	$	464
Accounts payable to affiliates		**151**		147
Current portion of long-term debt		**938**		10
Taxes accrued		**64**		60
Interest accrued		**65**		61
Regulatory liabilities		**236**		310
Intercompany money pool		**1,416**		2,441
Derivative instruments		**11**		31
Other		**143**		139
Current liabilities related to discontinued operations		**692**		670
Total current liabilities		**4,144**		4,333
Other non-current liabilities:				
Regulatory liabilities		**1,498**		1,331
Asset retirement obligations		**63**		63
Deferred income tax liabilities, net		**2,033**		1,843
Postretirement benefits		**1,918**		1,985
Environmental remediation costs		**690**		673
Derivative instruments		**1**		3
Other		**313**		279
Total other non-current liabilities		**6,516**		6,177
Commitments and contingencies (Note 13)				
Capitalization:				
Shareholders' equity		**9,596**		9,230
Long-term debt		**3,449**		3,293
Total capitalization		**13,045**		12,523
Total liabilities and capitalization	**$**	**23,705**	$	23,033

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,	
			2016	2015
Total shareholders' equity			**$ 9,596**	$ 9,230
Long-term debt:	Interest Rate	Maturity Date		
Notes Payable	3.30% - 9.75%	April 2016 - March 2046	**3,378**	2,388
Promissory Notes to North Grid North America Inc.	3.13% - 3.25%	June 2027 - April 2028	**227**	-
Gas Facilities Revenue Bonds	Variable	December 2020 - July 2026	**230**	230
Gas Facilities Revenue Bonds[1]	4.70% - 6.95%	April 2020 - July 2026	**411**	411
Total			**641**	641
Industrial Development Revenue Bonds[2]	5.25%	June 2027	**-**	128
First Mortgage Bonds	6.90% - 8.80%	July 2022 - April 2028	**75**	75
State Authority Financing Bonds	Variable	December 2027 - October 2028	**66**	66
Total debt			**4,387**	3,298
Unamortized debt premium			**-**	5
Current portion of long-term debt			**938**	10
Long-term debt			**3,449**	3,293
Total capitalization			**$ 13,045**	$ 12,523

(1) During March 2016, The Brooklyn Union Gas Company issued Notice of Optional Redemption letters to the bond holders of the fixed interest rate gas facilities revenue bonds. The Brooklyn Union Gas Company fully repaid these bonds during April 2016 as disclosed in Note 16, "Subsequent Events." Hence these bonds are classified within current portion of long-term debt.

(2) On November 20, 2015, National Grid Generation LLC redeemed this debt as disclosed in Note 10, "Capitalization."

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(in millions of dollars)

		Accumulated Other Comprehensive Income (Loss)				
	Additional Paid-in Capital	Unrealized Gain on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2014	**$ 7,300**	**$ 33**	**$ (393)**	**$ (360)**	**$ 1,992**	**$ 8,932**
Net income	-	-		-	214	214
Parent loss tax allocation	84	-	-	-	-	84
Balance as of March 31, 2015	**$ 7,384**	**$ 33**	**$ (393)**	**$ (360)**	**$ 2,206**	**$ 9,230**
Net income	-	-		-	238	238
Other comprehensive income:						
Unrealized losses on securities, net of $1 tax benefit	-	(1)	-	(1)	-	(1)
Change in pension and other postretirement obligations, net of $60 tax expense	-	-	86	86	-	86
Total comprehensive income						323
Parent loss tax allocation	43	-	-	-	-	43
Balance as of March 31, 2016	**$ 7,427**	**$ 32**	**$ (307)**	**$ (275)**	**$ 2,444**	**$ 9,596**

The Company had 100 shares of common stock authorized, issued and outstanding, with a par value of $0.10 per share and 2 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $1 per share at March 31, 2016 and 2015.

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

KEYSPAN CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

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

Gas Distribution

The Company's Gas Distribution business 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. Boston Gas Company ("Boston Gas") and Colonial Gas Company ("Colonial Gas"), provide gas distribution services to customers in Massachusetts.

Electric Services

The Company's Electric Services business consists of certain subsidiaries which have provided operational and energy management services and continue to supply capacity to and produce energy for the use of customers of the Long Island Power Authority ("LIPA") on Long Island, New York. The services provided to LIPA were, or continue to be, provided through the following contractual arrangements. The Power Supply Agreement ("PSA"), which was amended and restated for a maximum term of 15 years in October 2012, provides LIPA with electric generating capacity, energy conversion, and ancillary services from the Company's Long Island generating units. The Management Service Agreement ("MSA"), which expired on December 31, 2013, provided operation, maintenance and construction services, and significant administrative services relating to the Long Island electric transmission and distribution system. The results of the MSA are reflected as discontinued operations in the accompanying consolidated financial statements for the years ended March 31, 2016 and 2015.

Energy Services

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

Energy Investments

The Company's Energy Investments business consists of gas production and development investments such as natural gas pipelines, as well as certain other domestic energy-related investments. The Company has a wholly-owned subsidiary, National Grid LNG LLC, which is engaged in the business of receiving, storing, and redelivering liquefied natural gas ("LNG") in liquid and gaseous states through facilities located in Providence, Rhode Island.

The Company's consolidated financial statements also include a 26.25% interest in Millennium Pipeline Company LLC ("Millennium"), which is accounted for under the equity method of accounting.

On September 29, 2015, the Company contributed its 20.4% interest in Iroquois Gas Transmission System L.P., which was accounted for under the equity method of accounting, to Dominion Midstream Partners, LP ("DM") in exchange for approximately 6.8 million common units (representing approximately a 9% interest) of DM. DM was formed to grow a portfolio of natural gas terminaling, processing, storage, and transportation assets. The transaction resulted in a gain on sale of assets of $74 million. The Company has elected the fair value option with respect to its investment in DM and as such, any changes in the fair value of these common units are recorded as unrealized gains on investment in Dominion Midstream Partners, LP in the accompanying consolidated statements of income. The Company's investment in DM is included within financial investments in the accompanying consolidated balance sheets.

On October 13, 2015, through its indirect wholly-owned subsidiary, National Grid Technologies, the Company entered into agreements with and became a limited partner of Energy Impact Fund LP ("the Fund"), which is a Delaware limited partnership set up to engage in private equity and venture capital investing, primarily through acquiring, holding, and disposing of equity securities issued by companies focused on energy impact technologies. The Fund has an initial term of 10 years, and the Company has made a capital commitment of $50 million to the Fund. For the year ended March 31, 2016, the Company has made multiple capital contributions totaling $1.1 million.

Through its indirect wholly-owned subsidiary, National Grid Generation Ventures LLC, the Company owns a 50% interest in Island Park Energy Center LLC, formed to construct, install, hold, own, protect, finance, manage, operate, and maintain projects consisting of the repowering of the E.F. Barrett Steam Unit and Barrett CT Units all located in Nassau County, New York.

Additionally, National Grid Generation Ventures LLC owns a 50% interest in three LLCs (LI Solar Generation LLC, LI Energy Storage System LLC, and LI Peaker Generation LLC). These LLCs were formed to jointly respond to LIPA's Request for Proposals ("RFPs") for Generation, Energy Storage, and Demand Response Resources and to jointly develop, construct, install, hold, own, protect, finance, manage, operate, and maintain the respective RFP projects (none were awarded) or future proposals for similar projects.

Grid NY LLC, a direct wholly-owned subsidiary, was formed pursuant to the articles of organization filed on October 10, 2014 to own a 28.261% equity interest in New York Transco LLC ("NY Transco LLC"), a New York limited liability company, which was formed pursuant to the articles of organization filed on November 14, 2014 for the purpose of planning, construction, owning, operating, maintaining, and expanding transmission facilities in the state of New York. From October 10, 2014 to the year ended March 31, 2016, the Company has made multiple capital contributions totaling $1.6 million. In May 2016, the Company has made two additional capital contributions totaling $31.7 million for the purchase of the Indian Point Reliability Contingency Projects which included the Ramapo Rock Tavern and Staten Island Unbottling Projects.

Through its wholly-owned subsidiary, National Grid Algonquin LLC ("NGA"), the Company entered into an agreement in September 2015 to participate in a project ("Access Northeast") with Eversource Energy and Spectra Energy Corporation to enhance the Algonquin and Maritimes & Northeast pipeline systems and construct new LNG storage tanks and vaporization facilities in Acushnet, Massachusetts that will be connected to the Algonquin gas pipeline.

The Company uses the equity method of accounting for its investments in affiliates when it has the ability to exercise significant influence over the operating and financial policies, but does not control the affiliates and has not elected to account for such investments at fair value. The Company's share of the earnings or losses of such affiliates is included as income from equity investments in the accompanying consolidated statements of income.

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), including the accounting principles for rate-regulated entities as applicable. The consolidated financial statements reflect the ratemaking practices of the applicable regulatory authorities.

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

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

The Company has evaluated subsequent events and transactions through September 16, 2016, 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, 2016, except as described in Note 16, "Subsequent Events."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing consolidated financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities included in the consolidated financial statements. Actual results could differ from those estimates.

Regulatory Accounting

The New York Public Service Commission ("NYPSC") and the Massachusetts Department of Public Utilities ("DPU") regulate the rates the Company's regulated subsidiaries charge their customers in the applicable states. In certain cases, the rate actions of the NYPSC and DPU can result in accounting that differs from non-regulated companies. In these cases, the subsidiaries defer costs (as regulatory assets) or recognize obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. Regulatory assets and liabilities are reflected in the consolidated statements of income consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

Gas *Distribution*

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

With respect to base distribution rates, the state regulators have approved revenue decoupling mechanisms ("RDM"), which require the Company's regulated gas subsidiaries to adjust their base rates periodically to reflect the over or under recovery of allowed revenues per customer.

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

Electric Services

Electric revenues are recognized for sales of capacity and energy to LIPA under terms of the PSA, with rates approved by the Federal Energy Regulatory Commission ("FERC"). Please see Note 13, "Commitments and Contingencies" for additional information on the PSA. The Company records unbilled revenues for the estimated amount of energy delivered from the bill date to the end of the accounting period.

Energy Services and Investments

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

Other Taxes

The Company's subsidiaries collect taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2016 and 2015 were $63 million and $60.5 million, respectively.

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

Income Taxes

Federal and state income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the consolidated financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses, and general business credit carryforwards.

The effects of tax positions are recognized in the consolidated financial statements when it is more likely than not that the position taken, or expected to be taken, in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. Deferred investment tax credits are amortized over the useful life of the underlying property.

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary determines its current and deferred taxes based on the separate return method, modified by benefits-for-loss allocation pursuant to a tax sharing agreement between NGNA and its subsidiaries. To the extent that the consolidated return group settles cash differently than the amount reported as realized under the benefit-for-loss allocation, the difference is accounted for as either a capital contribution or as a distribution.

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience, and management's assessment of collectability from individual customers, as appropriate. The collectability of receivables is continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies, emission credits, and gas in storage. Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2016 or 2015. Emission credits are comprised of sulfur dioxide, nitrogen oxide ("NOx"), and carbon dioxide credits. Emission credits are valued at the lower of weighted average cost or market and are held primarily for consumption or may be sold to third-party purchasers.

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

The Company had materials and supplies of $84 million and $71 million, emission credits of $23 million and $44 million, and gas in storage of $139 million and $124 million at March 31, 2016 and 2015, respectively.

Derivative Instruments

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

The Company's accounting policy is to not offset fair value amounts recognized for derivative instruments and related cash collateral receivable or payable with the same counterparty under a master netting agreement, and to record and present the fair value of the derivative instrument on a gross basis, with related cash collateral recorded within restricted cash and special deposits in the accompanying consolidated balance sheets. There was no related cash collateral as of March 31, 2016 or 2015.

Fair Value Measurements

The Company measures derivative instruments, available-for-sale securities, and financial assets for which it has elected the fair value option 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;
- 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; and
- Not categorized: as discussed in Note 2, under "New and Recent Accounting Guidance," certain investments are not categorized within the fair value hierarchy. These investments are measured based on the fair value of the underlying investments but may not be readily redeemable at that fair value.

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

Property, Plant and Equipment

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

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the state authorities. The average composite rates and average service lives for the years ended March 31, 2016 and 2015 are as follows:

	Electric		Gas	
	Years Ended March 31,		Years Ended March 31,	
	2016	2015	**2016**	2015
Composite rates	**2.9%**	3.4%	**2.9%**	3.0%
Average service lives	**39 years**	39 years	**45 years**	45 years

Depreciation expense, for regulated subsidiaries, includes a component for estimated future cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of $908 million and $869 million at March 31, 2016 and 2015, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the regulated subsidiaries record AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the consolidated statements of income as non-cash income in other income, net, and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $1.9 million and zero and AFUDC related to debt of $3 million and $0.3 million for the years ended March 31, 2016 and 2015, respectively. The average AFUDC rates for the years ended March 31, 2016 and 2015 were 1.3% and zero, respectively.

Goodwill

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

The fair value of each reporting unit was calculated in the annual goodwill impairment test for the year ended March 31, 2016 utilizing both income and market approaches. The Company uses a 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment of the goodwill carrying value was required at March 31, 2016 or 2015.

Available-For-Sale Securities

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

Asset Retirement Obligations

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

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

	Years Ended March 31,	
	2016	2015
	(in millions of dollars)	
Balance as of the beginning of the year	**$ 63**	$ 67
Accretion expense	**3**	4
Liabilities settled	**(3)**	(11)
Revaluations to present values of estimated cash flows	**-**	3
Balance as of the end of the year	**$ 63**	$ 63

At March 31, 2015, the Company carried out a revaluation study that resulted in a net upward revaluation in estimated costs related to the asset retirement obligations. These increases were due to changes in remediation cost and enhanced asset replacement programs.

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

Employee Benefits

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

Supplemental Executive Retirement Plans

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

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2016

The new accounting guidance that was adopted for fiscal year 2016 had no material impact on the results of operations, cash flows, or financial position of the Company.

Presentation of Financial Statements – Balance Sheet Classification of Deferred Taxes

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, "Balance Sheet Classification of Deferred Taxes." The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance be classified as non-current in the balance sheets; the new guidance does not change the existing requirement of prohibiting the offsetting of deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The Company early adopted this guidance, retrospectively, effective April 1, 2015.

Fair Value Measurement – Investments Measured at Net Asset Value ("NAV")

In May 2015, the FASB issued ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate New Asset Value per Share (or its equivalent)." The new guidance requires that the valuation of investments using NAV, as a practical expedient to fair value should be excluded from the fair value hierarchy. The Company early adopted this guidance, retrospectively, effective April 1, 2015.

Accounting Guidance Not Yet Adopted

The Company is currently evaluating the impact of recently issued accounting guidance on the presentation, results of operations, cash flows, and financial position of the Company.

Leases

In February 2016, the FASB issued a new lease accounting standard, ASU 2016-02, "Leases (Topic 842)." The key objective of the new standard is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, a dual model has been retained, with leases to be designated as operating leases or finance leases. Expenses will be recognized on a straight-line basis for operating leases, and a front-loaded basis for finance leases. For non-public entities, the new standard is effective for periods beginning after December 15, 2019, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients.

Financial Instruments – Classification and Measurement

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The new guidance principally affects the accounting for equity investments and financial liabilities where the fair value option has been elected, as well as the disclosure requirements for financial instruments. The new guidance is effective for non-public entities for periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2017.

Revenue Recognition

In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers – Deferral of the Effective Date.” The new standard defers by one year the effective date of ASU 2014-09 “Revenue from Contracts with Customers (Topic 606).” The underlying principle of “Revenue from Contracts with Customers” is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to, in exchange for those goods or services. The new guidance must be adopted using either a full retrospective approach or a modified retrospective approach. For non-public entities, the new guidance is effective for periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2016.

Further, in March 2016, the FASB issued ASU 2016-08, which clarifies the implementation guidance on principal versus agent considerations. In May 2016, the FASB issued ASU 2016-12, providing additional clarity on various aspects of Topic 606, including a) Assessing the Collectibility Criterion and Accounting for Contracts That Do Not Meet the Criteria for Step 1, b) Presentation of Sales Taxes and Other Similar Taxes Collected from Customers, c) Noncash Consideration, d) Contract Modifications at Transition, e) Completed Contracts at Transition, and f) Technical Correction. The effective date and transition requirements for the amendments in these updates are the same as the effective date and transition requirements of ASU 2014-09.

Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, “Simplifying the Measurement of Inventory.” The new guidance requires that inventory be measured at the lower of cost and net realizable value (other than inventory measured using “last-in, first out” and the “retail inventory method”). The new guidance, which must be applied prospectively, is effective for non-public entities for periods beginning after December 15, 2016, with early adoption permitted.

Intangibles – Goodwill and Other – Internal-Use Software, Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued ASU 2015-05 “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.” The amendments provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer’s accounting for service contracts. In addition, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. For non-public entities, the new guidance is effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016, with early adoption permitted.

Presentation of Financial Statements – Balance Sheet Classification of Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs.” The new guidance requires that debt issuance costs related to term loans, be presented in the balance sheets as a direct deduction from the carrying value of debt. The new guidance, which requires retrospective application, is effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016, with early adoption permitted.

Consolidation

In February 2015, the FASB issued ASU 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis.” The new guidance eliminates entity specific consolidation guidance for limited partnerships. It also revises other aspects of the consolidation analysis, including how kick-out rights, fee arrangements and related parties are assessed. The new guidance, which requires either modified retrospective or full retrospective basis application, is effective for periods beginning after December 15, 2016, with early adoption permitted.

Presentation of Financial Statements – Going Concern, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued amendments on reporting about an entity's ability to continue as a going concern in ASU 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205 - 40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The amendments provide guidance about management's responsibility to evaluate whether there is substantial doubt surrounding an entity's ability to continue as a going concern. If management concludes that substantial doubt exists, the amendments require additional disclosures relating to management's evaluation and conclusion. The amendments are effective for the annual reporting period ending after December 15, 2016 and interim periods thereafter.

Financial Statement Revision

During 2016, management determined that certain accounting transactions were not properly recorded in the Company's previously issued consolidated financial statements. The Company has corrected the accounting by revising the prior period consolidated financial statements presented herein, the impacts of which are described below. The Company concluded that the corrections were not material to any prior periods.

During a review of the Company's open work orders within capital work in progress, management identified charges that were inappropriately classified as capital instead of expense. A cumulative adjustment of $14.3 million (net of income taxes) was recorded, of which $7.8 million was recorded as a decrease to opening retained earnings (as of March 31, 2014) and $6.5 million was recorded as a decrease to net income with the correction recorded within operations and maintenance expense for the year ended March 31, 2015.

In addition, during a review of the Company's accounting for its unbilled revenue accrual, management identified a gas costs deferral for the year ended March 31, 2014 that had not reversed into the subsequent fiscal year. An adjustment of $9.9 million (net of income taxes) was recorded as a decrease to net income with the correction recorded within purchased gas for the year ended March 31, 2015.

Finally, the Company has corrected other miscellaneous account balances that were improperly recorded in the previously issued financial statements. A cumulative adjustment of $4.2 million (net of income taxes) was recorded, of which $6.8 million was recorded as an increase to opening retained earnings (as of March 31, 2014) and $2.6 million was recorded as a decrease to net income for the year ended March 31, 2015.

The following table shows the amounts previously reported as revised:

	As Previously Reported	Adjustments	As Revised
		(in millions of dollars)	
Consolidated Statement of Income	**March 2015**		**March 2015**
Operating revenues	$ 4,723	$ 2	$ 4,725
Operating expenses	4,198	31	4,229
Operating income	525	(29)	496
Total other deductions, net	(140)	1	(139)
Income before income taxes	385	(28)	357
Income tax expense	152	(11)	141
Loss from discontinued operations, net of taxes	-	(2)	(2)
Net income	233	(19)	214
Consolidated Statement of Cash Flows			
Net cash provided by operating activities	$ 1,249	$ (9)	$ 1,240
Net cash used in investing activities	(1,587)	7	(1,580)
Net cashflow from discontinued operations - operating	112	2	114

	As Previously Reported(1)	Adjustments	As Revised
		(in millions of dollars)	
Consolidated Balance Sheet	**March 2015**		**March 2015**
Total current assets	$ 6,793	$ (17)	$ 6,776
Property, plant and equipment, net	9,809	(25)	9,784
Total other non-current assets	6,472	1	6,473
Total assets	23,074	(41)	23,033
Total other non-current liabilities	6,198	(21)	6,177
Total liabilities	10,531	(21)	10,510
Retained Earnings			
March 31, 2015	2,226	(20)	2,206
March 31, 2014	1,993	(1)	1,992
Shareholders' Equity			
March 31, 2015	9,250	(20)	9,230
March 31, 2014	8,933	(1)	8,932

(1) During 2016, the Company early adopted ASU 2015-17 “Balance Sheet Classification of Deferred Taxes” retrospectively (as discussed in Note 11, “Income Taxes”). This change in accounting policy resulted in the reclassification of balances reported at March 31, 2015.

3. REGULATORY ASSETS AND LIABILITIES

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

	March 31, 2016	March 31, 2015
	(in millions of dollars)	
Regulatory assets		
Current:		
Derivative instruments	**$ 6**	$ 25
Gas costs adjustment	**120**	101
Revenue decoupling mechanism	**22**	-
Other	**15**	10
Total	**163**	136
Non-current:		
Environmental response costs	**1,105**	1,067
Postretirement benefits	**597**	614
Recovery of acquisition premium	**192**	200
Temperature control/interruptible sharing	**125**	82
Other	**235**	201
Total	**2,254**	2,164
Regulatory liabilities		
Current:		
Derivative instruments	**1**	22
Energy efficiency	**46**	46
Gas costs adjustment	**75**	74
Profit sharing	**54**	46
Revenue decoupling mechanism	**43**	87
Temporary state assessment	**3**	18
Other	**14**	17
Total	**236**	310
Non-current:		
Carrying charges	**94**	78
Cost of removal	**908**	869
Delivery rate adjustment	**128**	128
Environmental response costs	**106**	48
Excess earnings	**95**	95
Other	**167**	113
Total	**1,498**	1,331
Net regulatory assets	**$ 683**	$ 659

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

Delivery rate adjustment: The NYPSC authorized a combined annual surcharge for recovery of regulatory assets ("Delivery Rate Surcharge") in January 2008 and 2009, for Brooklyn Union and KeySpan Gas East, respectively. In its order issued and effective November 28, 2012 (Order Authorizing Recovery of Deferred Balances), the NYPSC authorized a combined Site Investigation and Remediation ("SIR") Surcharge in the amount of $65 million which superseded the Delivery Rate Surcharge effective January 1, 2013. These SIR recoveries will be used to amortize existing SIR deferral balances. On June 5, 2015, Brooklyn Union submitted a petition to the NYPSC to increase its existing SIR Surcharge by $37.5 million annually and remaining in effect until new base rates are set. The proposed increase in the SIR Surcharge will allow Brooklyn Union to recover some of its environmental response costs and minimize future bill impacts for customers. On October 19, 2015, the NYPSC issued an order authorizing Brooklyn Union to increase its annual SIR Surcharge by $37.5 million annually, commencing November 1, 2015.

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

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

Environmental response costs: The regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at former manufactured gas plant ("MGP") sites and related facilities. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates. The regulatory liability represents the excess of amounts received in rates over the Company's actual SIR costs.

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

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

Postretirement benefits: Primarily represents the excess costs of the Company's pension and PBOP plans over amounts received in rates that are deferred to a regulatory asset to be recovered in future periods and the non-cash accrual of net actuarial gains and losses. Also included within this amount are certain pension deferral amounts from prior to the acquisition of KeySpan by NGUSA, which are being recovered in rates over a ten year period ending August 2017.

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

Recovery of acquisition premium: Represents the unrecovered amount (plus related taxes) by which the purchase price paid exceeded the net book value of Colonial Gas' assets in the 1998 acquisition of Colonial Gas by Eastern Enterprises, Inc. In exchange for certain rate concessions and the achievement of certain merger savings targets, the DPU has allowed Colonial Gas to recover the acquisition premium through rates for the next 23 years (through August 2039).

Revenue decoupling mechanism: For the New York Gas Companies, as approved by the NYPSC, the RDM applies only to firm residential heating sales and transportation customers. The RDM allows for annual adjustment to the New York Gas Companies' delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. For the Massachusetts Gas Companies, the DPU approved a RDM which allows for seasonal (peak/off peak) adjustments to the Massachusetts Gas Companies' delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. Any difference between the allowed revenue per customer and the actual revenue per customer is recorded as a regulatory asset or regulatory liability.

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

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

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

4. RATE MATTERS

The New York Gas Companies

General Rate Case

KeySpan Gas East has been subject to a rate plan with a primary term of five years (2008-2012), which remains in effect until modified by the NYPSC. Under this rate plan, base delivery rates include an allowed ROE of 9.8% with a 45% equity ratio in the capital structure.

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

Rate Case Filing

On January 29, 2016, the New York Gas Companies filed to adjust its base gas rates, which, if adopted, would be effective from January 1, 2017. The filing seeks to increase gas delivery base revenues. On June 17, 2016, the New York Gas Companies filed for a month-extension in the suspension period in the proceedings with a make whole provision, such that new rates would become effective February 1, 2017. On July 21, 2016, to allow additional time for the parties to conduct settlement discussions and finalize a joint proposal, the New York Gas Companies requested an additional one-month extension in the suspension period, subject to a make whole, such that new rates would become effective no later than March 1, 2017.

On September 7, 2016, the New York Gas Companies filed a Joint Proposal establishing a three year rate plan beginning January 1, 2017 and ending December 31, 2019. The Joint Proposal is supported by several parties, including Department of Public Service Staff and the City of New York. It is expected that the NYPSC will issue an order on the Joint Proposal in December or January and that new rates would go into effect in either January or February. The Joint Proposal includes a make whole provision that, if approved, is designed to ensure the New York Gas Companies are restored to the same financial position by December 31, 2017 as if new rates went into effect beginning January 1, 2017.

Capital Investment

On June 13, 2014, KeySpan Gas East filed a petition with the NYPSC to implement a three year capital investment program that would allow KeySpan Gas East to invest more than $700 million in gas infrastructure projects designed to enhance the safety and reliability of its gas systems and promote gas growth, while maintaining base delivery rates.

On December 15, 2014, KeySpan Gas East received an order which authorizes it to replace leak prone pipe up to its forecasted budget of $211.7 million for calendars years 2015 and 2016. KeySpan Gas East is allowed to establish a 21-month surcharge mechanism beginning April 2, 2015 through December 31, 2016, which will be capped at $10 million and $13.4 million, respectively, to address KeySpan Gas East's capital needs for replacement of leak prone pipe, while minimizing future customer bill impacts. KeySpan Gas East was authorized to spend up to its forecasted budget of $202.7 million for calendar years 2015 and 2016 for its Neighborhood Expansion and other related programs. KeySpan Gas East is directed to establish a new deferral mechanism that allows it to defer the pre-tax revenue requirements associated with its capital spending program up to a maximum capital expenditure of $202.7 million made in calendar years 2015 and 2016. KeySpan Gas East's existing city/state deferral mechanism was eliminated as of January 1, 2015 and the non-growth deferral mechanism is continued. The order also included additional obligations and filing requirements.

Management Audit

In February 2011, the NYPSC selected Overland Consulting Inc., ("Overland") to perform a management audit of NGUSA's affiliate cost allocations, policies, and procedures. The New York Gas Companies disputed certain of Overland's final audit conclusions and the NYPSC ordered that further proceedings be conducted to address what, if any, ratemaking adjustments were necessary. On September 5, 2014, the NYPSC approved a settlement that resolves all outstanding issues relating to the audit and establishes a $24.7 million regulatory liability

Gas Management Audit

In February 2013, the NYPSC initiated a comprehensive management and operational audit of NGUSA's New York gas businesses, including the New York Gas Companies, pursuant to the Public Service Law requirement that major electric and gas utilities undergo an audit every five years. The audit commenced in August 2013 and the NYPSC issued an audit findings report in October 2014. The audit findings found that the New York Gas Companies' operations performed well in providing reliable gas service, and strength in operations, network planning, project management, work management, load forecasting, supply procurement and customer systems support. Also included were 31 recommendations for improvement, including: reconstituting the boards of directors of NGUSA and the gas companies in New York to include more objective oversight; establishing stronger reporting authority between the New York jurisdictional president and operational organizations; preparing a true strategic plan for NGUSA's New York operations to serve as a road map for investments, programs and operations to build upon the state energy plan and energy initiatives; developing a five-year, integrated, system-wide plan that includes all gas reliability work, mandated replacements, growth projects and system planning work; enhancing internal service level agreements to promote accountability for performance and costs; and undertaking a full accounting of all costs associated with NGUSA's SAP enterprise wide system. In November 2014, NGUSA's New York gas businesses filed joint audit implementation plans addressing each of the audit recommendations. On May 14, 2015, the NYPSC issued an order accepting without modifications the joint implementation plans and directing NGUSA's New York gas businesses to execute the plans.

Operations Audit

In August 2013, the NYPSC initiated an operational audit to review the accuracy of the customer service, electric reliability, and gas safety data reported by the investor owned utilities operating in New York, including the New York Gas Companies. On December 19, 2013, the NYPSC selected Overland to conduct the audit, which commenced in February 2014. On April 20, 2016, the NYPSC released Overland's audit report publicly and adopted the majority of recommendations in the report. The audit report found that the New York Gas Companies, in general, are meeting their obligations to supply self-reported data. The report contains recommendations to improve internal controls and allow for greater consistency in reporting among the New York utilities. The recommendations do not affect current rate case performance targets or mechanisms and may be considered for potential implementation in future rate plans. The New York Gas Companies filed their plan to implement the audit recommendations with the NYPSC on May 19, 2016. On May 26, 2016, the NYPSC issued a Notice Seeking Comments on the draft customer service recommendations that were not addressed in the previous order. The New York Gas Companies filed comments on the draft recommendations on July 20, 2016.

Operations Staffing Audit

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

Capital Reconciliation Mechanism Petition

In June 2015, Brooklyn Union submitted a petition to the NYPSC requesting a modification to the Capital Expenditures and Net Utility Plant and Depreciation Expense Reconciliation Mechanism ("Capital Reconciliation Mechanism") in its current rate plan. The Capital Reconciliation Mechanism is a downward only net utility plant reconciliation mechanism that permits a cumulative, two-year reconciliation for the two years ended December 31, 2014 and annual reconciliations thereafter. While Brooklyn Union implemented and largely completed its capital program for 2013 and 2014, its ability to launch certain programs was hampered by SuperStorm Sandy and its aftermath. The impact of these delays and other related issues was a deferred liability, which was offset against the regulatory asset recorded in relation to the primary term of the rate plan. Brooklyn Union requested a modification to the Capital Reconciliation Mechanism to extend the reconciliation period for two years (calendar years 2015 and 2016) to complete more capital projects and facilitate Brooklyn Union's plan to invest in its distribution system infrastructure. On October 19, 2015, the NYPSC issued an order granting the requested two year extension to the reconciliation period.

The Massachusetts Gas Companies

General Rate Case

In November 2010, the DPU issued an order in the Massachusetts Gas Companies' 2010 rate case approving a revenue increase of $58 million based upon a 9.75% ROE and a 50% equity ratio. The Massachusetts Gas Companies filed two motions in response. These motions resulted in a final revenue increase of $65.3 million.

Gas System Enhancement Plan

On April 30, 2015 and April 29, 2016, the DPU approved the Massachusetts Gas Companies' 2015 and 2016 Gas System Enhancement Plans (''GSEP'') for calendar year 2015 and 2016, respectively, and the associated gas system enhancement adjustment factors ("GSEAFs"). The approved GSEAFs are designed to provide concurrent recovery of the revenue requirement associated with the Massachusetts Gas Companies' capital costs for the replacement of eligible leak prone pipe and ancillary equipment pursuant to the Massachusetts 2014 Gas Leaks Act. This program replaced the Targeted Infrastructure Replacement ("TIR") Program in 2015, however recovery of the revenue requirement TIR Program investment will continue until recovery commences through new base distribution rates. The approved GSEAFs are designed to recover from all firm sales and transportation customers a revenue requirement of approximately $28.9 million and $9.7 million for 2016 and 2015, respectively. Also on April 29, 2016, the Company submitted its first GSEP reconciliation filing for 2015, which reconciled the 2015 revenue requirement on 2015 actual GSEP capital investment with revenue billed through the GSEAFs, and proposed to credit customers $3.3 million as a result of this reconciliation effective November 1, 2016.

5. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2016	2015
	(in millions of dollars)	
Plant and machinery	**$ 10,345**	$ 9,541
Land and buildings	**767**	737
Assets in construction	**629**	441
Software and other intangibles	**285**	284
Total property, plant and equipment	**12,026**	11,003
Accumulated depreciation and amortization	**(1,344)**	(1,219)
Property, plant and equipment, net	**$ 10,682**	$ 9,784

6. DERIVATIVE INSTRUMENTS

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

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

Volumes

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

	March 31,	
	2016	2015
	(in thousands)	
Gas option contracts	**12,250**	2,920
Gas purchase contracts	**38,371**	48,380
Gas swap contracts	**49,886**	45,784
Total	**100,507**	97,084

Amounts Recognized in the Accompanying Consolidated Balance Sheets

	Asset Derivatives			Liability Derivatives	
	March 31,			March 31,	
	2016	2015		**2016**	2015
	(in millions of dollars)			*(in millions of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	**$ 1**	$ 14	Gas purchase contracts	**$ 2**	$ 6
Gas swap contracts	**5**	2	Gas swap contracts	**9**	25
	6	16		**11**	31
Other non-current assets:			Other non-current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	**2**	15	Gas purchase contracts	**-**	1
Gas swap contracts	**-**	-	Gas swap contracts	**1**	2
	2	15		**1**	3
Total	**$ 8**	$ 31	Total	**$ 12**	$ 34

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying consolidated statements of income. The Company had no derivative instruments not subject to rate recovery as of March 31, 2016 and 2015.

Credit and Collateral

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

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

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

The Company's credit exposure for all commodity derivative instruments, applicable payables and receivables, and instruments that are subject to master netting agreements, was a liability of $8.8 million and $9.5 million as of March 31, 2016 and 2015, respectively.

The aggregate fair value of the Company's commodity derivative instruments with credit-risk-related contingent features that are in a liability position at March 31, 2016 and 2015 was $8.1 million and $27 million, respectively. The Company had no collateral posted for these instruments at March 31, 2016 or 2015. 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 $8.9 million and $27.8 million additional collateral to its counterparties at March 31, 2016 and 2015, respectively.

Offsetting Information for Derivative Instruments Subject to Master Netting Arrangements

March 31, 2016

Gross Amounts Not Offset in the Consolidated Balance Sheets

(in millions of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of assets presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative instruments						
Gas purchase contracts	$ 3	$ -	$ 3	$ -	$ -	$ 3
Gas swap contracts	5	-	5	-	-	5
Total	$ 8	$ -	$ 8	$ -	$ -	$ 8

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of liabilities presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative instruments						
Gas purchase contracts	$ 2	$ -	$ 2	$ -	$ -	$ 2
Gas swap contracts	10	-	10	-	-	10
Total	$ 12	$ -	$ 12	$ -	$ -	$ 12

March 31, 2015
Gross Amounts Not Offset in the Consolidated Balance Sheets
(in millions of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of assets presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative instruments						
Gas purchase contracts	$ 29	$ -	$ 29	$ -	$ -	$ 29
Gas swap contracts	2	-	2	-	-	2
Total	$ 31	$ -	$ 31	$ -	$ -	$ 31

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of liabilities presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative instruments						
Gas purchase contracts	$ 7	$ -	$ 7	$ -	$ -	$ 7
Gas swap contracts	27	-	27	-	-	27
Total	$ 34	$ -	$ 34	$ -	$ -	$ 34

7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value in the accompanying consolidated balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2016 and 2015:

	March 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
	(in millions of dollars)			
Assets:				
Derivative instruments				
Gas purchase contracts	$ -	$ -	$ 3	$ 3
Gas swap contracts	-	5	-	5
Investment in Dominion Midstream Partners, LP	-	202	-	202
Available-for-sale securities	6	2	-	8
Total	6	209	3	218
Liabilities:				
Derivative instruments				
Gas purchase contracts	-	-	2	2
Gas swap contracts	-	10	-	10
Total	-	10	2	12
Net assets	$ 6	$ 199	$ 1	$ 206

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
	(in millions of dollars)			
Assets:				
Derivative instruments				
Gas purchase contracts	$ -	$ -	$ 29	$ 29
Gas swap contracts	-	2	-	2
Available-for-sale securities	8	4	-	12
Total	8	6	29	43
Liabilities:				
Derivative instruments				
Gas purchase contracts	-	-	7	7
Gas swap contracts	-	27	-	27
Total	-	27	7	34
Net assets (liabilities)	$ 8	$ (21)	$ 22	$ 9

Derivative instruments: The Company's Level 2 fair value derivative instruments consist of over-the-counter ("OTC") gas swap contracts with pricing inputs obtained from the New York Mercantile Exchange and the Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative instruments. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 95% or higher.

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

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

Investment in Dominion Midstream Partners, LP: The Company's Level 2 Investment in DM is valued based on Level 1 quoted market prices for DM common units, combined with a discount to the quoted market price, which is calculated using Level 2 inputs, to reflect restrictions on the transfer of the units and resulting lack of marketability.

Changes in Level 3 Derivative Instruments

	Years Ended March 31,	
	2016	2015
	(in millions of dollars)	
Balance as of the beginning of the year	**$ 22**	$ 4
Net gains (losses) included in regulatory assets and liabilities	**(24)**	(5)
Settlements	**3**	23
Balance as of the end of the year	**$ 1**	$ 22

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3, during the years ended March 31, 2016 or 2015.

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 derivative instruments valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility, and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. The forward curves used for financial reporting are developed and verified by the middle office.

Quantitative Information About Level 3 Fair Value Measurements

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

Commodity	Level 3 Position	Fair Value as of March 31, 2016			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in millions of dollars)					
Gas	Purchase contracts	$ -	$ (2)	$ (2)	Discounted Cash Flow	Forward Curve(A)	$1.89/dth
Gas	Cross commodity contracts	3	-	3	Discounted Cash Flow	Forward Curve	$10.48- $271.83/dth
	Total	$ 3	$ (2)	$ 1			

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

Commodity	Level 3 Position	Fair Value as of March 31, 2015			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in millions of dollars)					
Gas	Purchase contracts	$ 24	$ (7)	$ 17	Discounted Cash Flow	Forward Curve(A)	$0.96-$11.47/dth
Gas	Cross commodity contracts	5	-	5	Discounted Cash Flow	Forward Curve	$17.47-$378.51/dth
	Total	$ 29	$ (7)	$ 22			

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

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

Other Fair Value Measurements

The Company's consolidated balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2016 and 2015 was $5 billion and $4 billion, respectively.

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

8. EMPLOYEE BENEFITS

The Company sponsors several pension and PBOP Plans. In general, the Company calculates benefits under these plans based on age, years of service, and pay using March 31 as a measurement date. In addition, NGUSA also sponsors defined contribution plans for eligible employees.

Pension Plans

The Pension Plans are comprised of both qualified and non-qualified plans. The qualified pension plans provide substantially all union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. The qualified pension plans are a cash balance pension plan design in which pay-based credits are applied based on service time and interest credits are applied at rates set forth in the plan. For non-union employees, effective January 1, 2011, pay-based credits are based on a combination of service time and age. The non-qualified pension plans provide additional defined pension benefits to certain eligible executives. The Company funds the qualified plans by contributing at least the minimum amount required under Internal Revenue Service ("IRS") regulations. The Company expects to contribute $203.7 million to the qualified pension plans during the year ending March 31, 2017.

PBOP Plans

The Company's PBOP Plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. The Company funds these plans based on the requirements of the various regulatory jurisdictions in which it operates. The Company expects to contribute $260.5 million to the PBOP Plans during the year ending March 31, 2017.

Defined Contribution Plans

NGUSA 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. Employer matching contributions of approximately $4.9 million and $4.3 million for the years ended March 31, 2016 and 2015, respectively.

Components of Net Periodic Benefit Costs

	Pension Plans Years Ended March 31,		PBOP Plans Years Ended March 31,	
	2016	2015	**2016**	2015
	(in millions of dollars)			
Service cost	**$ 64**	$ 55	**$ 29**	$ 24
Interest cost	**189**	195	**75**	79
Expected return on plan assets	**(231)**	(241)	**(61)**	(62)
Amortization of prior service cost (credit), net	**3**	3	**(5)**	(5)
Amortization of net actuarial loss	**165**	123	**36**	22
Total cost	**$ 190**	$ 135	**$ 74**	$ 58

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

Amounts Recognized in AOCI and Regulatory Assets

	Pension Plans Years Ended March 31,		PBOP Plans Years Ended March 31,	
	2016	2015	**2016**	2015
	(in millions of dollars)			
Net actuarial loss (gain)	**$ 142**	$ 422	**$ (13)**	$ 97
Prior service cost	**-**	2	**-**	-
Amortization of net actuarial gain	**(165)**	(123)	**(36)**	(22)
Amortization of prior service (cost) credit, net	**(3)**	(3)	**5**	5
Total	**$ (26)**	$ 298	**$ (44)**	$ 80
Included in regulatory assets	**$ (5)**	$ 101	**$ (4)**	$ 33
Included in AOCI	**(21)**	197	**(40)**	47
Total	**$ (26)**	$ 298	**$ (44)**	$ 80

The Company's regulated subsidiaries have regulatory recovery of these obligations and therefore amounts are included in regulatory assets in the accompanying consolidated balance sheets. Costs of non-regulated subsidiaries are recorded as part of AOCI in the accompanying consolidated balance sheets.

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

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2016	2015	**2016**	2015
	(in millions of dollars)			
Net actuarial loss	**$ 1,012**	$ 1,035	**$ 274**	$ 323
Prior service cost (credit), net	**17**	20	**(19)**	(24)
Total	**$ 1,029**	$ 1,055	**$ 255**	$ 299
Included in regulatory assets	**$ 370**	$ 375	**$ 122**	$ 126
Included in AOCI	**659**	680	**133**	173
Total	**$ 1,029**	$ 1,055	**$ 255**	$ 299

The amount of expected net actuarial loss and prior service credit to be amortized from regulatory assets and AOCI during the year ended March 31, 2017 for the Pension Plans and PBOP Plans is $219 million and $2 million, respectively.

Reconciliation of Funded Status to Amount Recognized

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2016	2015	**2016**	2015
	(in millions of dollars)			
Change in benefit obligation:				
Benefit obligation as of the beginning of the year	**$ (4,723)**	$ (4,173)	**$ (1,906)**	$ (1,793)
Service cost	**(64)**	(55)	**(29)**	(24)
Interest cost	**(189)**	(195)	**(75)**	(80)
Net actuarial gain (loss)	**95**	(518)	**91**	(76)
Benefits paid	**219**	220	**88**	79
Other	**-**	(2)	**(7)**	(12)
Benefit obligation as of the end of the year	**(4,662)**	(4,723)	**(1,838)**	(1,906)
Change in plan assets:				
Fair value of plan assets as of the beginning of the year	**3,718**	3,469	**920**	876
Actual (loss) return on plan assets	**(6)**	337	**(17)**	42
Company contributions	**190**	132	**76**	81
Benefits paid	**(219)**	(220)	**(88)**	(79)
Fair value of plan assets as of the end of the year	**3,683**	3,718	**891**	920
Funded status	**$ (979)**	$ (1,005)	**$ (947)**	$ (986)

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 aggregate ABO balances for the Pension Plans were $4.5 billion and $4.6 billion as of March 31, 2016 and 2015, respectively.

Amounts Recognized in the Accompanying Consolidated Balance Sheets

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2016	2015	**2016**	2015
	(in millions of dollars)			
Non-current assets	**$ -**	$ -	**$ 8**	$ 10
Current liabilities	**(13)**	(13)	**(3)**	(3)
Non-current liabilities	**(966)**	(992)	**(952)**	(993)
Total	**$ (979)**	$ (1,005)	**$ (947)**	$ (986)

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2016:

(in millions of dollars) Years Ending March 31,	Pension Benefits	PBOP Benefits
2017	$ 231	$ 73
2018	239	77
2019	245	81
2020	252	85
2021	259	88
Thereafter	1,393	492
Total	$ 2,619	$ 896

Assumptions Used for Employee Benefits Accounting

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2016	2015	**2016**	2015
Benefit Obligations:				
Discount rate	**4.25%**	4.10%	**4.25%**	4.10%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%
Expected return on plan assets	**6.50%**	6.25%	**6.25%-6.75%**	6.25%-6.75%
Net Periodic Benefit Costs:				
Discount rate	**4.10%**	4.80%	**4.10%**	4.80%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%
Expected return on plan assets	**6.25%**	7.00%	**6.25%-6.75%**	7.00% - 7.25%

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

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

Assumed Health Cost Trend Rate

	March 31,	
	2016	2015
Health care cost trend rate assumed for next year		
Pre 65	**7.50%**	8.00%
Post 65	**6.25%**	6.50%
Prescription	**11.00%**	6.50%
Rate to which the cost trend is assumed to decline (ultimate)	**4.50%**	5.00%
Year that rate reaches ultimate trend		
Pre 65	**2025**	2022
Post 65	**2024**	2022
Prescription	**2025**	2022

Sensitivity to Changes in Assumed Health Care Cost Trend Rates

(in millions of dollars)	**March 31, 2016**
1% point increase	
Total of service cost plus interest cost	$ 21
Postretirement benefit obligation	301
1% point decrease	
Total of service cost plus interest cost	(16)
Postretirement benefit obligation	(236)

Plan Assets

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

The target asset allocations for the benefit plans as of March 31, 2016 and 2015 are as follows:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2016	2015	**2016**	2015
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 following tables provide the fair value measurements amounts for the pension and PBOP assets:

	March 31, 2016				
	Level 1	Level 2	Level 3	Not Categorized	Total
	(in millions of dollars)				
Pension Assets:					
Cash and cash equivalents	**$ 7**	**$ 14**	**$ -**	**$ 66**	**$ 87**
Accounts receivable	**87**	**-**	**-**	**-**	**87**
Accounts payable	**(72)**	**-**	**-**	**-**	**(72)**
Equity	**501**	**167**	**-**	**915**	**1,583**
Global tactical asset allocation	**-**	**-**	**-**	**170**	**170**
Fixed income securities	**-**	**1,320**	**-**	**78**	**1,398**
Preferred securities	**-**	**8**	**-**	**-**	**8**
Private equity	**-**	**-**	**-**	**221**	**221**
Real estate	**-**	**-**	**-**	**201**	**201**
Total	**$ 523**	**$ 1,509**	**$ -**	**$ 1,651**	**$ 3,683**
PBOP Assets:					
Cash and cash equivalents	**$ 7**	**$ 13**	**$ -**	**$ -**	**$ 20**
Accounts receivable	**9**	**-**	**-**	**-**	**9**
Accounts payable	**(8)**	**-**	**-**	**-**	**(8)**
Equity	**114**	**35**	**-**	**354**	**503**
Global tactical asset allocation	**26**	**-**	**-**	**51**	**77**
Fixed income securities	**2**	**282**	**-**	**-**	**284**
Private equity	**-**	**-**	**-**	**6**	**6**
Total	**$ 150**	**$ 330**	**$ -**	**$ 411**	**$ 891**

	March 31, 2015				
	Level 1	Level 2	Level 3	Not Categorized	Total
	(in millions of dollars)				
Pension Assets:					
Cash and cash equivalents	$ 11	$ 6	$ -	$ 57	$ 74
Accounts receivable	94	-	-	-	94
Accounts payable	(99)	-	-	-	(99)
Equity	503	172	-	947	1,622
Global tactical asset allocation	-	-	-	164	164
Fixed income securities	-	1,385	-	87	1,472
Preferred securities	1	10	-	-	11
Futures contracts	-	3	-	-	3
Private equity	-	-	-	198	198
Real estate	-	-	-	179	179
Total	$ 510	$ 1,576	$ -	$ 1,632	$ 3,718
PBOP Assets:					
Cash and cash equivalents	$ 7	$ 10	$ -	$ -	$ 17
Accounts receivable	1	-	-	-	1
Equity	120	34	-	386	540
Global tactical asset allocation	23	-	-	46	69
Fixed income securities	2	284	-	-	286
Private equity	-	-	-	7	7
Total	$ 153	$ 328	$ -	$ 439	$ 920

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

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

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

Equity and preferred securities: Common stocks, 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 commingled funds, which are valued on a daily basis. The Company can exchange shares of the publicly traded securities and the fair values are primarily sourced from the closing prices on stock exchanges where there is active trading, in which case they are classified as Level 1 investments. If there is less active trading, then the publicly traded securities would typically be priced using observable data, such as bid and ask prices, and these measurements are classified as Level 2 investments. Commingled funds with publicly quoted prices and active trading are classified as Level 1 investments. For investments in commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV per fund share, derived from the underlying securities' quoted prices in active markets, and they are excluded from the fair value hierarchy. Investments in commingled funds with redemption restrictions and that use NAV are excluded from the fair value hierarchy.

Global tactical asset allocation: Assets held in global tactical asset allocation funds are managed by investment managers who use both top-down and bottom-up valuation methodologies to value asset classes, countries, industrial sectors, and individual securities in order to allocate and invest assets opportunistically. If the inputs used to measure a financial instrument fall within different levels of the fair value hierarchy within the commingled fund, the categorization is based on the lowest level input that is significant to the measurement of that financial instrument. Those which are open ended mutual funds with observable pricing are classified as Level 1. Investments with redemption restrictions and that use NAV are excluded from the fair value hierarchy.

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

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

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

Other Benefits

At March 31, 2016 and 2015, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported of $52.8 million and $50 million, respectively.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table represents the changes in the Company's AOCI for the years ended March 31, 2016 and 2015:

	Unrealized Gain on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Total
	(in millions of dollars)		
Balance as of March 31, 2014	$ 33	$ (393)	$ (360)
Other comprehensive income (loss) before reclassifications:			
Unrecognized net acturial loss (net of $14 tax benefit)	-	(21)	(21)
Amounts reclassified from other comprehensive income:			
Amortization of net actuarial loss (net of $14 tax expense)	-	21	21
Net current period other comprehensive income (loss)	-	-	-
Balance as of March 31, 2015	$ 33	$ (393)	$ (360)
Other comprehensive income (loss) before reclassifications:			
Unrecognized net acturial income (net of $47 tax expense)	-	67	67
Loss on investment (net of $1 tax benefit)	(1)	-	(1)
Amounts reclassified from other comprehensive income:			
Amortization of net actuarial loss (net of $13 tax expense)[1]	-	19	19
Net current period other comprehensive income (loss)	(1)	86	85
Balance as of March 31, 2016	$ 32	$ (307)	$ (275)

[1]Amount is reported as other deductions, net in the accompanying consolidated statements of income.

10. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to March 31, 2016 are as follows:

(in millions of dollars) Years Ending March 31,	
2017	$ 938
2018	26
2019	38
2020	25
2021	148
Thereafter	3,212
Total	$ 4,387

The Company's debt agreements contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants such as restrictions on the level of indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the Company's debt and may restrict the Company's ability to access the capital markets. 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, 2016 and 2015, the Company was in compliance with all such covenants.

Significant Debt Facilities

Debt Authorizations

Since January 12, 2015, the Company's electric generation subsidiary, National Grid Generation ("Genco") had regulatory approval from the FERC to issue up to $250 million of short-term debt. The authorization is effective for a period of two years and expires on January 11, 2017.

Gas Facilities Revenue Bonds

Brooklyn Union has outstanding tax-exempt Gas Facilities Revenue Bonds ("GFRB") issued through the New York State Energy Research and Development Authority ("NYSERDA"). At March 31, 2016 and 2015, $641 million of GFRB were outstanding; $230 million of which are variable-rate, auction rate bonds. The GFRB currently in auction rate mode 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 auction 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 on long-term debt was not material for the years ended March 31, 2016 or 2015.

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"). These FMB indentures include, among other provisions, limitations on the issuance of long-term debt.

State Authority Financing Bonds

Genco can issue tax-exempt bonds through the NYSERDA. At March 31, 2016 and 2015, $41 million of 1999 Series A Pollution Control Revenue Bonds due October 1, 2028 were outstanding.

At March 31, 2016 and 2015, Genco also has outstanding $25 million of variable rate 1997 Series A Electric Facilities Revenue Bonds due December 1, 2027. These bonds are backed by a standby letter of credit and reimbursement agreement which includes a percent of indebtedness covenant that cannot exceed 70%. During the years ended March 31, 2016 and 2015, the Company was in compliance with this covenant.

Significant Debt Issuances and Redemptions

Notes Payable

In March 2016, Brooklyn Union issued $500 million of unsecured senior long-term debt at 3.407% with a maturity date of March 10, 2026 and $500 million of unsecured senior long-term debt at 4.504% with a maturity date of March 10, 2046.

Promissory Notes

On November 20, 2015, Genco entered into multiple intercompany loans with NGNA totaling $227 million, composed of a $165 million intercompany loan with an interest rate of 3.25% due to mature on April 30, 2028 and a $62 million intercompany loan with an interest rate of 3.13% due to mature on June 1, 2027. The intercompany loans have an annual sinking fund requirement totaling $18 million. These intercompany loans are included in long-term debt in the accompanying consolidated balance sheets.

Industrial Development Revenue Bonds

At March 31, 2015, Genco had outstanding $128 million of 5.25% tax-exempt bonds due June 1, 2027. Of this amount, $53 million was issued through the Nassau County Industrial Development Authority for the construction of the Glenwood electric-generation peaking plant and the balance of $75 million was issued by the Suffolk County Industrial Development Authority for the Port Jefferson electric-generation peaking plant. The Company fully and unconditionally guaranteed the payment obligations with regard to these tax-exempt bonds. On November 20, 2015, Genco redeemed the $128 million of Industrial Development Revenue Bonds and the Company was relieved of all related guarantee obligations.

Preferred Stock

In connection with the acquisition of KeySpan by NGUSA, each of the New York Gas Companies 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 Shares. 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 NYS. On July 8, 2011, the Company issued a total of 2 Golden Shares pertaining to the New York Gas Companies each with a par value of $1.

11. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2016	2015
	(in millions of dollars)	
Current tax expense (benefit):		
Federal	**$ 28**	$ 58
State	**55**	22
Total current tax expense (benefit)	**83**	80
Deferred tax expense (benefit):		
Federal	**115**	52
State	**(14)**	10
Total deferred tax expense (benefit)	**101**	62
Amortized investment tax credits (1)	**(1)**	(1)
Total deferred tax expense (benefit)	**100**	61
Total income tax expense	**$ 183**	$ 141

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

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2016 and 2015 are 41.9% and 39.2%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended March 31,	
	2016	2015
	(in millions of dollars)	
Computed tax	**$ 153**	$ 126
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**26**	21
Other items, net	**4**	(6)
Total	**30**	15
Total income tax expense	**$ 183**	$ 141

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

During the period there was no material change in the Company's deferred tax liability for the decrease in the tax rate from 7.1% to 6.5% applicable to New York entities beginning with the year ended March 31, 2017. Likewise there was no material change in the Company's deferred tax liability for the increase in the Metropolitan Transportation Authority surcharge from 25.6% to 28%.

On August 26, 2016, the IRS issued Revenue Procedure 2016-48 that enables the Company to claim prior year's unclaimed bonus depreciation in its federal income tax return for the year ended March 31, 2016. The Company does not believe that adoption of this procedure will have a material impact on its results of operations, financial position, or cash flows.

Deferred Tax Components

	March 31,	
	2016	2015
	(in millions of dollars)	
Deferred tax assets:		
Environmental remediation costs	**$ 299**	$ 317
Future federal benefit on state taxes	**106**	101
Net operating losses	**525**	351
Postretirement benefits and other employee benefits	**407**	491
Regulatory liabilities - other	**269**	231
Other items	**175**	148
Total deferred tax assets [1]	**1,781**	1,639
Deferred tax liabilities:		
Property related differences	**2,604**	2,350
Regulatory assets - environmental response costs	**475**	484
Regulatory assets - other	**280**	240
Regulatory assets - postretirement benefits	**202**	198
Other items	**251**	207
Total deferred tax liabilities	**3,812**	3,479
Net deferred income tax liabilities	**2,031**	1,840
Deferred investment tax credits	**2**	3
Deferred income tax liabilities, net	**$ 2,033**	$ 1,843

[1] The Company established a valuation allowance for deferred tax assets in the amount of $2 million related to expiring charitable contribution carryforwards at March 31, 2016. There was no valuation allowance for deferred tax assets at March 31, 2015.

As a result of retrospective adoption of ASU 2015-17, the Company adjusted its current portion of deferred income tax assets and non-current deferred income tax liabilities, net by $57 million as of March 31, 2015.

Net Operating Losses

The following table presents the amounts and expiration dates of net operating losses as of March 31, 2016:

Expiration of net operating losses:	Federal	State of New York	New York CIty	State of Massachusetts
		(in millions of dollars)		
3/31/2029	$ 108	$ -	$ -	$ -
3/31/2030	41	-	-	-
3/31/2032	59	-	-	-
3/31/2033	352	-	-	-
3/31/2034	188	-	-	9
3/31/2035	293	1,045 [1]	278 [1]	1
3/31/2036	408	326	80	27

[1]The amounts represent net operating losses that were incurred before tax year ended March 31, 2015, that will be converted into a Prior Net Operating Loss Conversion subtraction that can be utilized beginning with fiscal year 2017.

Unrecognized Tax Benefits

As of March 31, 2016 and 2015, the Company's unrecognized tax benefits totaled $311 million and $287 million, respectively, of which $50 million and $49 million, respectively, would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying consolidated balance sheets.

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

	Years Ended March 31,	
	2016	2015
	(in millions of dollars)	
Balance as of the beginning of the year	**$ 287**	$ 281
Gross increases - tax positions in prior periods	**18**	4
Gross decreases - tax positions in prior periods	**(16)**	(29)
Gross increases - current period tax positions	**22**	31
Balance as of the end of the year	**$ 311**	$ 287

As of March 31, 2016 and 2015, the Company has accrued for interest related to unrecognized tax benefits of $59 million and $28 million, respectively. During the years ended March 31, 2016 and 2015, the Company recorded interest expense of $32 million and $5 million, respectively. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income, net in the accompanying consolidated statements of income. During the years ended March 31, 2016 and 2015, the Company recognized tax penalties in the amount of $0.6 million and $0.3 million, respectively.

It is reasonably possible that other events will occur during the next twelve months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, excluding the impact of the potential settlement with the state of New York, the Company does not believe any such increases or decreases would be material to its results of operations, financial position, or cash flows.

The Company is included in NGNA and subsidiaries' administrative appeal with the IRS related to the issues disputed in the examination cycles for the years ended August 24, 2007, March 31, 2008, and March 31, 2009. During the period, the IRS commenced its next examination cycle which includes income tax returns for the years ended March 31, 2010 through March 31, 2012. The examination is not expected to conclude until December 2017. The income tax returns for the years ended March 31, 2013 through March 31, 2016 remain subject to examination by the IRS.

The Massachusetts unitary state income tax returns for the years ended March 31, 2010 through March 31, 2016 remain subject to examination by the Massachusetts Department of Revenue.

The state of New York is in the process of examining the Company's NYS income tax returns. The following table presents the years for the Company and its subsidiaries currently under examinations. The income tax returns for the subsequent years through March 31, 2016 remain subject to examination by the state of New York.

Companies	Years under examination
Keyspan Corporation and Subsidiaries	December 31, 2003 through March 31, 2008
Keyspan Gas East	December 31, 2003 through March 31, 2008
Brooklyn Union	August 24, 2007 through March 31, 2008
National Grid Development Holdings Inc.	March 31, 2009 through March 31, 2012
National Grid Services Inc.	March 31, 2009 through March 31, 2012
Genco	March 31, 2009 through March 31, 2012

In August 2015, the Company received a preliminary audit report from the state of New York with a proposed increase to state taxable income primarily related to the interest deductions attributable to subsidiary capital. The Company has established a tax reserve of $8.3 million, net of federal benefit, related to this audit.

In June 2016, the New York Gas Companies received preliminary audit reports with proposed changes to state taxable income primarily related to transition property depreciation deduction. Brooklyn Union conducted an internal review of the audit report, agreed with its findings and will enter into settlement discussions with the state of New York in the next fiscal year. KeySpan Gas East had previously established a reserve for uncertain tax position for the years under examination. Within the next 12 months, KeySpan Gas East may adjust the tax reserves following the internal review of the audit report and settlement discussions with the state of New York. The range of the reasonably possible change in recognition of tax benefit is estimated to be between zero and $2.3 million.

The City of New York is in the process of examining the income tax returns of the Company and its subsidiary: National Grid Services Inc. for the years ended December 31, 2003 through December 31, 2005, and March 2012 through March 2014, respectively. The income tax returns for the subsequent years through March 31, 2016 remain subject to examination by the City of New York.

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

Jurisdiction	Tax Year
Federal	March 31, 2010
Massachusetts	March 31, 2010
New York	December 31, 2003
New York City	December 31, 2003

12. ENVIRONMENTAL MATTERS

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

Air

Genco's generating facilities are subject to increasingly stringent emissions limitations under current and anticipated future requirements of the United States Environmental Protection Agency and the New York State Department of Environmental Conservation ("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. Genco's previous investments in low NOx boiler combustion modifications, the use of natural gas firing systems at its steam electric generating stations, and the compliance flexibility available under cap and trade programs have enabled Genco to achieve its prior emission reductions in a cost-effective manner. These investments include the installation of enhanced NOx controls and efficiency improvement projects at certain of Genco's Long Island based electric generating facilities. The total cost of these improvements was approximately

$103 million, all of which have been placed in service as of the date of this report; a mechanism for recovery from LIPA of these investments has been established. Genco has developed a compliance strategy to address anticipated future requirements and is closely monitoring the regulatory developments to identify any necessary changes to its compliance strategy. At this time, Genco is unable to predict what effect, if any, these future requirements will have on its consolidated financial position, results of operations, and cash flows.

Water

Additional capital expenditures associated with the renewal of the surface water discharge permits for Genco's steam electric power plants have been required by the DEC pursuant to Section 316 of the Clean Water Act to mitigate the plants' alleged cooling water system impacts to aquatic organisms. Final permits have been issued for Port Jefferson and Northport. Capital improvements have been completed at Port Jefferson and are in the engineering phase for Northport. The Company continues to engage in discussions with the DEC regarding the nature of capital upgrades or other mitigation measures necessary to reduce any impacts at E.F. Barrett. Total capital costs for these improvements at Northport and E.F. Barrett are estimated to be approximately $76 million. Costs associated with these capital improvements are reimbursable from LIPA under the PSA.

Land, Manufactured Gas Plants and Related Facilities

Within the Company's service areas, 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. Administrative Orders on Consent or Voluntary Cleanup Agreements have been executed with the DEC to address the investigation and remediation activities associated with certain sites. 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, 2016 and 2015 were $62 million and $61 million, respectively.

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

Utility Sites

Through various rate orders issued by the NYPSC and DPU, the majority of costs related to MGP environmental cleanup activities are recovered in rates charged to gas distribution customers. The Company estimated the remaining costs of environmental remediation activities at recoverable sites were $664 million and $650 million at March 31, 2016 and 2015, respectively. The Company's environmental obligation is discounted at a rate of 6.5% and the undiscounted amount of environmental liabilities at March 31, 2016 and 2015 was $813 million and $801 million, respectively. These costs are expected to be incurred over approximately 55 years, and the discounted amounts have been recorded as reserves in the accompanying consolidated balance sheets. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

Accordingly, the Company has reflected a net regulatory asset of $1 billion on the consolidated balance sheets at March 31, 2016 and 2015.

Non-Utility Sites

The Company is aware of numerous non-utility sites for which it may have, or share, environmental remediation or ongoing maintenance responsibility. The Company estimated the remaining cost of the environmental remediation activities at non-utility sites were $26 million and $23 at March 31, 2016 and 2015, respectively. The Company's environmental obligation is discounted at a rate of 6.5%, and the undiscounted amount of environmental liabilities at March 31, 2016 and 2015 was $32 million and $29 million, respectively. The Company believes this to be a reasonable estimate of probable costs for known sites; however, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered.

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

The Company believes that its ongoing operations, and its approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws. Where the Company has regulatory recovery, it believes 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.

13. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company has various operating leases for buildings, office equipment, vehicles and power operating equipment utilized by both the Company and its affiliates. Additionally, a portion of the Company's affiliates' lease expense is allocated to the Company according to usage. Total rental expense for operating leases included in operations and maintenance expense in the accompanying consolidated statements of income was $77.1 million and $64.4 million for the years ended March 31, 2016 and 2015, respectively.

The future minimum lease payments for the years subsequent to March 31, 2016 are as follows:

(in millions of dollars)		
Years Ending March 31,		
2017	$	73
2018		73
2019		60
2020		33
2021		33
Thereafter		175
Total	$	447

Purchase Commitments

The Company's gas distribution subsidiaries have entered into various contracts for gas delivery, storage, and supply services. Certain of these contracts require payment of annual demand charges, which are recoverable from customers. The Company's gas distribution subsidiaries are liable for these payments regardless of the level of service required from third-parties. In addition, the Company has various capital commitments related to the construction of property, plant and equipment.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2016 are summarized in the table below:

(in millions of dollars) Years Ending March 31,	Gas Purchases	Capital Expenditures
2017	$ 671	$ 86
2018	574	52
2019	472	68
2020	341	49
2021	278	38
Thereafter	1,467	-
Total	$ 3,803	$ 293

Financial Guarantees

The Company has issued financial guarantees in the normal course of business, on behalf of its subsidiaries, to various third-party creditors. At March 31, 2016, the following amounts would have to be paid by the Company in the event of non-payment by the primary obligor at the time payment is due:

Guarantees for Subsidiaries:		Amount of Exposure *(in millions of dollars)*	Expiration Dates
Surety Bonds	(i)	$ 82	Revolving
Commodity Guarantees and Other	(ii)	32	November 2027 - June 2032
Letters of Credit	(iii)	77	May 2016 - December 2016
NY Transco Parent Guaranty	(iv)	842	None
National Grid Algonqin LLC	(v)	103	December 2021
		$ 1,136	

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

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

(ii) The Company has guaranteed commodity-related and operational payments for certain subsidiaries. These guarantees are provided to third-parties to facilitate physical and financial transactions supporting the purchase and transportation of natural gas, oil and other petroleum products for gas and electric production and financing activities. The guarantees cover actual transactions by these subsidiaries that are still outstanding as of March 31, 2016.

(iii) The Company has arranged for stand-by letters of credit to be issued to third-parties that have extended credit to certain subsidiaries. Certain vendors require the posting of letters of credit to guarantee subsidiary performance under the Company's contracts and to ensure payment to the Company's subsidiary subcontractors and vendors under those contracts. Certain of the Company's vendors also require letters of credit to ensure reimbursement for amounts they are disbursing on behalf of the Company's subsidiaries, such as to beneficiaries under the

Company's self-funded insurance programs. Such letters of credit are generally issued by a bank or similar financial institution. The letters of credit commit the issuer to pay specified amounts to the holder of the letter of credit if the holder demonstrates that the Company has failed to perform specified actions. If this were to occur, the Company would be required to reimburse the issuer of the letter of credit.

(iv) The Company has entered into a Parent Guaranty (the "Guaranty") dated November 14, 2014 for the benefit of NY Transco LLC, which Guaranty irrevocably and unconditionally guarantees all of Grid NY LLC's payment obligations under the New York Transco Limited Liability Company Agreement ("NY Transco LLC Agreement") dated November 14, 2014 entered into by and among Consolidated Edison Transmission, LLC, Grid NY LLC, Iberdrola USA Networks, NY Transco, LLC and Central Hudson Electric Transmission LLC. Grid NY LLC's payment obligations relate to, but are not limited to, funding project development of the initial projects, obtaining initial regulatory approvals and making capital contributions as set forth in the LLC Agreement.

(v) In connection with NGUSA's investment in the Access Northeast natural gas pipeline project, the Company has entered into a guarantee of the required capital contributions of NGA, an indirect wholly-owned subsidiary of the Company. The guarantee agreement, which is dated September 14, 2015, commits the Company to serve as a guarantor for up to $103 million of the capital contributions of NGA from the time of the effective date of the guarantee agreement through the earlier of (i) December 31, 2021, or (ii) the time at which NGA's capital commitments have been fully discharged.

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

The Company has guaranteed all payment and performance obligations of a former subsidiary, KeySpan Ravenswood LLC, associated with a merchant electric generating facility leased by that subsidiary under a sale/leaseback agreement. The subsidiary and the facility were sold in 2008 to TransCanada. However, the original lease remains in place and NGUSA continues to make payments under the lease through 2040. In the event that the Company is required to perform under the terms of the guaranty, it has the ability to recover any amounts pay under the terms of an offsetting guaranty that TransCanada provided in favor of the Company.

Legal Matters

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

Power Supply Agreement

Effective May 28, 2013, Genco provides services to LIPA under an amended and restated PSA. Under the PSA, Genco has a revenue requirement of $418.6 million, a ROE of 9.75% and a capital structure of 50% debt and 50% equity. The PSA has a term of fifteen years, provided LIPA has the option to terminate the agreement as early as April 2025 on two years advance notice. Genco accounts for the PSA as an operating lease.

The PSA provides potential penalties to Genco if it does not maintain the output capability of the generating facilities, as measured by annual industry-standard tests of operating capability, plant availability, and efficiency. These penalties may total $4 million annually. Although the PSA provides LIPA with all of the capacity from the generating facilities, LIPA has no obligation to purchase energy from the generating facilities and can purchase energy on a least-cost basis from all available sources consistent with existing transmission interconnection limitations of the transmission and distribution system. Genco must, therefore, operate its generating facilities in a manner such that Genco can remain competitive with other producers of energy. To date, Genco has dispatched to LIPA and LIPA has accepted the level of energy generated at the agreed to price per megawatt hour. Under the terms of the PSA, LIPA is obligated to pay for capacity at rates that reflect recovery of an agreed level of the overall cost of maintaining and operating the generating facilities, including recovery of depreciation and return on its investment in plant. A monthly variable maintenance charge is billed for each unit of energy actually acquired from the generating facilities. The billings to LIPA under the PSA do not include a provision for fuel costs, as such fuel is owned by LIPA.

SuperStorm Sandy

In October 2012, SuperStorm Sandy hit the northeastern U.S. affecting energy supply to customers in the Company's service territory. Total costs associated with gas customer service restoration from this storm (including capital expenditures) through March 31, 2014 were approximately $204.1 million for the New York Gas Companies.

In December 2014, NGUSA reached a final settlement with its insurers, of which the Company's allocated portion was $154.2 million (inclusive of advance payments of $83.4 million), and received final payment for the remaining amounts due. This resulted in the Company recognizing a gain of $11.1 million for the year ended March 31, 2015, recorded as a reduction to operations and maintenance expense in the accompanying consolidated statements of income.

14. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

The Company 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 the Company and NGUSA. At March 31, 2016 and 2015, the Company had net receivable balances from NGUSA subsidiaries of $979 million and $928 million, respectively.

Advances to Affiliate

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. At March 31, 2016 and 2015, the Company had outstanding advances to affiliate of $1.8 billion and $2.1 billion, respectively.

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the Regulated and Unregulated Money Pools. The Company, as a participant in both Money Pools, can both borrow and invest funds. Borrowings from the Regulated and Unregulated Money Pools bear interest in accordance with the terms of the applicable money pool agreement. All changes in the intercompany money pool balances and accounts receivable from affiliates and accounts payable to affiliates balances are reflected as investing or financing activities in the accompanying consolidated statements of cash flows. In addition, for the purpose of presentation in the consolidated statements of cash flows, it is assumed all amounts settled through the intercompany money pool are constructive cash receipts and payments, and therefore are presented as such.

The Regulated and Unregulated Money Pools are funded by operating funds from participants in the applicable pool. Collectively, NGUSA and KeySpan have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Money Pools, if necessary.

The following table provides information about the Company's Regulated and Unregulated Money Pools:

	March 31	
	2016	2015
	(in millions of dollars)	
Assets:		
Regulated Money Pool	**$ 645**	$ 174
Unregulated Money Pool	**1,176**	1,438
Total	**$ 1,821**	$ 1,612
Liabilities:		
Regulated Money Pool	**$ 711**	$ 1,179
Unregulated Money Pool	**705**	1,262
Total	**$ 1,416**	$ 2,441

Loan to Affiliate

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 being utilized by the Company and its subsidiaries. At March 31, 2016 and 2015, 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 United Kingdom) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected in these consolidated financial statements. The estimated effect on net income would be $11.3 million and $15.8 million before taxes and $6.8 million and $9.5 million after taxes, for the years ended March 31, 2016 and 2015, respectively, if these amounts were allocated to the Company.

15. DISCONTINUED OPERATIONS

On December 15, 2011, LIPA announced that it was not renewing the MSA contract beyond its expiration on December 31, 2013. The loss of the contract resulted in 1,950 employees transferring to a new employer. The results of the MSA are reflected as discontinued operations in the accompanying consolidated financial statements for the years ended March 31, 2016 and 2015.

The reconciliation below highlights the financial statements line items within loss from discontinued operations, net of taxes for the MSA for the years ended March 31, 2016 and 2015:

	Years Ended March 31,	
	2016	2015
	(in millions of dollars)	
Operating revenues	**$ -**	$ 3
Operations and maintenance	**(22)**	(3)
Other deductions, net	**(6)**	(2)
Loss before income taxes	**(28)**	(2)
Income tax benefit	**(12)**	-
Loss from discontinued operations, net of taxes	**$ (16)**	$ (2)

During the year ended March 31, 2016 bad debt expense of $20 million was recorded in order to adjust the accounts receivable to reflect the probability of collection.

The reconciliation below highlights the carrying values of assets and liabilities related to discontinued operations that are disclosed in the accompanying consolidated balance sheets for the MSA at March 31, 2016 and 2015:

	March 31,	
	2016	2015
	(in millions of dollars)	
Assets		
Accounts receivable	**$ 99**	$ 100
Allowance for doubtful accounts	**(90)**	(70)
Accounts receivable from affiliates	**182**	171
Unbilled revenues	**11**	11
Deferred income tax assets	**37**	29
Total assets related to discontinued operations	**$ 239**	$ 241
Liabilities		
Accounts payable	**$ 18**	$ 19
Accounts payable to affiliates	**76**	75
Intercompany money pool	**597**	576
Taxes accrued	**1**	-
Total liabilties related to discontinued operations	**$ 692**	$ 670

16. SUBSEQUENT EVENTS

In August 2016, KeySpan Gas East issued $700 million of unsecured long-term debt at 2.742% with a maturity date of August 1, 2026.

During March 2016, Brooklyn Union issued Notice of Optional Redemption letters to the bond holders of the fixed interest rate gas facilities revenue bonds. Brooklyn Union fully repaid these bonds during April 2016.

The following table shows the bonds that have been fully paid subsequent to March 2016:

	Interest Rate	Maturity Date	March 31. 2016 (in millions of dollars)	
Gas Facilities Revenues Bonds:				
1993A and 1993B	6.37%	April 1, 2020	$	75
1996	5.50%	January 1, 2021		154
2005A	4.70%	February 1, 2024		82
1991A and 1991B	6.95%	July 1, 2026		100
Total debts			$	411