New England Power Company

Financial Statements

For the years ended March 31, 2013 and March 31, 2012

NEW ENGLAND POWER COMPANY

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Independent Auditor's Report

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

We have audited the accompanying financial statements of New England Power Company, which comprise the balance sheets as of March 31, 2013 and March 31, 2012, and the related statements of income, comprehensive income, cash flows, capitalization and changes in shareholders' equity for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New England Power Company at March 31, 2013 and March 31, 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The Company engages in significant transactions with Massachusetts Electric Company and The Narragansett Electric Company, related parties.

PricewaterhouseCoopers LLP

October 17 , 2013

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

	March 31, 2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 2,746**	$ 23,707
Accounts receivable	**49,406**	41,532
Accounts receivable from affiliates	**25,542**	10,803
Materials and supplies	**4,364**	4,306
Regulatory assets	**15,418**	15,006
Current portion of deferred income tax assets	**1,103**	-
Prepaid taxes	**248**	9,749
Other current assets	**100**	470
Total current assets	**98,927**	105,573
Equity investments	**1,870**	2,088
Property, plant, and equipment, net	**1,685,132**	1,543,387
Deferred charges and other assets:		
Regulatory assets	**156,745**	155,772
Goodwill	**337,614**	337,614
Other deferred charges	**11,368**	9,667
Total deferred charges and other assets	**505,727**	503,053
Total assets	**$ 2,291,656**	$ 2,154,101

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

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

	March 31,	
	2013	2012
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 34,619**	$ 39,005
Accounts payable to affiliates	**58,625**	16,204
Taxes accrued	**7,872**	-
Customer deposits	**729**	729
Interest accrued	**159**	99
Regulatory liabilities	**3,642**	-
Intercompany money pool	**147,629**	48,987
Current portion of accrued Yankee nuclear plant costs	**12,808**	12,486
Current portion of purchased power obligations	**2,521**	2,521
Current portion of deferred income tax liabilities	**-**	1,338
Other current liabilities	**7,408**	6,180
Total current liabilities	**276,012**	127,549
Deferred credits and other liabilities:		
Regulatory liabilities	**67,927**	81,170
Deferred income tax liabilities	**385,846**	352,485
Postretirement benefits	**10,056**	14,273
Accrued Yankee nuclear plant costs	**10,820**	16,342
Purchased power obligations	**614**	3,015
Environmental remediation costs	**8,238**	3,338
Other deferred liabilities	**22,797**	38,797
Total deferred credits and other liabilities	**506,298**	509,420
Capitalization:		
Shareholders' equity	**1,098,996**	1,106,799
Long-term debt	**410,350**	410,333
Total capitalization	**1,509,346**	1,517,132
Total liabilities and capitalization	**$ 2,291,656**	$ 2,154,101

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

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

	Years Ended March 31,	
	2013	2012
Operating revenues	**$ 381,668**	$ 362,538
Operating expenses:		
Purchased electricity	**61,968**	62,130
Contract termination and nuclear shutdown charges	**16,695**	16,419
Operations and maintenance	**99,398**	92,366
Depreciation and amortization	**41,822**	39,755
Other taxes	**30,335**	28,164
Total operating expenses	**250,218**	238,834
Operating income	**131,450**	123,704
Other income and (deductions):		
Interest on long-term debt	**(2,899)**	(4,301)
Other interest, including affiliate interest	**784**	(3,990)
Other income, net	**8,637**	6,920
Total other income and (deductions), net	**6,522**	(1,371)
Income before income taxes	**137,972**	122,333
Income taxes:		
Current	**21,168**	(2,737)
Deferred	**32,850**	51,531
Income tax expense	**54,018**	48,794
Net income	**$ 83,954**	$ 73,539

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

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

	Years Ended March 31,	
	2013	2012
Operating revenue:		
Net income	**$ 83,954**	$ 73,539
Other comprehensive income (loss):		
Unrealized gains on securities, net of $164 and $297 tax expense	**254**	460
Reclassification of gains into net income, net of $73 and $136 tax benefit	**(113)**	(211)
Other comprehensive income	**141**	249
Comprehensive income	**$ 84,095**	$ 73,788

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

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

	Year Ended March 31,	
	2013	2012
Operating activities:		
Net income	**$ 83,954**	$ 73,539
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**41,822**	39,755
Provision for deferred income taxes	**32,850**	51,531
Income from equity investments	**(152)**	(70)
Allowance for funds used during construction	**(8,662)**	(7,942)
Pension and other postretirement expense	**5,023**	4,023
Pension and other postretirement contributions	**(7,619)**	(3,627)
Amortization of debt issuance costs	**930**	754
Changes in operating assets and liabilities:		
Accounts receivable	**(7,874)**	(3,033)
Materials and supplies	**(58)**	188
Accounts payable and accrued expenses	**8,609**	(845)
Prepaid taxes and taxes accrued	**17,373**	11,847
Accounts receivable from/payable to affiliates, net	**23,972**	(15,832)
Accrued Yankee nuclear plant costs	**(5,200)**	(58,567)
Other liabilities	**(15,036)**	(15,779)
Regulatory assets and liabilities, net	**(11,379)**	23,388
Environmental remediation costs	**4,900**	(23)
Other, net	**(355)**	(2,225)
Net cash provided by operating activities	**163,098**	97,082
Investing activities:		
Capital expenditures	**(183,899)**	(173,572)
Changes in intercompany money pool	**-**	107,038
Cost of removal and other	**(11,195)**	(8,713)
Net cash used in investing activities	**(195,094)**	(75,247)
Financing activities:		
Dividends to National Grid USA	**(95,000)**	(60,000)
Dividends paid on preferred stock	**(67)**	(67)
Parent loss tax allocation	**3,169**	1,358
Affiliated money pool borrowing and receivables/payables, net	**102,933**	48,987
Net cash provided by (used in) financing activities	**11,035**	(9,722)
Net (decrease) increase in cash and cash equivalents	**(20,961)**	12,113
Cash and cash equivalents, beginning of period	**23,707**	11,594
Cash and cash equivalents, end of period	**$ 2,746**	$ 23,707
Supplemental disclosures:		
Interest paid	**$ 3,282**	$ 3,912
Income taxes paid to (refunded from) Parent	**7,730**	(344)
State income taxes paid	**2,145**	1,372
Significant non-cash items:		
Capital-related accruals included in accounts payable	**12,935**	18,828

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

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

			March 31,	
			2013	2012
Total shareholders' equity			**$ 1,098,996**	$1,106,799
Long-term debt:	Interest Rate	Maturity Date		
Pollution control revenue bonds				
Connecticut Development Authority	Variable	October 15, 2015	**38,500**	38,500
Massachusetts Development Finance Agency 1	Variable	March 1, 2018	**79,250**	79,250
Business Finance Authority of the State of New Hampshire	Variable	November 1, 2020	**135,850**	135,850
Business Finance Authority of the State of New Hampshire	Variable	November 1, 2020	**50,600**	50,600
Massachusetts Development Finance Agency 2	Variable	October 1, 2022	**106,150**	106,150
Unamortized discount			**-**	(17)
Total long-term debt			**410,350**	410,333
Total capitalization			**$ 1,509,346**	$1,517,132

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

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

	Common Stock, Par Value $20 per Share		Cumulative Preferred Stock, Par Value $100 per Share				Accumulated Other Comprehensive Income		
	Issued and Outstanding Shares	Amount	Issued and Outstanding Shares	Amount	Additional Paid-in Capital	Retained Earnings	Unrealized Gain (Loss) on Available for Sale Securities	Total Accumulated Other Comprehensive Income	Total
Balance as of March 31, 2011	3,619,896	$72,398	11,117	$ 1,112	$ 733,545	$ 284,332	$ 333	$ 333	$ 1,091,720
Net income	-	-	-	-	-	73,539	-	-	73,539
Comprehensive income:									
Unrealized gains on secuities, net of $297 tax expense	-	-	-	-	-	-	460	460	460
Reclassification of gains into net income, net of $136 tax benefit	-	-	-	-	-	-	(211)	(211)	(211)
Total comprehensive income									73,788
Parent loss tax allocation	-	-	-	-	1,358	-	-	-	1,358
Dividend on common and preferred stock	-	-	-	-	-	(60,067)	-		(60,067)
Balance as of March 31, 2012	3,619,896	$72,398	11,117	$ 1,112	$ 734,903	$ 297,804	$ 582	$ 582	$ 1,106,799
Balance as of March 31, 2012	3,619,896	$72,398	11,117	$ 1,112	$ 734,903	$ 297,804	$ 582	$ 582	$ 1,106,799
Net income	-	-	-	-	-	83,954	-	-	83,954
Comprehensive income:									
Unrealized gains on secuities, net of $164 tax expense	-	-	-	-	-	-	254	254	254
Reclassification of gains into net income, net of $73 tax benefit	-	-	-	-	-	-	(113)	(113)	(113)
Total comprehensive income									84,095
Parent loss tax allocation	-	-	-	-	3,169	-	-	-	3,169
Dividend on common and preferred stock	-	-	-	-	-	(95,067)	-	-	(95,067)
Balance as of March 31, 2013	$ 3,619,896	$72,398	11,117	$ 1,112	$ 738,072	$ 286,691	$ 723	$ 723	$ 1,098,996

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

NEW ENGLAND POWER COMPANY
NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

New England Power Company (the "Company," "we," and "our"), organized and operated under the laws of the Commonwealth of Massachusetts, operates electric transmission facilities in Massachusetts, New Hampshire, Rhode Island, Maine and Vermont. The Company is a wholly-owned subsidiary of NGUSA, a public utility holding company with regulated subsidiaries engaged in the generation of electricity and the transmission, distribution and sale of both natural gas and electricity. NGUSA is an indirectly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

Approximately 84% and 82% of the Company's local transmission service is provided to the following wholly-owned subsidiaries of National Grid USA ("NGUSA"): Massachusetts Electric Company ("MECO"), Nantucket Electric Company ("NANT"), and The Narragansett Electric Company ("NECO") for the years ended March 31, 2013 and March 31, 2012, respectively. The Company also owns non-controlling interests in three companies (the "Yankees") which own nuclear generating facilities that are permanently retired and are being decommissioned. The investments in the Yankees are accounted for using the equity method of accounting as further discussed in Note 5, "Equity Investments."

The Company has evaluated subsequent events and transactions through October 18, 2013, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to or disclosure in the financial statements as of and for the year ended March 31, 2013, except as disclosed in footnote 2, "Rates and Regulatory".

B. Basis of Presentation

The financial statements for the years ended March 31, 2013 and March 31, 2012 are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") including the accounting principles for rate-regulated entities. The financial statements reflect the rate-making practices of the applicable regulatory authorities.

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

Within the statements of cash flows, all amounts that are settled through the Regulated Money Pool (refer to Note 10, "Related Party Transactions") are treated as constructive cash receipts and payments, and therefore are presented as such.

C. Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC") provides the final determination of the rates the Company charges its customers. In certain cases, the rate actions of the FERC or the regulatory Commissions of Massachusetts, New Hampshire, Rhode Island, Maine and Vermont can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered or refunded through the rate-making process, which would result in a corresponding increase or decrease in future rates.

D. Revenue Recognition

The Company has two primary sources of revenue: transmission and stranded cost recovery. Transmission revenues are based on a formula rate that recovers the Company's actual costs plus a return on investment. Stranded cost recovery revenues are collected through a contract termination charge ("CTC"), which is billed to former wholesale customers of the Company (MECO, NECO, Granite State Electric Co., the Towns of Merrimac, Groveland and

Littleton) through our affiliates, MECO and NECO, in connection with the Company's divestiture of its electricity generation investments.

E. Property, Plant and Equipment

Property, plant and equipment is stated at original cost. The cost of additions to property, plant and equipment and replacements of retired units of property are capitalized. Costs include direct material, labor, overhead and allowance for funds used during construction ("AFUDC"). The cost of renewals and betterments that extend the useful life of property, plant and equipment are also capitalized. The cost of repairs, replacements and major maintenance projects, which do not extend the useful life or increase the expected output of the asset, are expensed as incurred. Depreciation is generally computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the state regulatory bodies. Whenever 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 average composite rates and weighted average life for the years ended March 31, 2013 and March 31, 2013 are as follows:

	March 31,	
	2013	2012
Composite rates - depreciation	**2.0%**	2.0%
Composite rates - cost of removal	**0.3%**	0.3%
Total composite rates	**2.3%**	2.3%
Average service life	**45 years**	44 years

The Company recovers costs of removal through rates charged to its customers as a portion of depreciation expense. At March 31, 2013 and March 31, 2012, the Company had cumulative costs recovered in excess of costs incurred totaling $18.8 million and $22.3 million, respectively. This amount is reflected as a regulatory liability in the accompanying balance sheets.

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

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

	March 31,	
	2013	2012
	(in thousands of dollars)	
Debt	**$ 431**	$ 230
Equity	**8,662**	7,942
	$ 9,093	$ 8,172
Composite AFUDC rate	**5.8%**	7.6%

F. Goodwill

Goodwill represents the excess of the purchase price of a business over the fair value of the tangible and intangible assets acquired, net of the fair value of liabilities assumed and the fair value of any non-controlling interest in the acquisition. The Company tests goodwill for impairment annually on January 31, and whenever events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

The goodwill impairment analysis is comprised of two steps. In the first step, the estimated fair value of the reporting unit is compared with its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further analysis is required. If the carrying value exceeds the fair value, then a second step is performed to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The Company calculated the fair value of the reporting unit in the performance of its annual goodwill impairment test for the fiscal year ended March 31, 2013 utilizing both income and market approaches.

- To estimate fair value utilizing the income approach, the Company used a discounted cash flow methodology incorporating its most recent business plan forecasts together with a projected terminal year calculation. Key assumptions used in the income approach were: (a) expected cash flows for the period from April 1, 2013 to March 31, 2018; (b) a discount rate of 5.5%, which was based on the Company’s best estimate of its after-tax weighted-average cost of capital; and (c) a terminal growth rate of 2.25%, based on the Company’s expected long term average growth rate in line with estimated long term US economic inflation.

- To estimate fair value utilizing the market approach, the company followed a market comparable methodology. Specifically, the Company applied a valuation multiple of earnings before interest, taxes, depreciation and amortization (EBITDA), derived from data of publicly-traded benchmark companies, to business operating data. Benchmark companies were selected based on comparability of the underlying business and economics. Key assumptions used in the market approach included the selection of appropriate benchmark companies and the selection of an EBITDA multiple of 10.0, which we believe is appropriate based on comparison of our business with the benchmark companies.

The Company ultimately determined the fair value of the business using 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. The resulting fair value of the annual analyses determined that no adjustment of the goodwill carrying value was required at March 31, 2013 or March 31, 2012.

G. Cash and Cash Equivalents

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

H. Materials and Supplies

Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized into specific capital additions as used. The Company’s policy is to write off obsolete inventory. There were no material write offs of obsolete inventory for the years ended March 31, 2013 or March 31, 2012.

I. Income and Other Taxes

Federal and state income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. National Grid North America Inc. ("NGNA"), (formerly National Grid Holdings Inc.), an indirectly-owned subsidiary of National Grid plc and the intermediate holding company of NGUSA, files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary company is included in the consolidated group and determines its current and deferred taxes based on the separate return method. The Company settles its current tax liability or benefit each year with NGNA pursuant to a tax sharing arrangement between NGNA and its included subsidiaries. Benefits allocated by NGNA are treated as capital contributions.

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

The Company collects certain taxes from customers such as sales taxes, along with other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues). Where these taxes, such as gross receipts taxes, excise tax or other surcharges or fees are imposed on the Company, it accounts for these taxes on a gross basis.

J. Employee Benefits

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

K. Fair Value Measurements

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

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

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

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

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

L. New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2013

Fair Value Measurements

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

Goodwill Impairment

In September 2011, the FASB issued accounting guidance related to goodwill impairment testing, whereby an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not required. Otherwise, the entity is required to perform the two-step impairment test. This guidance became effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company adopted this guidance in its fiscal year ended March 31, 2013 and did not elect the option to perform a qualitative analysis.

Other Comprehensive Income

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

Accounting Guidance Not Yet Adopted

Reclassifications From Accumulated Other Comprehensive Income

In February 2013, the FASB issued accounting guidance that requires an entity to report information about significant reclassifications out of accumulated other comprehensive income. The new guidance requires presentation either in a single footnote or parenthetically on the financial statements, of the effect of significant amounts reclassified out of accumulated other comprehensive income based on the corresponding line items in the

statement of net income. For amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity would cross-reference other disclosures that provide additional detail about those amounts. The amendments do not change the current requirements for reporting net income or other comprehensive income in the financial statements. For non-public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Company is evaluating the impact, if any, on its financial position, results of operations, and cash flows.

N. Reclassifications

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

Note 2. Rates and Regulatory

The following table presents the Company's regulatory assets and regulatory liabilities at March 31, 2013 and March 31, 2012:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Regulatory assets:		
Current:		
Purchase power payment obligations	**$ 2,520**	$ 2,520
Yankee nuclear decommissioning costs	**12,808**	12,486
Unamortized loss on reacquired debt	**90**	-
Total	**15,418**	15,006
Non-current:		
Purchase power payment obligations	**614**	3,015
Yankee nuclear decommissioning costs	**10,820**	16,342
Postretirement benefits	**84,268**	69,601
Regulatory deferred tax asset	**13,570**	15,590
CTC charges	**38,480**	47,028
Environmental response costs	**8,822**	3,827
Unamortized loss on reacquired debt	**171**	369
Total	**156,745**	155,772
Regulatory liabilities:		
Current:		
CTC buyout revenues	**359**	-
Revaluation - pension and PBOPs	**3,283**	-
Total	**3,642**	-
Non-current:		
CTC charges	**35,151**	36,898
Cost of removal	**18,820**	22,344
Revaluation - pension and PBOPs	**9,016**	16,294
CTC buyout revenues	**4,940**	5,634
Total	**67,927**	81,170
Net regulatory assets	**$ 100,594**	$ 89,608

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

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

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

Environmental response costs: This regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at sites with which it may be associated. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Purchased power payment obligations: In conjunction with the Company's divestiture of its generating business, the Company accrued obligations related to certain purchased power contracts. The Company makes fixed monthly payments to the suppliers.

Postretirement benefits: This amount primarily represents the excess costs of the Company's pension and postretirement benefits plans over amounts received in rates that are deferred to a regulatory asset to be recovered in future periods and the non-cash accrual of net actuarial gains and losses.

Revaluation - pension and PBOPs: As a result of the fiscal year 2000 merger of the Company with National Grid USA and the fiscal year 2001 acquisition of Montaup Electric Co, the Company revalued its pension and other post-retirement benefit plans and recognized previously unrecognized net gains in these benefit plans. The recognition of these gains was offset on the balance sheet by the establishment of a regulatory liability which is being returned to customers over a 15 year period.

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

Carrying charges:

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

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Other interest income (expense), including affiliate interest	**$ 1,790**	$ (4,081)
Operating revenues	**247**	139
	$ 2,037	$ (3,942)

Rate Matters

The FERC enables transmission companies to recover their specific costs of providing transmission service. Additionally, the Company has received authorization from the FERC to recover through CTC, substantially all of the costs associated with its former generating business not recovered through their divestiture. Therefore, substantially all of the Company's business, including the recovery of its stranded costs, remains under cost-based rate regulation.

Under settlement agreements approved by state commissions and the FERC, the Company is permitted to recover costs associated with its former generating investments (nuclear and nonnuclear) and related contractual commitments that were not recovered through the sale of those investments (stranded costs). Stranded costs are recovered from the Company's affiliated former wholesale customers with whom it has settlement agreements through a CTC. The Company's affiliated former wholesale customers in turn recover the stranded cost charges

through delivery charges to their distribution customers. The Company earns a return on equity ("ROE") of approximately 11% on stranded cost recovery. The Company will recover remaining non-nuclear stranded costs through 2020. See the "Nuclear Decommissioning" section of Note 9 "Commitments and Contingencies," for a discussion of ongoing costs associated with decommissioned nuclear units.

The Company is a Participating Transmission Owner ("PTO") in the New England Regional Transmission Organization ("RTO") which commenced operations effective February 1, 2005. The Independent System Operator for New England ("ISO-NE") has been authorized by the FERC to exercise the operations and system planning functions required of RTOs and is the independent regional transmission provider under the ISO-NE Open Access Transmission Tariff ("ISO-NE OATT"). The ISO-NE OATT is designed to provide non-discriminatory open access transmission services over the transmission facilities of the PTOs and recover their revenue requirements. The FERC issued a series of orders in 2004 and 2005 that approved the establishment of the RTO.

Based on a series of FERC Orders including a Rehearing Order issued in March 2008, the Company's transmission rates currently reflect a base ROE of 11.14% applicable to all transmission facilities, plus an additional 0.5% RTO participation adder applicable to transmission facilities included under the Regional Network Service ("RNS") rate. Approximately 70% of the Company's transmission facilities are included under RNS rates. The Company earns an additional 1.0% ROE incentive adder on all RNS-related transmission facilities approved under the RTO's Regional System Plan and placed in service on or before December 31, 2008.

On September 30, 2011, several state and municipal parties in New England, including the Massachusetts Attorney General's Office, the Connecticut Public Utilities Regulatory Authority and the Massachusetts Department of Public Utilities ("Complainants"), filed with the FERC a complaint under Section 206 of the Federal Power Act against certain New England Transmission Owners, including the Company ("NETOs"), to lower the base ROE for transmission rates in New England from the FERC approved rate of 11.14% to 9.2 %. On May 3, 2012, FERC set the matter for hearing and settlement procedures. A hearing on the initial complaint commenced on May 6, 2013 and concluded on May 10, 2013.

On August 6, 2013, a FERC Administrative Law Judge ("ALJ") issued an Initial Decision in the complaint proceeding, finding that the just and reasonable base ROE for the refund period is 10.6% and the just and reasonable base ROE for the prospective period is 9.7%, prior to any adjustments that would be applied by the FERC in a final order based on the change in 10-year US Treasury Bond rates from the date hearings closed to the date of the FERC's order. The refund period is the 15-month period from October 1, 2011 through December 31, 2012. The prospective period begins when FERC issues its order on the Initial Decision. An ALJ's Initial Decision does not itself affect the ROE rate or create an obligation to issue refunds to customers. Instead, FERC will act on the Initial Decision and adopt or modify the ALJ's recommendations in an order that is expected no sooner than early 2014. Although the ALJ's Initial Decision is non-binding upon the FERC, based on an evaluation of facts and circumstances, and consideration of the accounting guidance for contingencies, the Company has recorded an estimated reduction to revenues of $7.1 million and $0.2 million of interest expense for the fiscal year ended March 31, 2013. In addition, the following has been recorded: (1) aggregate intercompany payables of $5.9 million to NECO and MECO for the portion which would be refunded to their electric distribution customers through existing rate agreements, and (2) an accrued liability of $1.4 million for the portion which would be refunded to non-affiliated transmission customers.

On December 27, 2012, a new ROE complaint was filed against the NETOs by a coalition of consumers seeking to lower the base ROE for New England transmission rates to 8.7% effective as of December 27, 2012. FERC has not yet acted on this complaint.

In September 2008, the Company, NECO, and Northeast Utilities jointly filed an application with the FERC to recover financial incentives for the New England East-West Solution ("NEEWS"), pursuant to the FERC's Transmission Pricing Policy Order, Order No. 679. NEEWS consists of a series of inter-related transmission upgrades identified in the New England Regional System Plan and is being undertaken to address a number of reliability problems in the tri-state area of Connecticut, Massachusetts, and Rhode Island. Effective November 2008, the FERC granted (1) an incentive ROE of 12.89% (125 basis points above the approved base ROE of 11.64% including the RTO participation adder), (2) 100% construction work in progress in rate base and (3) recovery of plant abandoned for reasons beyond the companies' control.

Note 3. Employee Benefits

The Company participates with other NGUSA subsidiaries in a qualified and non-qualified non-contributory defined benefit plan (the "Pension Plan") and PBOP (together with the Pension Plan (the "Plan")), covering substantially all employees. The Pension Plan provides union employees, as well as non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental nonqualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. The Company participates in the following plans: The Final Average Pay Pension Plan, National Grid USA Companies Executive SERP (Version I-FAPP), Eastern Utilities Associates Retirement Plans, National Grid Retirees Health and Life Plan I (Nonunion), and National Grid Retirees Health and Life Plan II (Union).

During the years ended March 31, 2013 and March 31, 2012, the Company made contributions of approximately $7.5 million and $3.6 million to the Plan.

The PBOP Plan provides health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage.

Plan assets are commingled and cannot be allocated to an individual company. The Plan's costs are first directly charged to the Company based on the Company's employees that participate in the Plan. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. Pension and PBOP expense is included in operations and maintenance expenses in the accompanying statements of income.

The NGUSA companies' pension and PBOP plans that the Company participates in have unfunded obligations at March 31, 2013 and March 31, 2012 as follows:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Pension Plan	**$ 471,000**	$ 493,600
PBOP	**368,100**	384,800
	$ 839,100	$ 878,400

The Company's net Pension Plan and PBOP expense directly charged and allocated from affiliated service companies, net of capital, for the years ended March 31, 2013 and March 31, 2012 are as follows:

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Pension Plan	**$ 7,310**	$ 4,855
PBOP	**2,877**	2,507
	$ 10,187	$ 7,362

Other Benefits

The Company has accrued $0.8 million and $0.1 million for the year ended March 31, 2013 and March 31, 2012 respectively, regarding workers compensation, auto and general insurance claims which have been incurred but not yet reported.

Note 4. Property, Plant and Equipment

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

	March 31,	
	2013	2012
	(in thousands of dollars)	
Plant and machinery	**$ 1,673,875**	$ 1,596,898
Land and buildings	**87,312**	52,267
Assets in construction	**292,216**	234,125
Software and other intangibles	**2,282**	2,282
Total	**2,055,685**	1,885,572
Accumulated depreciation and amortization	**(370,553)**	(342,185)
Property, plant and equipment, net	**$ 1,685,132**	$ 1,543,387

Note 5. Equity Investments

Yankee Nuclear Power Companies

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

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

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Property, plant and equipment	**$ 882**	$ 1,625
Current assets	**20,145**	20,349
Non-current assets	**949,119**	897,380
Total assets	**970,146**	919,354
Current liabilities	**1,956**	1,340
Non-current liabilities	**962,897**	912,144
Equity	**5,293**	5,870
Total liabilities and equity	**970,146**	919,354
Operating revenue	**60,684**	60,955
Operating expenses	**60,280**	60,805
Other income (expense)	**(145)**	(80)
Total expenses	**60,425**	60,885
Net income	**$ 259**	$ 70

Note 6. Fair Value Measurements

The Company measures available for sale securities at fair value. Available for sale securities are included in other deferred charges in the accompanying balance sheets and primarily include equity and debt investments based on quoted market prices in active markets (Level 1), and municipal and corporate bonds based on quoted prices of similar traded assets in open markets (Level 2).

The following table presents assets and liabilities measured and recorded at fair value in the accompanying balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2013 and March 31, 2012:

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

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Available for sale securities	$ 3,215	$ 4,153	$ -	$ 7,368

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into and out from Level 3 during the years ended March 31, 2013 and March 31, 2012, respectively.

Other Fair Value Measurements

The Company's debt is recorded at amortized cost. The fair value of the Company's long-term debt was estimated based on the quoted market prices for similar issues or on the current rates offered to the Company for similar debt. The fair value of long-term debt at March 31, 2013 and March 31, 2012 was $410.4 million and $410.3 million, respectively.

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

Note 7. Income Taxes

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

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Current tax expense (benefit):		
Federal	**$ 14,245**	$ (3,650)
State	**6,923**	913
Total current tax expense (benefit)	**21,168**	(2,737)
Deferred tax expense (benefit):		
Federal	**33,419**	44,140
State	**(180)**	7,785
	33,239	51,925
Amortized investment tax credits [1]	**(389)**	(394)
Total deferred tax expense	**32,850**	51,531
Total income tax expense	**$ 54,018**	$ 48,794

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

A reconciliation between the expected federal income tax expense, using the federal statutory rate of 35% to the Company's actual income tax expense for the years ended March 31, 2013 and March 31, 2012 is as follows:

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Computed tax	**$ 48,290**	$ 42,817
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**4,383**	5,654
Flow through of equity AFUDC	**772**	501
Investment tax credit	**(389)**	(394)
Other items, net	**962**	216
Total	**5,728**	5,977
Federal and state income taxes	**$ 54,018**	$ 48,794

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

	March 31,	
	2013	2012
	(in thousands of dollars)	
Deferred tax assets:		
Future federal benefit on state taxes	**$ 15,913**	$ 16,392
Pensions, PBOP and other employee benefits	**4,769**	6,089
Reserve - nuclear and decommissioning	**4,217**	7,378
Reserve - environmental	**3,206**	1,200
Other items	**483**	15,713
Total deferred tax assets[1]	**28,588**	46,772
Deferred tax liabilities:		
Property related differences	**365,221**	344,627
Regulatory assets - pension and PBOP	**29,471**	50,380
Other items	**14,443**	1,003
Total deferred tax liabilities	**409,135**	396,010
Net deferred income tax liability	**380,547**	349,238
Deferred investment tax credit	**4,196**	4,585
Net deferred income tax liability and investment tax credit	**384,743**	353,823
Current portion of net deferred income tax (asset) liability	**(1,103)**	1,338
Non-current deferred income tax liability and investment tax credit	**$ 385,846**	$ 352,485

[1]There were no valuation allowances for deferred tax assets at March 31, 2013 and March 31, 2012.

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

As of March 31, 2013 and March 31, 2012, the Company's unrecognized tax benefits totaled $17.5 million and $19.4 million, respectively, of which none would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other deferred liabilities in the accompanying balance sheets.

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

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Balance at the beginning of the year	**$ 19,391**	$ 37,938
Gross decreases related to prior period	**(2,057)**	(21,019)
Gross increases related to prior period	**49**	2,472
Gross increases related to current period	**131**	-
Balance at the end of the year	**$ 17,514**	$ 19,391

As of March 31, 2013 and March 31, 2012, the Company has accrued for interest related to unrecognized tax benefits of $0.8 million and $0.7 million, respectively. During the years ended March 31, 2013 and March 31, 2012, the Company recorded interest expense of $0.1 million and $0.4 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in other interest expense and related penalties, if applicable, in other deductions in the accompanying income statement. No penalties were recognized during the years ended March 31, 2013 and March 31, 2012.

In fiscal year 2012, the Company adopted Revenue Procedure 2011-43, which provides a safe harbor method of accounting that taxpayers may use to determine whether expenditures to maintain, replace, or improve electric transmission and distribution property must be capitalized under Section 263(a) of the Internal Revenue Code and therefore reversed $21 million of tax reserves related to unrecognized tax benefits recorded in prior years with a corresponding offset in deferred tax liability.

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It is reasonably possible that other events will occur during the next 12 months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, the Company does not believe any such increases or decreases would be material to its results of operations, financial position, or liquidity.

In fiscal year 2012, the IRS commenced an audit of NGNA and subsidiaries for the fiscal years ending March 31, 2008 and March 31, 2009. Fiscal years ended March 31, 2010 through March 31, 2013 remain subject to examination by the IRS.

The Company is a member of the National Grid USA Service Company Massachusetts unitary group since December 2010. The tax returns for the fiscal years ended March 31, 2010 through March 31, 2013 remain subject to examination by the State of Massachusetts.

The Company participates with certain other NGNA subsidiaries in filing a unitary New Hampshire business profits tax return. The New Hampshire unitary returns have been amended for all agreed IRS adjustments. There is currently no ongoing audit by the State of New Hampshire, although the tax returns for the years ended March 31, 2009 through March 31, 2013 are open under the statute of limitations.

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

Jurisdiction	**Tax Year**
Federal	March 31, 2005*
Massachusetts	March 31, 2010
New Hampshire	March 31, 2009

*The Company is in the process of appealing certain disputed issues with the IRS Office of Appeals relating to its tax returns for March 31, 2005 through March 31, 2007. The Company does not anticipate a change in its unrecognized tax positions in the next twelve months as a result of filing the appeals. However, the Company's tax sharing agreement may result in a change to allocated tax as a result of current and future audits or appeals.

Note 8. Debt

Short-term debt

The Company has FERC regulatory approval to issue up to $750 million of short-term debt. The Company had no short-term debt outstanding to third-parties at March 31, 2013 and March 31, 2012.

Long-term debt

At March 31, 2013 and March 31, 2012, the Company had outstanding $410 million of Pollution Control Revenue Bonds in tax exempt commercial paper mode with maturity dates ranging from October 2015 to October 2022. The debt is remarketed at periods of 1-270 days, and had variable interest rates ranging from 0.35% to 0.55% (average of 0.45%) and from 0.25% to 0.93% (average of 0.63%) for the year ended March 31, 2013 and March 31, 2012, respectively.

On March 31, 2012, the Company had a Standby Bond Purchase Agreement ("SBPA") of $424.6 million, which was due to expire in November 2012. On November 15, 2012, the Company amended the SBPA to have a limit of $410.4 million and to expire on November 20, 2015. This agreement was available to provide liquidity support for $410.4 million of the Company's long-term bonds in tax-exempt commercial paper mode. The Company has classified its debt as long-term due to its intent and ability to refinance the debt on a long-term basis if it is not able to remarket it. At March 31, 2013 and March 31, 2012, there were no bond purchases made by the banks participating in this agreement.

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

(in thousands of dollars) Years Ended March 31,	
2014	$ -
2015	-
2016	38,500
2017	-
2018	79,250
Thereafter	292,600
Total	$ 410,350

Note 9. Commitments and Contingencies

Purchase Power Commitments

The Company has several long-term contracts for the purchase of electric power. Substantially all of these contracts require power to be delivered before the Company is obligated to make payment. In addition, the Company has various capital commitments related to the construction of property, plant and equipment.

The Company's commitments under these long-term contracts for years subsequent to March 31, 2013, are summarized in the table below:

(in thousands of dollars) Years Ended March 31,	Power	Capital Expenditures
2014	$ 62,434	$ 23,323
2015	63,163	3,189
2016	57,915	1,420
2017	39,417	-
2018	19,383	
Thereafter	-	-
Total	$ 242,312	$ 27,932

The Company purchases any additional energy needed to meet load requirements and can purchase the electricity from other independent power producers ("IPPs") other utilities, other energy merchants or the open market through the ISO-NE at market prices.

Legal Matters

The Company is subject to various legal proceedings 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 condition, or cash flows.

Environmental Matters

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

During the year ended March 31, 2013, the Company established a new environmental reserve of approximately $7.3 million. This reserve relates to a previously divested power plant site for which the current owner plans to sell to another party, and for which we may potentially be liable to remediate contamination at that location. The extent of environmental remediation that will ultimately be required at the site is not known. The remediation will be dependent on environmental conditions at the site and the nature of the redevelopment. Remediation costs may be shared with other responsible parties.

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

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

Decommissioning Nuclear Units

The Yankees operated nuclear generating units which have been permanently decommissioned. Spent nuclear fuel remains on each site, awaiting fulfillment by the DOE of its statutory obligation to remove it. In addition, groundwater monitoring is ongoing at each site. Future estimated billings, which are included in accrued Yankee nuclear plant costs and current portion of accrued Yankee nuclear plant costs in the accompanying balance sheets, are as follows:

(in thousands of dollars)	The Company's Investment as of March 31, 2013			Future Estimated Billings to the Company
Unit	%	Amount	Date Retired	Amount
Yankee Atomic	34.5	$ 538	Feb 1992	$ 7,543
Connecticut Yankee	19.5	289	Dec 1996	16,085
Maine Yankee	24.0	540	Aug 1997	-

The Yankees are periodically required to file rate cases for FERC review, which present the Yankees' estimated future decommissioning costs. The Yankees are currently collecting decommissioning and other costs under FERC orders issued in their respective rate cases. Rate cases were filed by each Yankee on May 1, 2013 reflecting, in part, receipt of payments from the DOE referred to below. The Yankees collect the approved costs from their purchasers, including the Company.

The Company's share of the Yankees' decommissioning costs is accounted for in contract termination and nuclear shutdown charges on the statements of income. The Company has recorded a liability and a regulatory asset reflecting the estimated future decommissioning billings from the Yankees. Under settlement agreements, the Company is permitted to recover prudently incurred decommissioning costs through CTCs.

Future estimated billings from the Yankees are based on cost estimates. These estimates include the projected costs of groundwater monitoring, security, liability and property insurance and other costs. They also include costs for interim spent fuel storage facilities, which the Yankees have constructed during litigation they brought to enforce the DOE's obligation to remove the fuel as required by the Nuclear Waste Policy Act of 1982.

Following a trial at the U.S. Court of Claims ("Claims Court") to determine the level of damages, on October 4, 2006, the Claims Court awarded the three companies an aggregate of $143 million for spent fuel storage costs that had been incurred through 2002. The Yankees had requested $176.3 million. The DOE appealed to the US Court of Appeals for the Federal Circuit, which rendered an opinion generally supporting the Claims Court's decision and remanded the matter to it for further proceedings. In September, 2010, the Claims Court again awarded the companies an aggregate of approximately $143 million. The DOE again appealed and the Yankees cross-appealed. On May 18, 2012, the Court of Appeals again ruled in favor of the Yankees, awarding them an aggregate of approximately $160 million. The DOE sought reconsideration but, on September 5, 2012, the Court of Appeals for the Federal Circuit denied the U. S. petition for rehearing. The U.S. DOE elected not to file a petition for writ of certiorari seeking review by the U.S. Supreme Court. Thus, the awards are final and have been paid. The Company's reserves and related regulatory assets for current and long-term decommissioning costs at March 31, 2013 reflect the Company's share of damages awarded to the Yankees as a result of the judgment in the Yankees Phase I Litigation. The expected $40.5 million of proceeds have been accounted for as a reduction in the reserves and regulatory assets for estimated future billings.

On December 14, 2007, the Yankees brought further litigation in the Claims Court to recover damages incurred subsequent to 2002. A Claims Court trial took place in October 2011. The record is now closed, briefs have been submitted, and the judge still has the case under advisement. If the Yankees are successful, the damages they receive, net of litigation expense and taxes, will be applied to benefit their purchasers, including the Company.

The U.S. Congress and the DOE have effectively terminated budgetary support for the proposed long-term spent fuel storage facility at Yucca Mountain in Nevada and the DOE has taken actions designed to prevent its construction. A Blue Ribbon Commission ("BRC") charged with advising the DOE regarding alternatives to disposal at Yucca Mountain issued its final report on January 26, 2012. In the report, the BRC recommended that priority be given to removal of spent fuel from shutdown reactor sites. It is impossible to predict when the DOE will fulfill its obligation to take possession of the Yankees' spent fuel. The decommissioning costs that are actually incurred by the Yankees may substantially exceed the estimated amounts.

Guarantees

Three affiliates of NGUSA were created to construct and operate transmission facilities to transmit power from Hydro Quebec (a generation company in Quebec, Canada) to New England. Under the financial and organizational agreements (the "Support Agreements") entered into at the time these transmission facilities were constructed, the Company agreed to guarantee a portion of the project debt. At March 31, 2013, the Company had guaranteed approximately $3.1 million of project debt with terms through 2015. Costs associated with these Support Agreements are recoverable from the Company's customers through CTCs.

Note 10. Related Party Transactions

Accounts Receivable from Affiliates and Accounts Payable to Affiliates

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

The Company records short-term payables to and receivables from certain of its affiliates in the ordinary course of business. The amounts payable to and receivable from its affiliates do not bear interest and are settled through the money pool. At March 31, 2013 and March 31, 2012, the Company had net outstanding accounts receivable from affiliates and accounts payable to affiliates balances as follows:

	Accounts receivable from Affiliates		Accounts payable to Affiliates	
	March 31,		March 31,	
	2013	2012	**2013**	2012
	(in thousands of dollars)		*(in thousands of dollars)*	
Massachusetts Electric Company	**$ 23,565**	$ 9,534	**$ -**	$ -
Niagara Mohawk Power Corp	**843**	21	**-**	-
The Narragansett Electric Company	**-**	-	**18,030**	1,257
NGUSA Service Company	**-**	-	**39,595**	14,506
New England Hydro Transmission Corp.	**419**	301	**-**	-
Granite State Electric Company	**-**	510	**-**	-
Nantucket Electric Co	**370**	114	**-**	-
Other affiliates	**345**	323	**1,000**	441
Total	**$ 25,542**	$ 10,803	**$ 58,625**	$ 16,204

Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the money pool. As of November 1, 2012, NGUSA and its affiliates established a new Regulated Money Pool and an Unregulated Money Pool. Financing for the Company's working capital is obtained through participation in the Regulated Money Pool. The Company, as a participant in the Regulated Money Pool, can both borrow and lend funds. Borrowings from the Regulated and Unregulated Money Pools bear interest in accordance with the terms of the applicable money pool agreement. Since November 1, 2012, and because the Company now fully participates in the Regulated Money Pool rather than settling intercompany charges with cash, all changes in the intercompany moneypool balances and affiliate receivables and affiliate payables are reflected as investing or financing activities in the statement of cash flows.

The Regulated and Unregulated Money Pools are funded by operating funds from participants in the applicable Pool. Collectively, NGUSA and its subsidiary, KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Money Pools, if necessary. The Company had short-term money pool borrowings of $147.6 million and $49 million at March 31, 2013 and March 31, 2012, respectively. The average interest rate for the money pool was approximately 0.6% and 0.2% for the years ended March 31, 2013 and March 31, 2012, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are typically allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, total transmission and distribution expenditures, etc. Lastly, all other costs are allocated based on a general allocator.

Charges from the service companies of NGUSA to the Company for the years ended March 31, 2013 and March 31, 2012 were $181.8 million and $202.8 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the U.K.) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S.

subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected on these financial statements. Were these amounts allocated to this subsidiary, the estimated effect on net income would be approximately $1.4 million and $1.2 million before taxes, and $0.9 million and $0.8 million after taxes, for the years ended March 31, 2013 and March 31, 2012, respectively.

Note 11. Cumulative Preferred Stock

The Company has non-participating cumulative preferred stock outstanding which can be redeemed at the option of the Company. There are no mandatory redemption provisions on the Company's cumulative preferred stock, and the stock is not callable. A summary of cumulative preferred stock at March 31, 2013 and March 31, 2012 is as follows:

	Shares Outstanding		Amount	
	March 31,		**March 31,**	
Series	**2013**	2012	**2013**	2012
	(in thousands of dollars, except per share and number of shares data)			
$100 par value - 6.00% Series	**11,117**	11,117	**$ 1,112**	$ 1,112

The Company did not redeem any preferred stock during the years ended March 31, 2013 or March 31, 2012. The annual dividend requirement for cumulative preferred stock was approximately $0.07 million for the years ended March 31, 2013 and March 31, 2012.

Note 12. Restrictions on Payment of Dividends

Pursuant to the provisions of the long-term note agreement, payment of dividends on common stock are not permitted if, after giving effect to such payment of dividends, common equity becomes less than 30% of total capitalization. At March 31, 2013 and March 31, 2012 common equity was 72.8% and 72.9% of total capitalization, respectively. Under these provisions, none of the Company's retained earnings at March 31, 2013 and March 31, 2012 were restricted as to common dividends.