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Niagara Mohawk Power Corporation

Financial Statements

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

NIAGARA MOHAWK POWER CORPORATION

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Independent Auditor's Report

To the Shareholder and Board of Directors of Niagara Mohawk Power Corporation:

We have audited the accompanying financial statements of Niagara Mohawk Power Corporation, 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 Niagara Mohawk Power Corporation at March 31, 2013 and March 31, 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 20, 2013

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NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 14,672**	$ 2,213
Restricted cash	**34,982**	18,380
Special deposits	**15,671**	16,484
Accounts receivable	**572,794**	529,215
Allowance for doubtful accounts	**(126,209)**	(189,593)
Accounts receivable from affiliates	**7,327**	2,489
Intercompany money pool	**97,171**	117,250
Unbilled revenues	**149,784**	118,402
Materials, supplies and gas in storage	**43,178**	59,078
Derivative contracts	**19,497**	1,364
Regulatory assets	**56,809**	265,220
Current portion of deferred income tax assets	**119,727**	104,301
Prepaid taxes	**66,074**	53,961
Prepaid and other current assets	**58,483**	60,632
Total current assets	**1,129,960**	1,159,396
Equity investments	**3,933**	5,245
Property, plant, and equipment, net	**7,080,116**	6,760,766
Deferred charges and other assets:		
Regulatory assets	**1,079,734**	1,150,894
Goodwill	**1,289,132**	1,289,132
Derivative contracts	**6,202**	350
Financial investments	**28,177**	29,099
Other deferred charges	**34,626**	14,688
Total deferred charges and other assets	**2,437,871**	2,484,163
Total assets	**$ 10,651,880**	$ 10,409,570

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

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2013	2012
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 183,196**	$ 186,720
Accounts payable to affiliates	**134,687**	32,707
Current portion of long-term debt	**45,600**	500,000
Taxes accrued	**26,818**	39,848
Customer deposits	**34,669**	38,476
Interest accrued	**27,716**	30,938
Payroll and benefits accruals	**53,937**	46,106
Regulatory liabilities	**178,126**	84,580
Advance from affiliates	**20,000**	19,654
Derivative contracts	**492**	43,581
Other current liabilities	**25,056**	37,442
Total current liabilities	**730,297**	1,060,052
Deferred credits and other liabilities:		
Regulatory liabilities	**737,767**	700,091
Asset retirement obligations	**10,329**	9,937
Deferred income tax liabilities	**1,691,829**	1,563,702
Postretirement benefits	**244,225**	363,535
Environmental remediation costs	**438,847**	461,130
Derivative contracts	**472**	2,672
Other deferred liabilities	**337,323**	413,989
Total deferred credits and other liabilities	**3,460,792**	3,515,056
Capitalization:		
Shareholders' equity	**3,906,475**	3,934,735
Long-term debt	**2,554,316**	1,899,727
Total capitalization	**6,460,791**	5,834,462
Total liabilities and capitalization	**$ 10,651,880**	$ 10,409,570

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2013	2012
Operating revenues:		
Electric services	**$ 2,775,045**	$ 2,916,767
Gas distribution	**587,655**	654,623
Total operating revenues	**3,362,700**	3,571,390
Operating expenses:		
Purchased electricity	**880,592**	838,992
Purchased gas	**247,183**	277,264
Operations and maintenance	**1,217,606**	1,203,771
Depreciation and amortization	**214,368**	209,468
Amortization of stranded costs and rate plan deferrals	**197,260**	461,160
Other taxes	**244,803**	240,531
Total operating expenses	**3,001,812**	**3,231,186**
Operating income	**360,888**	340,204
Other income and (deductions):		
Interest on long-term debt	**(76,407)**	(66,804)
Other interest, including affiliate interest	**(18,273)**	(38,355)
Other income (deductions), net	**5,986**	(4,366)
Total other deductions, net	**(88,694)**	(109,525)
Income before income taxes	**272,194**	230,679
Income taxes:		
Current	**(2,259)**	77,832
Deferred	**98,293**	24,768
Income tax expense	**96,034**	102,600
Net income	**$ 176,160**	$ 128,079

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2013	2012
Net income	**$ 176,160**	$ 128,079
Other comprehensive income (loss):		
Unrealized gains on securities, net of $1,151 and $729 tax expense	**1,727**	1,093
Changes in pension and other postretirement obligations, net of $449 and $155 tax benefit	**(674)**	(233)
Reclassification of losses into net income, net of $362 and $416 tax benefit	**(544)**	(624)
Other comprehensive income	**509**	236
Comprehensive income	**$ 176,669**	$ 128,315

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,	
	2013	2012
Operating activities:		
Net income	**$ 176,160**	$ 128,079
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**214,368**	209,468
Amortization of stranded costs and rate plan deferrals	**197,260**	461,160
Provision for deferred income taxes	**98,293**	24,768
Amortization of debt discount and issuance costs	**3,739**	2,497
Bad debt expense	**(18,241)**	36,996
Loss from equity investments	**354**	138
Allowance for funds used during construction	**(7,138)**	(6,356)
Pension and other postretirement expense	**150,106**	154,321
Pension and other postretirement contributions	**(201,191)**	(285,655)
Net environmental remediation payments	**(31,438)**	(11,923)
Changes in operating assets and liabilities:		
Accounts receivable, net and unbilled revenues	**(120,104)**	138,976
Materials, supplies and gas in storage	**15,900**	(20,187)
Accounts payable and accrued expenses	**1,085**	(20,768)
Prepaid and accrued taxes	**(13,129)**	(129,647)
Accounts receivable from/payable to affiliates, net	**27,296**	(500)
Other liabilities	**(86,915)**	(83,441)
Derivative contracts	**(69,274)**	120,087
Regulatory assets and liabilities, net	**179,293**	18,306
Other, net	**(15,777)**	2,601
Net cash provided by operating activities	**500,647**	738,920
Investing activities:		
Capital expenditures	**(497,962)**	(464,365)
Affiliated money pool borrowing and other	**89,925**	(97,596)
Changes in restricted cash	**(16,602)**	(18,380)
Cost of removal	**(49,152)**	(43,552)
Other	**(5,614)**	2,119
Net cash used in investing activities	**(479,405)**	(621,774)
Financing activities:		
Dividends paid on common and preferred stock	**(211,060)**	(1,060)
Payments on long-term debt obligation	**(500,000)**	-
Proceeds from issuance of long-term debt	**700,000**	-
Changes in advance from affiliates	**346**	-
Payment of debt issuance costs	**(4,200)**	-
Parent tax loss allocation	**445**	41,552
Share based compensation	**5,686**	-
Affiliated money pool borrowing and other	**-**	(165,804)
Net cash used in financing activities	**(8,783)**	(125,312)
Net increase (decrease) in cash and cash equivalents	**12,459**	(8,166)
Cash and cash equivalents, beginning of year	**2,213**	10,379
Cash and cash equivalents, end of year	**$ 14,672**	$ 2,213
Supplemental disclosures:		
Interest paid	**$ (91,047)**	$ (77,180)
Income taxes paid	**(99,349)**	(218,390)
Significant non-cash item:		
Capital-related accruals included in accounts payable	**11,396**	23,410

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2013	2012
Total shareholders' equity			**$ 3,906,475**	$ 3,934,735
Long-term debt:	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Note	3.55%	October 1, 2014	**500,000**	500,000
Senior Note	4.88%	August 15, 2019	**750,000**	750,000
Senior Note	4.12%	November 28, 2042	**400,000**	-
Senior Note	2.72%	November 28, 2022	**300,000**	-
			1,950,000	1,250,000
State Authority Financing - Tax exempt				
NYSERDA Tax exempt	5.15%	November 1, 2025	**75,000**	75,000
NYSERDA Tax exempt	Variable	October 1, 2013 - July 1, 2029	**575,065**	575,065
Total			**650,065**	650,065
Intercompany Notes:				
Niagara Mohawk Holdings Inc. Note	5.80%	November 1, 2012	**-**	500,000
Unamortized debt discounts			**(149)**	(338)
Total long-term debt			**2,599,916**	2,399,727
Long-term debt due within one year			**45,600**	500,000
Total long-term debt, excluding current portion			**2,554,316**	1,899,727
Total capitalization			**$ 6,460,791**	$ 5,834,462

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars, except per share data)

	Common Stock, par value $1 per share		Cumulative Preferred Stock, par value $100 per share			Accumulated Other Comprehensive Income (Loss)				
	Authorized Issued and Outstanding Shares	Amount	Authorized Issued and Outstanding Shares	Amount	Additional Paid-in Capital	Unrealized Gain (Loss) on Available for Sale Securities	Pension and Postretirement Benefits	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2011	187,364,863	$ 187,365	289,847	$ 28,985	$ 2,913,140	$ (119)	$ (863)	$ (982)	$ 637,420	$ 3,765,928
Net income	-	-	-	-	-	-	-	-	128,079	128,079
Comprehensive income:										
Unrealized gain on securities, net of $729 tax expense	-	-	-	-	-	1,093	-	1,093	-	1,093
Changes in pension and other postretirement obligations, net of $155 tax benefit	-	-	-	-	-	-	(233)	(233)	-	(233)
Reclassification adjustment for (gains) included in net income, net of $416 tax expense	-	-	-	-	-	(624)	-	(624)	-	(624)
Total comprehensive income	-	-	-	-	-	-	-	-	-	128,315
Parent tax loss allocation		-		-	41,552	-	-	-	-	41,552
Dividends on preferred stock	-	-	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2012	187,364,863	187,365	289,847	28,985	2,954,692	350	(1,096)	(746)	764,439	3,934,735
Net income	-	-	-	-	-	-	-	-	176,160	176,160
Comprehensive income:										
Unrealized gains on securities, net of $1,151 tax expens	-	-	-	-	-	1,727	-	1,727	-	1,727
Changes in pension and other postretirement obligations, net of $449 tax benefit	-	-	-	-	-	-	(674)	(674)	-	(674)
Reclassification adjustment for (gains) included in net income, net of $362 tax expense	-	-	-	-	-	(544)	-	(544)	-	(544)
Total comprehensive income	-	-	-	-	-	-	-	-	-	176,669
Parent tax loss allocation		-		-	445	-	-	-	-	445
Share based compensation		-		-	5,686	-	-	-	-	5,686
Dividends on common stock	-	-	-	-	-	-	-	-	(210,000)	(210,000)
Dividends on preferred stock	-	-	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2013	187,364,863	$ 187,365	289,847	$ 28,985	$ 2,960,823	$ 1,533	$ (1,770)	$ (237)	$ 729,539	$ 3,906,475

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

NIAGARA MOHAWK POWER CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

Niagara Mohawk Power Corporation (the "Company," "we," and "our"), a New York Corporation, is engaged principally in the regulated energy delivery business in New York State. The Company provides electric service to approximately 1.6 million customers in the areas of eastern, central, northern, and western New York and sells, distributes, and transports natural gas to approximately 0.6 million customers in the areas of central, northern, and eastern New York.

The Company is a wholly-owned subsidiary of Niagara Mohawk Holdings, Inc., which is wholly-owned by National Grid USA ("NGUSA"), a public utility holding company with regulated subsidiaries engaged in the generation of electricity and the transmission, distribution, and sale of both natural gas and electricity. NGUSA is an indirectly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

The Company has evaluated subsequent events and transactions through September 20, 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.

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") and the New York Public Service Commission ("NYPSC") provide the final determination of the rates the Company charges its customers. In certain cases, the rate actions of the NYPSC 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 bills its customers on a monthly cycle basis at approved tariffs based on energy delivered, a minimum customer service charge, and, in some instances, their demand. Revenues are determined based on these bills plus an estimate for unbilled energy delivered between the cycle meter read date and the end of the accounting period. These amounts are billed to customers in the next billing cycle following the month-end.

As approved by the NYPSC, the Company is allowed to pass through commodity-related costs to customers. Additionally, a transmission revenue adjustment mechanism is in place that reconciles actual and forecast wholesale transmission revenue for pass back to, or recovery from, retail customers. Furthermore, the Company has a revenue decoupling mechanism which allows for annual adjustments to the Company's delivery rates as a result of the reconciliation between allowed revenue and billed revenue. Any difference between the allowed revenue and the billed revenue is recorded as a regulatory asset or liability.

The gas distribution business is influenced by seasonal weather conditions. Therefore, the Company's gas utility tariff contains a weather normalization adjustment that provides for recovery from, or refund to, firm customers of material

shortfalls or excesses of firm delivery revenues (revenues less applicable gas costs and revenue taxes) during a heating season, due to variation from normal weather.

The relative proportions of the Company's revenue from the sale and delivery of electricity and gas for the years ended March 31, 2013 and March 31, 2012 is as follows:

	Electric		Gas	
	March 31,		**March 31,**	
	2013	2012	**2013**	2012
Residential	**68%**	68%	**82%**	82%
Commercial and industrial	**32%**	32%	**18%**	18%

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 assets using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. 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 average service lives for the years ended March 31, 2013 and March 31, 2012 are as follows:

	Electric		Gas		Common	
	March 31,		**March 31,**		**March 31,**	
	2013	2012	**2013**	2012	**2013**	2012
Composite rates - depreciation	**1.8%**	1.8%	**2.0%**	2.0%	**1.9%**	1.9%
Composite rates - cost of removal	**0.3%**	0.3%	**0.5%**	0.5%	**0.1%**	0.1%
Total composite rates	**2.1%**	2.1%	**2.5%**	2.5%	**2.0%**	2.0%
Average service life	**58 years**	58 years	**49 years**	49 years	**53 years**	53 years

The Company's depreciation expense includes estimated costs to remove property, plant and equipment, which is recovered through the rates charged to our customers. At March 31, 2013 and March 31, 2012, the Company had cumulative costs recovered in excess of costs incurred totaling $390.9 million and $401.5 million, respectively. These amounts are reflected as regulatory liabilities 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 (deductions) 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	**$ 3,774**	$ 2,447
Equity	**7,138**	6,356
	$ 10,912	$ 8,803
Composite AFUDC rate	**6.1%**	6.1%

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 we believe 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. Available-For-Sale Securities

The Company holds available-for-sale securities which primarily include equities, municipal bonds and corporate bonds. These investments are recorded at fair value and are included in financial investments in the accompanying balance sheets.

H. Cash and Cash Equivalents

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

I. Restricted Cash and Special Deposits

Restricted cash primarily consists of New York Independent System Operator ("NYISO") deposits. Special deposits primarily consist of health care claims deposits.

J. Allowance for Doubtful Accounts

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

K. Materials, Supplies and Gas in Storage

Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized into specific capital additions as used. At March 31, 2013 and March 31, 2012, the balance of materials and supplies was $36.1 million and $33.6 million, respectively. The Company's policy is to write-off obsolete inventory. There were no material write-offs of obsolete inventory for the years ended March 31, 2013 or March 31, 2012.

Gas in storage is stated at weighted average cost, and is expensed when delivered to customers. Existing rate orders allow the Company to pass through the cost of gas purchased directly to customers along with any applicable authorized delivery surcharge adjustments. Accordingly, the value of gas in storage does not fall below the cost to the Company. Gas costs passed through to customers are subject to periodic regulatory approvals and are reported periodically to the NYPSC. At March 31, 2013 and March 31, 2012, gas in storage was $7 million and $25.5 million, respectively.

L. Income and Other Taxes

Federal and state income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the 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 state of New York imposes on corporations a franchise tax that is computed as the higher of a tax based on income or a tax based on capital. To the extent the Company's state tax based on capital is in excess of state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

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

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

collected and paid for the years ended March 31, 2013 and March 31, 2012 were $39.1 million and $44.9 million, respectively.

M. Employee Benefits

The Company follows the accounting guidance for defined benefit pension and postretirement benefit ("PBOP") plans for recording pension expenses and resulting plan asset and liability balances. The guidance requires employers to fully recognize all pension and postretirement plans' funded status on the 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.

N. Derivatives

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

Commodity Derivative Instruments – Regulated Accounting

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

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

Balance Sheet Offsetting

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

O. Fair Value Measurements

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

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

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

Level 3 — unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability

due to little or no market activity for the asset or liability with low correlation to observable market inputs.

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

P. Power Purchase Agreements

The Company enters into power purchase agreements to serve its electric service customers. The Company evaluates whether such agreements are leases, derivatives, or executory contracts. Power purchase agreements that do not qualify as leases or derivatives are accounted for as executory contracts and are therefore recognized as the electricity is purchased. In making its determination of the accounting for power purchase agreements, the Company considers many factors, including: the source of the electricity, the level of output from any specified facility that the Company is taking under the contract; the involvement, if any, that the Company has in operating the specified facility; the and the pricing mechanisms in the contract among other factors.

Q. 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 for the fiscal year ended March 31, 2013 and did not elect the option to perform a qualitative analysis.

Other Comprehensive Income

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

Accounting Guidance Not Yet Adopted

Offsetting Assets and Liabilities

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

Reclassifications From Accumulated Other Comprehensive Income

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

R. Reclassifications and Out of Period Adjustments

The Company identified certain accounting errors from prior years totaling $9.3 million (pre-tax) and $9.4 million (after tax) that were recorded in the current fiscal year, which if had been recorded in the proper period would reduce the current year net income. Such amounts represent 3.4% and 5.4% of fiscal year 2013 pre-tax income and net income, respectively. Management has concluded that such amounts do not materially impact fiscal year 2013 or any of the prior years affected. Certain other reclassifications have been made to the financial statements to conform prior year’s data to the current year’s presentation. These reclassifications had no effect on the Company’s results of operations and cash flows.

Note 2. Rates and Regulation

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

	March 31,	
	2013	2012
	(in thousands of dollars)	
Regulatory assets		
Current:		
Rate adjustment mechanisms	**$ 42,347**	$ 218,026
Pension and postretirement benefit plans	**8,848**	-
Derivative contracts	**492**	43,581
Storm costs	**858**	-
Merger rate plan stranded costs	**107**	793
Losses on reacquired debt	**2,716**	2,820
Other	**1,441**	-
Total	**56,809**	265,220
Non-current:		
Regulatory deferred tax assets	**68,332**	54,254
Pension and postretirement benefit plans	**479,844**	565,180
Storm costs	**27,614**	18,153
Rate adjustment mechanisms		-
Merger rate plan stranded costs	**678**	-
Environmental response costs	**438,847**	461,130
Derivative contracts	**472**	2,672
Losses on reacquired debt	**17,888**	20,604
Other	**46,059**	28,901
Total	**1,079,734**	1,150,894
Regulatory liabilities		
Current:		
Rate adjustment mechanisms	**99,076**	83,216
Pension and postretirement benefit plans	**22,700**	-
Derivative contracts	**19,497**	1,364
Environmental response costs	**3,589**	-
Economic development fund	**4,560**	-
NYPA replacement power and expansion	**4,552**	-
Long-term debt true up	**9,077**	-
Other	**15,075**	-
Total	**178,126**	84,580
Non-current:		
Cost of removal	**390,914**	401,489
Pension and postretirement benefit plans	**152,944**	107,853
Economic development fund	**35,786**	11,790
Unbilled gas revenue	**22,628**	22,018
Environmental response costs	**23,295**	27,641
Derivative contracts	**6,202**	350
Rate adjustment mechanisms	**420**	17,368
Excess storm reserve	**29,778**	-
Long-term debt true up	**9,760**	-
Federal income tax repair cost deferral	**30,113**	-
Revenue subject to refund	**5,300**	50,000
Other	**30,627**	61,582
Total	**737,767**	700,091
Net regulatory assets	**$ 220,650**	$ 631,443

Rate adjustment mechanisms: The Company is subject to a number of rate adjustment mechanisms such as for commodity costs, whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered, or differences between actual revenues and targeted amounts as approved by the NYPSC.

Pension and postretirement benefit plans: The amount in regulatory assets primarily represents the Company's deferral related to the underfunded status of its Pension and PBOP plans. The amount in regulatory liabilities primarily represents the excess of amounts received in rates over actual costs of the Company's pension and postretirement benefits plans that are deferred to a regulatory liability to be refunded in future periods and accrued carrying charges as calculated in accordance with the Company's Pension and PBOP reserve mechanism.

Storm costs: The Company's rate plan provides for a rate allowance of $29 million for incremental costs associated with major storm events, with variances deferred for future recovery or return to customers, The Company has recorded additional storm cost regulatory assets as of March 31, 2013 arising from costs incurred associated with several smaller storms during the year.

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. For the year ended March 31, 2013, the Company increased the estimated reserve by $9.1 million for various sites and incurred expenditures of $31.4 million. The regulatory liability represents the excess of amounts received in rates over the Company's actual site investigation and remediation costs. Under the Company's new rate plan which went into effect April 1, 2013, it has specific rate allowances for these costs at a level of $42.0 million per year ($35.7 million in electric base rates and $6.3 million in gas base rates), with variances deferred for future recovery or return to customers. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Economic development fund: The Company increased the funding for economic development in base rates, and actual expenditures and economic development discounts above or below the rate allowance are deferred for future recovery.

Unbilled gas revenue: Per a stipulation in Case No. 93-G-1062, the Company is permitted to recognize unbilled revenues subject to offsetting the revenues with a regulatory liability to future customers benefit.

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 and gas distribution assets, the Company uses these funds to remove the asset so a new one can be installed in its place.

Carrying Charges

The regulatory items above are not included in the utility rate base at the time the expenses are incurred or the revenue is billed. The Company records carrying charges, on the regulatory balances related to rate adjustment mechanisms and deferred 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. The Company anticipates recovering these costs in the rates concurrently with future cash expenditures. If recovery is not concurrent with the cash expenditures, the Company will record the appropriate level of carrying charges.

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:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Other interest, including affiliate interest	**$ 3,574**	$ 6,154
Other income, net	**(3,425)**	(3,641)
	$ 149	$ 2,513

Other interest, including affiliate interest for the year ended March 31, 2012 includes an amount of $3.7 million related to prior period carrying charges dating back to October 2008.

Rate Matters

March 2013Electric and Gas Filing

On April 27, 2012, the Company filed with the NYPSC to adjust its base electric and gas rates. The Company's filing sought to increase electric delivery base revenues by approximately $130.7 million and gas delivery base revenues by approximately $39.8 million. In October 2012, the Department of Public Service ("DPS") Staff, the Company and other parties reached a comprehensive agreement to settle both cases. A joint proposal formalizing the settlement agreement was filed December 7, 2012 and the Company received a final order from the NYPSC in these proceedings in March 2013. The term of the new rate plan is from April 1, 2013 through March 31, 2016. The joint proposal provides for an increase in the electric revenue requirement of $43.4 million in the first year, an increase of $51.4 million in the second year, and an increase of $28.3 million in the third year. It also provides for a decrease in the gas revenue requirement of $3.3 million in the first year, and increases of $5.9 million and $6.3 million in the second and third years, respectively.

Transmission ROE Complaint

On September 11, 2012, the New York Association of Public Power filed with the FERC a complaint under Section 206 of the Federal Power Act against Niagara Mohawk Power Corporation, seeking to have the base ROE for transmission service from the FERC approved rate of 11.5% which includes a NYISO participation incentive adder, lowered to 9.49%. Similarly, on November 2, 2012 the Municipal Electric Utilities Association ("MEUA") filed a Section 206 complaint with the FERC seeking to lower the Company's ROE to 9.25% including the NYISO participation adder. MEUA also challenges certain aspects of the Company's transmission formula rate. At this time, the Company cannot predict the outcome of the complaint. Any change in the ROE would not have an impact on net income because the retail rate plan fully reconciles any increase or decrease in wholesale transmission revenue under the FERC Transmission Service Charge rate through a Transmission Revenue Adjustment Clause mechanism.

Wholesale Transmission Service Charge

On March 29, 2013, the Company filed with the FERC to amend Niagara Mohawk's Scheduling, System Control and Dispatch Costs formula under the Wholesale Transmission Service Charge to incorporate costs incurred by the Company for Reliability Support Services ("RSS"), which are for the purpose of securing the ongoing reliability of NGUSA's transmission system. On August 30, 2013, the FERC rejected the Company's request without prejudice to make a new filing to provide additional support for recovery of RSS costs. The Company plans to submit the additional filing in fiscal year 2014.

Other Regulatory Matters

The NYPSC's January 2011 Order in Niagara Mohawk's 2010 electric rate case required an audit relating to the Company's service company cost allocations, policies and procedures. In February 2011, the NYPSC selected Overland Consulting Inc. ("Overland"), a management consulting firm, to perform the audit of Niagara Mohawk and KeySpan Gas East Corporation and Brooklyn Union Gas Company. Management has evaluated the need for and amount of a reserve based on consideration of the matters set out in the audit and taking into account all known information about the audit related to transaction testing, normalization adjustments, efficiency adjustments and the impact of our new cost allocation methodologies. As of December 31, 2011, the Company had reserved $50 million based on the identified issues above. Overland issued a final report identifying approximately $5 million of service company overcharges to Niagara Mohawk based on extrapolated test results, which the Company is contesting. On January 18, 2013 the NYPSC issued an Order commencing a new proceeding to determine what, if any, ratemaking adjustments are appropriate. The Company determined that the revenue subject to refund that was previously contingent in the amount of $44.7 million is no longer probable of refund and has been recognized in income. A reserve of $5.3 million has been recorded in Niagara Mohawk's financial statements as of March 31, 2013. The Company does not believe that the outcome of this matter will have a material impact on its financial position, results of operations, or cash flows.

In February 2013, the NYPSC initiated a comprehensive management and operational audit of NGUSA's New York gas businesses, including the Company, pursuant to the Public Service Law requirement that major electric and gas utilities undergo an audit every five years. On June 13, 2013, the NYPSC selected NorthStar Consulting Group to conduct the audit, which commenced in July 2013. At the time of the issuance of these financial statements, the Company cannot predict the outcome of this management and operational audit.

Temporary State Assessment Pursuant to PSL Section 18-a

In June 2009, the Company made a gas and electric compliance filing with the NYPSC regarding the implementation of the Temporary State Energy & Utility Conservation Assessment ("Temporary State Assessment"). The NYPSC authorized recovery of the costs required for payment of the Temporary State Assessment, including carrying charges, subject to reconciliation over the five years of July 1, 2009 through June 30, 2014. On June 14, 2013, the Company submitted a compliance filing proposing to maintain the currently effective surcharge. The estimated Temporary State Assessment filed amounted to $55.1 million and $15.0 million for electric and gas, respectively.

Compliance Filing to Eliminate Competitive Transition Charges from Electric Rates and Petition to Recover Certain Deferral Balances

On July 29, 2011, the Company made a compliance filing with the NYPSC to remove Competitive Transition Charges ("CTCs") from electric rates and recover certain deferral account balances. In the Electric Rate Case Order, the NYPSC directed the Company to file tariff revisions, to become effective January 1, 2012, to remove the CTCs from rates and establish a mechanism to recover certain deferral account balances. The Company proposed eliminating $544.9 million of CTCs from rates partially offset by the proposed recovery of $236.2 million of outstanding deferral account balances over a 15-month period. On December 16, 2011, the NYPSC approved the Company's compliance filing with modifications. The NYPSC authorized the Company to recover $247.6 million in outstanding deferral account balances over a 15-month period, but conditioned recovery on Staff's ability to audit. Included in the $247.6 million was $25.2 million of Hurricane Irene storm costs that the NYPSC allowed the Company to recover, subject to Staff audit and disposition, which is pending. In addition, the NYPSC extended the amortization period beyond 15-months for the Company's PSC 214 customer classes. The balance of the deferrals not recovered from these classes during the 15-month period will be recovered from these classes over a subsequent period to be determined in the Company's next rate case.

Note 3. Employee Benefits

The Company sponsors several qualified and non-qualified non-contributory defined benefit pension plans (the "Pension Plans") and several postretirement benefits other than pension plans (the "PBOP Plans", together with the Pension Plans, the "Plans"). In general, we calculate benefits under these plans based on age, years of service and pay using March 31 as a measurement date. In addition, the Company also sponsors defined contribution plans for eligible employees. The Company participates in the following Plans: The Niagara Mohawk Pension Plan, National Grid USA Companies' Executive SERP (Version II-Nimo), Niagara Mohawk Nonqualified Pension Plan, Niagara Mohawk Nonunion Retiree Medical and Life Insurance Plan, and Niagara Mohawk Union Retiree Medical and Life Insurance Plan.

NGUSA sponsors certain qualified and non-qualified retirement benefit plans that the Company participates in. The costs related to those plans are first directly charged to the Company based on the Company's employees that participate. 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 Plans

The Pension Plans are comprised of both qualified and non-qualified plans. The qualified pension plan provides substantially all union employees, as well as non-union employees hired before January 1, 2011, with a retirement benefit. The qualified pension plan is 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 funding policy is determined largely by the Company's rate agreements with the NYPSC. However, the contribution to the qualified pension plan for any year will not be less than the minimum amount required under Internal Revenue Service ("IRS") regulations. The Company expects to contribute approximately $0.5 million to the qualified pension plan during fiscal year 2014.

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 PBOP Plans are funded based on rate agreements with the NYPSC. The Company expects to contribute approximately $120.7 million to the PBOP Plans during fiscal year 2014.

Defined Contribution Plan

The Company has a defined contribution pension plan (employee savings fund plan) that covers substantially all employees. For the years ended March 31, 2013 and March 31, 2012, we recognized an expense in the accompanying statements of income of $7.2 million and $7.5 million, respectively, for matching contributions.

Net Periodic Costs

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

	Pension Plans		PBOP Plans	
	March 31,		**March 31,**	
	2013	2012	**2013**	2012
	(in thousands of dollars)			
Service cost, benefits earned during the year	**$ 24,772**	$ 23,863	**$ 16,676**	$ 16,063
Interest cost	**63,590**	68,434	**68,827**	77,584
Expected return on plan assets	**(92,618)**	(102,165)	**(63,329)**	(54,152)
Amortization of unrecognized prior service cost	**4,805**	4,805	**12,681**	12,681
Amortization of unrecognized net loss	**77,397**	67,791	**37,366**	38,288
Net periodic benefit costs before settlement	**77,946**	62,728	**72,221**	90,464
Settlement loss	**967**	-	**-**	-
Curtailment	**-**	-	**-**	(495)
Net periodic benefit cost	**$ 78,913**	$ 62,728	**$ 72,221**	$ 89,969

The following table summarizes other pre-tax changes in plan assets and benefit obligations recognized primarily in Company's regulatory assets and accumulated other comprehensive income or the years ended March 31, 2013 and March 31, 2012:

	Pension Plans		PBOP Plans	
	March 31,		**March 31,**	
	2013	2012	**2013**	2012
	(in thousands of dollars)			
Net actuarial loss	**$ 4,084**	$ 109,723	**$ 60,618**	$ 22,239
Prior service cost	**-**	-	**-**	294
Amortization of loss	**(77,396)**	(67,791)	**(37,366)**	(38,288)
Amortization of prior service cost	**(4,805)**	(4,805)	**(12,681)**	(12,186)
Total	**$ (78,117)**	$ 37,127	**$ 10,571**	$ (27,941)
Included in regulatory assets	**(78,619)**	36,741	**10,571**	(27,941)
Included in accumulated other	**502**	386	**-**	-
Total	**$ (78,117)**	$ 37,127	**$ 10,571**	$ (27,941)

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

	Pension Plans		PBOP Plans	
	March 31,		**March 31,**	
	2013	2012	**2013**	2012
	(in thousands of dollars)			
Net actuarial loss	**$ 270,198**	$ 343,510	**$ 164,125**	$ 140,873
Prior service cost	**28,543**	33,348	**17,921**	30,602
Total	**$ 298,741**	$ 376,858	**$ 182,046**	$ 171,475
Included in regulatory assets	**296,168**	374,787	**182,046**	171,475
Included in accumulated	**2,573**	2,071	**-**	-
Total	**$ 298,741**	$ 376,858	**$ 182,046**	$ 171,475

The NYPSC's statement of policy requires that prior service costs and gains and losses be amortized over a 10-year period calculated on a vintage year basis. The following table represents the Plans' estimated net actuarial loss and prior service cost that will be amortized from regulatory assets during fiscal year 2014.

	Expected Amortization	
	Pension Plans	PBOP Plans
	March 31,	**March 31,**
	2014	2014
	(in thousands of dollars)	
Net actuarial loss	**$ 73,642**	**$ 28,075**
Prior service cost	**5,133**	**12,309**
Total	**$ 78,775**	**$ 40,384**

Changes in Benefit Obligations and Assets

The benefit obligation, assets and funded status of the Plans cannot be presented separately for the Company because it participates in the Plans sponsored by NGUSA. The following table summarizes the change in the Plans' benefit obligation and funded status:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2013	2012	**2013**	2012
	(in thousands of dollars)			
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ (1,435,365)**	$ (1,324,774)	**$ (1,484,665)**	$ (1,455,172)
Service cost	**(29,531)**	(28,393)	**(18,928)**	(18,508)
Interest cost on projected benefit obligation	**(69,815)**	(75,174)	**(71,890)**	(80,610)
Net actuarial gain (loss)	**(62,516)**	(143,742)	**(86,955)**	(170,112)
Benefits paid	**114,853**	136,718	**70,985**	77,718
Actual Medicare Part D Subsidy received	**-**	-	**(14,603)**	(5,307)
Settlements	**3,210**	-	**107**	-
Plan amendments	**-**	-	**-**	(305)
Reduction in Workforce Impact	**-**	-	**-**	2,920
Healthcare reform amendment	**-**	-	**-**	164,711
Benefit obligation at end of year	**(1,479,164)**	(1,435,365)	**(1,605,949)**	(1,484,665)
Change in plan assets:				
Fair value of plan assets at beginning of year	**1,677,800**	1,568,591	**831,192**	681,067
Actual return on plan assets	**159,803**	135,482	**87,847**	35,055
Company contributions	**52,998**	110,445	**178,907**	192,788
Benefits paid	**(114,853)**	(136,718)	**(70,985)**	(77,718)
Settlements	**(3,210)**	-	**(107)**	-
Fair value of plan assets at end of year	**1,772,538**	1,677,800	**1,026,854**	831,192
Funded status	**$ 293,374**	$ 242,435	**$ (579,095)**	$ (653,473)

The accumulated benefit obligation for all defined benefit pension plans in which the Company participates was approximately $1.3 billion at March 31, 2013 and March 31, 2012.

The amounts recognized in the accompanying balance sheets are as follows:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2013	2012	**2013**	2012
	(in thousands of dollars)			
Other current liabilities	**$ (453)**	$ (2,590)	**$ (2,000)**	$ (2,000)
Postretirement benefits	**302,911**	262,278	**(531,580)**	(613,239)
	$ 302,458	$ 259,688	**$ (533,580)**	$ (615,239)

Expected Benefit Payments

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

For the Years Ended March 31,	Pension Benefits	Postretirement Benefits
	(in thousands of dollars)	
2014	$ 135,515	$ 64,130
2015	138,389	65,366
2016	137,125	65,930
2017	135,633	66,491
2018	132,356	66,328
Thereafter	549,626	327,699
Total	$ 1,228,644	$ 655,944

As a result of the Medicare Act of 2003, the Company receives a federal subsidy for sponsoring a retiree healthcare plan that provides a benefit that is actuarially equivalent to Medicare Part D.

Assumptions

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

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2013	2012	**2013**	2012
Discount rate	**4.70%**	5.10%	**4.70%**	5.10%
Rate of compensation increase	**3.50%**	3.50%	**n/a**	n/a
Expected long-term rate of return on assets	**6.75%**	6.75%	**7.00%-7.50%**	7.25%-7.50%

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

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2013	2012	**2013**	2012
Discount rate	**5.10%**	5.90%	**5.10%**	5.90%
Rate of compensation increase	**3.50%**	3.50%	**n/a**	n/a
Expected return on plan assets	**6.75%**	7.75%	**7.50%**	7.75%

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 Only Above Median Curve along with the expected future cash flows from the Company retirement plans to determine the weighted average discount rate assumption.

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

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

	PBOP Plans	
	March 31,	
	2013	2012
Health Care Cost Trend Rate		
Initial		
Pre 65	**8.00%**	8.00%
Post 65	**7.50%**	7.50%
Prescription	**8.25%**	8.25%
Ultimate	**5.00%**	5.00%
Year that Trend reaches Ultimate Rate		
Pre 65	**2019**	2018
Post 65	**2018**	2017
Prescription	**2020**	2019

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

One-Percentage-Point	Increase /	Decrease
	(in thousands of dollars)	
Total of service cost plus interest cost	$ 16,619	$ (13,763)
Postretirement benefit obligation	234,192	(204,220)

Plan Assets

The Company manages 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 plan liabilities and plan 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 the various fixed income market segments. Small investments are also held in private equity, 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 benefit plans as of March 31, 2013 and March 31, 2012 are as follows:

	Pension Plans		PBOPs	
	March 31,		**March 31,**	
	2013	2012	**2013**	2012
U.S. equities	**17%**	17%	**40%**	40%
Global equities (including U.S.)	**7%**	7%	**6%**	6%
Global tactical asset allocation	**10%**	10%	**9%**	9%
Non-U.S. equities	**6%**	6%	**20%**	20%
Fixed income	**50%**	50%	**25%**	25%
Private equity	**4%**	4%	**-%**	-%
Real estate	**4%**	4%	**-%**	-%
Infrastructure	**2%**	2%	**-%**	-%
	100%	100%	**100%**	100%

Fair Value Measurements

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

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

	March 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
	(in thousands of dollars)			
Pension Assets:				
Cash and cash equivalents	$ 3,088	$ 10,424	$ -	$ 13,512
Accounts receivable	32,232	-	-	32,232
Accounts payable	(28,135)	-	-	(28,135)
Equity	200,436	421,726	19,103	641,265
Fixed income securities	-	861,180	21,533	882,713
Global tactical asset allocation	-	67,654	14,208	81,862
Preferred securities	2,435	-	-	2,435
Private equity	-	-	79,036	79,036
Real estate	-	-	67,618	67,618
Total	**$ 210,056**	**$ 1,360,984**	**$ 201,498**	**$ 1,772,538**
PBOP Assets:				
Cash and cash equivalents	$ 56,747	$ 3,318	$ -	$ 60,065
Accounts receivable	4,058	-	-	4,058
Accounts payable	(3,876)	-	-	(3,876)
Equity	149,740	543,262	8,862	701,864
Fixed income securities	-	190,356	6	190,362
Global tactical asset allocation	30,999	35,075	8,307	74,381
Total	**$ 237,668**	**$ 772,011**	**$ 17,175**	**$ 1,026,854**

	March 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	(in thousands of dollars)			
Pension Assets:				
Cash and cash equivalents	$ 1,070	$ 61,466	$ -	$ 62,536
Accounts receivable	25,462	7,137	-	32,599
Accounts payable	(59,444)	-	-	(59,444)
Equity	242,790	317,709	68,991	629,490
Fixed income securities	-	790,150	14,075	804,225
Global tactical asset allocation	-	60,299	13,157	73,456
Preferred securities	1,961	-	-	1,961
Private equity	-	-	71,292	71,292
Real estate	-	-	61,685	61,685
Total	**$ 211,839**	**$ 1,236,761**	**$ 229,200**	**$ 1,677,800**
PBOP Assets:				
Cash and cash equivalents	$ 127	$ 32,731	$ -	$ 32,858
Accounts receivable	2,684	658	-	3,342
Accounts payable	(3,449)	-	-	(3,449)
Equity	177,871	370,592	22,616	571,079
Fixed income securities	-	165,102	-	165,102
Global tactical asset allocation	23,707	31,259	7,294	62,260
Total	**$ 200,940**	**$ 600,342**	**$ 29,910**	**$ 831,192**

Following is a description of the valuation methodologies used at March 31, 2013 and March 31, 2012 for pension and other postretirement benefit assets measured at fair value. The pension and other postretirement benefit assets can be invested in any of the following categories.

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 as they can be valued using other observable inputs.

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 clear 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. Investments that are not publicly traded and valued using unobservable inputs are classified as Level 3 investments. Commingled funds with publicly quoted prices and active trading are classified as Level 1 investments. For investments in commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the net asset value ("NAV") per fund share, derived from the underlying securities' quoted prices in active markets, and they are classified as Level 2 investments. Investments in commingled funds with redemption restrictions and that use NAV are classified as Level 3 investments.

Global tactical asset allocation
Assets held in global tactical asset allocation funds are managed by investment managers who use both top-down and bottom-up valuation methodologies to value asset classes, countries, industrial sectors, and individual securities in order to allocate and invest assets opportunistically. If the inputs used to measure a financial instrument fall within different levels of the fair value hierarchy within the commingled fund, the categorization is based on the lowest level input that is significant to the measurement of that financial instrument. The assets invested through commingled funds are classified as Level 2. Those which are open ended mutual funds are classified as Level 1 and have observable pricing. However, the underlying Level 3 assets that makeup these funds are classified in the same category as the investments to which they relate.

Fixed income securities
Fixed income securities (which include corporate debt securities, municipal fixed income securities, US Government and Government agency securities including government mortgage backed securities, index linked government bonds, and state and local bonds) convertible securities, and investments in securities lending collateral (which include repurchase agreements, asset backed securities, floating rate notes and time deposits) are valued with an institutional bid valuation. A bid valuation is an estimated price at which a dealer would pay for a security (typically in an institutional round lot). Oftentimes, these evaluations are based on proprietary models which pricing vendors establish for these purposes. In some cases there may be manual sources when primary vendors do not supply prices.

Fixed income investments are primarily comprised of fixed income securities and fixed income commingled funds. The prices for direct investments in fixed income securities are generated on a daily basis. Prices generated from less active trading with wider bid ask prices are classified as Level 2 investments. If prices are based on uncorroborated and unobservable inputs, then the investments are classified as Level 3 investments. Commingled funds with publicly quoted prices and active trading are classified as Level 1 investments. For commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV per fund share, derived from the underlying securities' quoted prices in active markets, and are classified as Level 2 investments. Investments in commingled funds with redemption restrictions and that use NAV are classified as Level 3 investments.

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 net asset value.

Investments in private equity and real estate funds are primarily invested in privately held real estate investment properties, trusts, and partnerships as well as equity and debt issued by public or private companies. The Company's interest in the fund or partnership is estimated based on the NAV. The Company's interest in these funds cannot be readily redeemed due to the inherent lack of liquidity and the primarily long-term nature of the underlying assets. Distribution is made through the liquidation of the underlying assets. The Company views these investments as part of a long-term investment strategy. These investments are valued by each investment manager based on the underlying assets. The funds utilize valuation techniques consistent with the market, income, and cost approaches to measure the fair value of certain real estate investments. The majority of the underlying assets are valued using significant unobservable inputs and often require significant management judgment or estimation based on the best available information. Market data includes observations of the trading multiples of public companies considered comparable to the private companies being valued. As a result, the Company classifies these investments as Level 3 investments.

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

The following is a summary of changes in the fair value of the Plan's Level 3 investments:

	Pension Plan Assets		PBOP Plan Assets	
	March 31,		**March 31,**	
	2013	2012	**2013**	2012
	(in thousands of dollars)			
Balance at beginning of year	**$ 229,200**	$ 203,940	**$ 29,910**	$ 37,072
Transfers out of Level 3	**(1,903)**	(73,792)	**(16,270)**	(23,060)
Transfers into Level 3	**410**	4,165	**25,684**	3,232
Actual gain or loss on plan assets:				
included in earnings (or changes in net assets)	**11,972**	2,405	**-**	-
included in regulatory assets and liabilities	**3,932**	9,527	**318**	(193)
Purchases	**143,053**	227,387	**172,139**	32,548
Sales	**(185,166)**	(144,432)	**(194,606)**	(19,689)
Balance at end of year	**$ 201,498**	$ 229,200	**$ 17,175**	$ 29,910

Other Benefits

The Company has accrued $10.1 million and $3.8 million for the years 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. During fiscal year 2012, management corrected a misstatement of $3.6 million related to the understatement of the allocation of claims incurred but not yet reported for fiscal year 2011. Management concluded that this error did not have a material impact on the financial statements presented for the years ended March 31, 2012 or March 31, 2011, and therefore the corrections were recorded within the financial statements for the year ended March 31, 2012.

Note 4. Property, Plant and Equipment

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

	March 31,	
	2013	2012
	(in thousands of dollars)	
Plant and machinery	**$ 9,129,294**	$ 8,775,110
Land and buildings	**531,732**	514,540
Assets in construction	**334,633**	262,061
Software	**6,361**	77,179
Total	**10,002,020**	9,628,890
Accumulated depreciation and amortization	**(2,921,904)**	(2,868,124)
Property, plant and equipment, net	**$ 7,080,116**	$ 6,760,766

Note 5. Derivatives

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

Commodity Derivative Instruments - Regulated Accounting

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

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

		Electric		Gas	
		March 31,		March 31,	
		2013	2012	**2013**	2012
		(in thousands)		*(in thousands)*	
Physicals:	Gas purchase (dths)	**n/a**	n/a	**7,615**	7,363
Financials:	Gas swaps (dths)	**n/a**	n/a	**4,780**	3,705
	Gas options (dths)	**n/a**	n/a	**1,150**	2,680
	Electric swaps (MWhs)	**6,309**	5,380	**n/a**	n/a
Total:		**6,309**	5,380	**13,545**	13,748

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

	Asset Derivatives			**Liability Derivatives**	
	March 31,			**March 31,**	
	2013	2012		**2013**	2012
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas swap contracts	**$ 1,636**	$ -	Gas swap contracts	**$ 10**	$ 5,034
Gas option contracts	**328**	6	Gas option contracts	**38**	987
Gas purchase contracts	**-**	250	Gas purchase contracts	**-**	138
Electric swap contracts	**17,533**	1,108	Electric swap contracts	**444**	37,422
	19,497	1,364		**492**	43,581
Deferred assets:			Deferred liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Electric swap contracts	**6,202**	350	Electric swap contracts	**472**	2,672
	6,202	350		**472**	2,672
Total	**$ 25,699**	$ 1,714	Total	**$ 964**	$ 46,253

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 on the accompanying statements of income. The Company had no derivative contracts not subject to rate recovery as of March 31, 2013 and March 31, 2012.

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

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Regulatory assets:		
Gas swap contracts	**$ (5,024)**	$ 2,274
Gas option contracts	**(949)**	881
Gas purchase contracts	**(138)**	(804)
Electric swap contracts	**(39,178)**	11,394
	(45,289)	13,745
Regulatory liabilities:		
Gas swap contracts	**1,636**	(253)
Gas option contracts	**322**	(92)
Gas purchase contracts	**(250)**	(901)
Electric swap contracts	**22,277**	(4,687)
Electric cption contracts	**-**	(100,409)
	23,985	(106,342)
Total decrease in net regulatory (assets) liabilities	**$ (69,274)**	$ 120,087

Credit and Collateral

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

The credit policy for commodity transactions is owned and monitored by the Energy Procurement Risk Management Committee, and establishes controls and procedures to determine, monitor and minimize the credit risk of counterparties. Counterparty credit exposure is monitored, and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduces its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. The Company's credit exposure for all derivative instruments, normal purchase normal sale contracts, and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements is $24.7 million as of March 31, 2013.

In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, we may limit our credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties. As of March 31, 2013, the Company did not have any derivative instruments with credit-risk-related contingent features in a liability position. The aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position on March 31, 2012 was $46.1 million on which it had posted $18.7 million of collateral.

Note 6. Fair Value Measurements

The Company measures commodity derivatives and available-for-sale securities at fair value. The following table presents assets and liabilities measured and recorded at fair value in the accompanying balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2013 and March 31, 2012:

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts	$ -	$ 25,304	$ 395	$ 25,699
Available for sale securities	16,612	8,423	-	25,035
Total assets	16,612	33,727	395	50,734
Liabilities:				
Derivative contracts	-	926	38	964
Net assets	$ 16,612	$ 32,801	$ 357	$ 49,770

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts	$ -	$ 844	$ 870	$ 1,714
Available for sale securities	18,262	7,606	-	25,868
Total assets	18,262	8,450	870	27,582
Liabilities:				
Derivative contracts	-	45,131	1,122	46,253
Net assets (liabilities)	$ 18,262	$ (36,681)	$ (252)	$ (18,671)

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

Derivatives

The Company's Level 2 fair value derivative instruments primarily consist of over-the-counter ("OTC") gas and electric swaps and forward physical gas deals where market data for pricing inputs is observable. Level 2 pricing inputs are obtained from the New York Mercantile Exchange and Intercontinental Exchange ("ICE"), except cases in which ICE publishes seasonal averages or there were no transactions within the last seven days. Level 2 derivative instruments may utilize discounting based on quoted interest rate curves that may include a liquidity reserve calculated based on bid/ask spread. 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 0.95 or higher.

Level 3 fair value derivative instruments primarily consist of our gas OTC forwards, options, and physical gas transactions where pricing inputs are unobservable, as well as other complex and structured transactions. Complex or structured transactions can introduce the need for internally-developed models based on reasonable assumptions. 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 contract is also deemed to be Level 3 when the forward curve is internally developed, extrapolated or derived from market observable curves with correlation coefficients less than 0.95, optionality is present, or non-economical assumptions are made.

Available for Sale Securities

Available for sale securities are included in financial investments in the accompanying balance sheets and primarily include

equity 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).

Level 3 Fair Value Measurement

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

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Balance, at beginning of year	**$ (252)**	$ 100,606
Transfers out of Level 3	**(4,086)**	81
Total gains or losses included in regulatory assets and liabilities	**4,526**	(61,724)
Purchases	**689**	(38)
Settlements	**(520)**	(39,177)
Balance, at end of year	**$ 357**	$ (252)
The amount of total gains or losses for the period included in net income attributed to the change in unrealized gains or losses related to regulatory assets and liabilities at year-end	**$ -**	$ -

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

The following table provides information about our significant Level 3 valuations, of which the most significant positions are financial gas option contracts. These option contracts are measured at fair value using the implied volatility as a key input to the option pricing function of the risk management system. The implied volatilities used are an approximation of the actual volatility curves for various strikes and option types and are not observable in the market.

Quantitative Information About Level 3 Fair Value Measurements

Commodity	Level 3 Position	Fair Value as of March 31, 2013			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
Electric	Capacity Swap	$ 67		$ 67	Discounted Cash Flow	Forward Curve	$ 0.850
Gas	Gas Option Contract	$ 328	$ (38)	$ 290	Discounted Cash Flow	Forward Curve	$ 0.274-$0.352
						Implied Volatility	$ 0.2618-$0.2822
	Total	$ 395	$ (38)	$ 357			

Other Fair Value Measurements

The Company records long-term debt at amortized cost on the accompanying balance sheets. The fair value of the Company's long-term debt was estimated based on quoted market prices for similar issues or on current rates offered to the Company for similar debt of the same remaining maturity. The fair value of our long-term debt at March 31, 2013 and March 31, 2012 was $2.8 billion and $2 billion, respectively.

All other financial instruments on the accompanying 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 at March 31, 2013 and March 31, 2012 are as follows:

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Current tax expense:		
Federal	**$ (8,381)**	$ 61,369
State	**6,122**	16,463
Total current tax expense	**(2,259)**	77,832
Deferred tax expense:		
Federal	**85,696**	11,283
State	**14,573**	15,611
	100,269	26,894
Amortization of investment tax credits, net [1]	**(1,976)**	(2,126)
Total deferred tax expense	**98,293**	24,768
Total income tax expense	**$ 96,034**	$ 102,600

[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	**$ 95,268**	$ 80,732
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**13,452**	20,848
Temporary differences flowed through	**(3,697)**	1,701
Allowance for equity funds used during construction	**(2,498)**	(2,225)
Investment tax credit	**(1,976)**	(2,126)
Other items, net	**(4,515)**	3,670
Total	**766**	21,868
Federal and state income taxes	**$ 96,034**	$ 102,600

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:		
Pensions, PBOP and other employee benefits	**$ 178,054**	$ 180,080
Environmental reserve	**184,755**	194,136
Allowance for uncollectible accounts	**53,134**	79,819
Regulatory liabilities - other	**123,594**	-
Future federal benefit on state taxes	**40,418**	46,217
Other items	**38,833**	44,679
Total deferred tax assets [1]	**618,788**	544,931
Deferred tax liabilities:		
Property related differences	**1,746,203**	1,558,938
Regulatory assets - environmental	**164,710**	188,823
Regulatory assets - pension and PBOP	**224,837**	229,976
Regulatory assets - storm costs	**31,229**	3,853
Total deferred tax liabilities	**2,166,979**	1,981,590
Net deferred income tax liability	**1,548,191**	1,436,659
Deferred investment tax credit	**23,911**	22,742
Net deferred income tax liability and investment tax credit	**1,572,102**	1,459,401
Current portion of net deferred income tax asset	**119,727**	104,301
Non-current deferred income tax liability	**$ 1,691,829**	$ 1,563,702

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.

Unrecognized Tax Benefits

As of March 31, 2013 and March 31, 2012, the Company's unrecognized tax benefits totaled $120.2 million and $159.5 million, respectively, none of which 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	**$ 159,526**	222,276
Gross increases related to prior period	**131**	8,465
Gross decreases related to prior period	**(37,301)**	(70,789)
Gross increases related to current period	**2,738**	370
Gross decreases related to current period	**(4,899)**	(796)
Balance at the end of the year	**$ 120,195**	$ 159,526

As of March 31, 2013 and March 31, 2012, the Company has accrued for interest related to unrecognized tax benefits of $13.1 million and $14.5 million, respectively. During the years ended March 31, 2013 and March 31 2012, the Company recorded interest income of $1.4 million and $1.2 million, respectively. The net interest income recorded in fiscal year 2013 is attributable to a remeasurement based on an oral agreement with the IRS related to certain disputed issues in fiscal years 2005 through 2007, while the interest income in fiscal year 2012 is primarily attributable to previously accrued interest released upon the Company's adoption of the safe harbor method of accounting pursuant to Revenue Procedure 2011-43. The Company recognizes interest related to unrecognized tax benefits in other interest expense and related penalties, if

applicable, in other deductions in the accompanying statements of income. No penalties were recognized during the years ended March 31, 2013 and March 31, 2012.

During the year ended March 31, 2013, the Company entered into an oral agreement with the IRS to settle issues related to the tax deductibility of disputed items under appeal for fiscal years 2005 through 2007. This oral agreement was made with the IRS Appeals Officer in charge subject to the finalization and execution of IRS Form 870-AD, Offer to Waive Restrictions on Assessment and Collection of Tax Deficiency and to Accept Over-assessment. The Company believes that this agreement will be completed on substantially consistent terms. On the basis of this agreement the Company has concluded that in its assessment the potential exposure has declined and has reclassified a portion of its reserve for uncertain tax positions, in the amount of $37 million, to deferred income tax liabilities.

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 has reversed $60.8 million of tax reserves related to unrecognized tax benefits recorded in prior years, with a corresponding offset in deferred income tax liabilities.

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, 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 State of New York is in the process of examining the Company's NYS income tax returns for the years ended March 31, 2006 through March 31, 2008. The years ended March 31, 2009 through March 31, 2013 remain subject to examination by the State of New York.

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

Jurisdiction	**Tax Year**
Federal	March 31, 2005*
New York	March 31, 2006

*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, pursuant to the Company's tax sharing agreement the audit or appeals may result in a change to allocated tax.

Note 8. Debt

Debt Authorizations

The Company has regulatory approval from the FERC to issue up to $1 billion of short-term debt. The Company had no short-term debt outstanding to third-parties as of March 31, 2013 or March 31, 2012.

In June 2012, the Company filed a petition with the NYPSC seeking multi-year authority to issue up to $1.6 billion in new long-term debt securities through the period ending March 31, 2016. In September 2012, the NYPSC granted this authority. The Company issued $700 million of the authorized long term debt in November 2012, as further described below.

Intercompany Notes

The Company had $500 million in long-term notes outstanding with Niagara Mohawk Holdings, Inc. at March 31, 2012 with a maturity date of November 1, 2012 and an interest rate of 5.8%. On November 1, 2012, the Company made a scheduled payment on these notes of $514.5 million representing principal of $500 million plus accrued interest of $14.5 million. The Company temporarily drew on its intercompany money pool for the payment of this obligation and then replenished this with funds received in the unsecured long-term debt offering discussed below.

Senior Notes

In November 2012, the Company issued $400 million of unsecured long-term debt at 4.119% with a maturity date of November 28, 2042 and $300 million of unsecured long-term debt at 2.721% with a maturity date of November 28, 2022.

The Company also has outstanding $750 million of unsecured long-term debt at 4.881% with a maturity date of August 15, 2019 and $500 million of long-term debt at 3.553% with a maturity date of October 1, 2014.

State Authority Financing Bonds

The assets of the Company are subject to liens and other charges and are provided as collateral over borrowings of $650 million of State Authority Financing Bonds. These bonds were issued to secure a like amount of tax-exempt revenue bonds issued by the New York State Energy Research and Development Authority ("NYSERDA"). Approximately $575 million of such securities bear interest at short-term adjustable interest rates (with an option to convert to other rates, including a fixed interest rate) ranging from 0.42% to 0.73% for the year ended March 31, 2013. The bonds are currently in the auction rate mode and are backed by bond insurance. These bonds cannot be put back to the Company and in the case of a failed auction, the resulting interest rate on the bonds would revert to the maximum rate which depends on the current appropriate, short-term benchmark rate and the senior secured rating of the Company or the bond insurer, whichever is greater. The effect on interest expense has not been material in either of the years ended March 31, 2013 and March 31, 2012.

The Company also has $75 million of 5.15% fixed rate pollution control revenue bonds issued through NYSERDA which are callable at par. Pursuant to agreements between NYSERDA and the Company, proceeds from such issues were used for the purpose of financing the construction of certain pollution control facilities at the Company's generation facilities (which the Company subsequently sold) or to refund outstanding tax-exempt bonds and notes.

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

(in thousands of dollars)		
Years Ended March 31,		
2014	$	45,600
2015		500,000
2016		100,000
2017		-
2018		-
Thereafter		1,954,465
Total	$	2,600,065

The Company is obligated to meet certain non-financial covenants in addition to a dividend restriction as described in Note 12, "Dividend Restrictions". During the years ended March 31, 2013 and March 31, 2012, respectively, the Company was in compliance with all such covenants.

Note 9. Commitments and Contingencies

Purchase Commitments

The Company has several types of long-term contracts for the purchase of electricity and gas, gas storage, and supply services. Certain of these contracts require payment of annual demand charges. The Company is liable for these payments regardless of the level of services required from third parties. Such charges are currently recovered from customers as gas and electricity costs. In addition, the Company has various capital commitments related to the construction of property, plant, and equipment.

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

(in thousands of dollars)

Years Ended March 31,	Power	Capital Expenditures
2014	$ 213,207	$ 162,039
2015	167,107	-
2016	149,669	2,028
2017	104,816	-
2018	94,433	-
Thereafter	883,883	-
Total	$ 1,613,115	$ 164,067

The Company can purchase additional energy to meet load requirements from independent power producers, other utilities, energy merchants or the Independent System Operator New York ("ISO-NY") at market prices.

Operating Lease Commitments

The Company has various operating leases relating to office space. Total rental expense for operating leases included in operations and maintenance expense in the accompanying statements of income was $4 million for each of the years ended March 31, 2013 and March 31, 2012.

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

(in thousands of dollars)

Years Ended March 31,	
2014	$ 4,143
2015	3,395
2016	3,368
2017	3,391
2018	3,313
Thereafter	23,145
Total	$ 40,755

Asset Retirement Obligations

The Company has various asset retirement obligations associated with its distribution facilities. The following table represents the changes in the asset retirement obligations for the years ended March 31, 2013 and March 31, 2012:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Balance as of beginning of year	**$ 9,937**	$ 8,892
Accretion expense	**510**	486
Liabilities settled	**(118)**	-
Liabilities incurred	**-**	559
Balance as of end of year	**$ 10,329**	$ 9,937

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 the activities were lawful when they occurred.

The United States Environmental Protection Agency ("EPA"), and the New York Department of Environmental Conservation ("DEC"), as well as private entities, have alleged that the Company is a potentially responsible party under state or federal law for the remediation of numerous sites. The Company's most significant liabilities relate to former MGP facilities formerly owned or operated by the Company. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA and the DEC. Expenditures incurred for the years ended March 31, 2013 and March 31, 2012 were $31.4 million and $11.9 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $438.8 million and $461.1 million at March 31, 2013 and March 31, 2012, respectively. These costs are expected to be incurred over the next 42 years, and these undiscounted amounts have been recorded as reserves in the accompanying balance sheets. However, remediation costs for each site may be materially higher than estimated, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The high end of the range of potential liabilities at March 31, 2013, was estimated at $555.5 million. 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.

By rate orders issued and effective March 15, 2013, the NYPSC has provided an annual rate allowance of $42.0 million ($35.7 million in electric base rates and $6.3 million in gas base rates). Any annual spend above the $42.0 million rate allowance is deferred for future recovery. Previous rate orders have provided for similar recovery mechanisms (with different rate allowances and thresholds). Accordingly, as of March 31, 2013 and March 31, 2012, the Company has recorded environmental regulatory assets of $438.8 million and $461.1 million, respectively, and environmental regulatory liabilities of $26.5 million and $27.6 million, respectively.

On April 26, 2013, General Electric ("GE") filed a lawsuit against the Company seeking contribution under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") for an unspecified portion of GE's alleged response costs incurred in remediating polychlorinated biphenyl ("PCB") contamination in the Hudson River. GE alleges that the Company's removal of the Fort Edward Dam in 1973 resulted in the migration of sediments,

contaminated with PCBs released into the environment by GE, downstream of the former dam's location. The Company denies liability and is defending this action.

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

Nuclear Contingencies

As of each of March 31, 2013 and March 31, 2012, the Company had a liability of $167.7 million, recorded in other deferred liabilities in the accompanying balance sheets, for the disposal of nuclear fuel irradiated prior to 1983. The Nuclear Waste Policy Act of 1982 provides three payment options for liquidating such liability and the Company has elected to delay payment, with interest, until the year in which Constellation Energy Group Inc., which purchased the Company's nuclear assets, initially plans to ship irradiated fuel to an approved DOE disposal facility.

In March 2010, the DOE filed a motion with the Nuclear Regulatory Commission (the "NRC") to withdraw the license application for a high-level nuclear waste repository at Yucca Mountain. The DOE's withdrawal motion has been challenged and is being litigated before the NRC and the D.C. Circuit. In January 2010 the US government announced that it has established a Blue Ribbon Commission ("BRC") to perform a comprehensive review and provide recommendations regarding the disposal of the nation's spent nuclear fuel and waste. In January 2012, the BRC issued its report and recommendations which provides for numerous policy recommendations currently under review and consideration by the US Secretary of Energy. Therefore, the Company cannot predict the impact that the recent actions of the DOE and the US government will have on the ability to dispose of the spent nuclear fuel and waste.

Sales and Use Tax Contingencies

The Company is subject to periodic tax audits by federal and state authorities. In 2005, the Company was subject to a sales and use tax audit conducted by the State of New York for the audit period June 2001 through November 2005, which was settled in August 2011. The State of New York commenced an audit for the period December 2005 through February 2012 during the quarter ended September 30, 2012. The Company accrued $8.1 million and $8.0 million at March 31, 2013 and March 31, 2012, respectively, as other deferred liabilities in the balance sheets.

Note 10. Related Party Transactions

Advance from Affiliates

In June 2009, the Company entered into an agreement with Niagara Mohawk Holdings, Inc., whereby the Company can borrow up to $450 million from time to time for working capital needs. The average interest rates were 0.6% and 0.2% for the years ended March 31, 2013 and March 31, 2012, respectively. At March 31, 2013 and March 31, 2012, the Company had an outstanding advance from affiliates of $20 million and $19.7 million, respectively.

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 a net outstanding accounts receivable from affiliates/accounts payable to affiliates 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)	
NGUSA Service Company	**$ -**	$ -	**$ 40,094**	$ -
Opinac North America, Inc.	**-**	-	**16,999**	16,999
NGUSA	**-**	-	**70,732**	11,246
Narragansett Electric Company	**-**	322	**456**	2,456
KeySpan Corporate Services	**-**	-	**-**	1,053
Massachusetts Electric Company	**4,077**	-	**-**	-
Brooklyn Union Gas Company	**927**	632	**-**	-
KeySpan Electric Services	**-**	516	**4,853**	-
KeySpan Gas East Corporation	**1,780**	276	**-**	-
Other	**543**	743	**1,553**	953
Total	**$ 7,327**	$ 2,489	**$ 134,687**	$ 32,707

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 and gas inventory needs are 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 investments of $97.2 million and $117.3 million at March 31, 2013 and March 31, 2012, respectively. The average interest rates for the money pool were 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, and total transmission and distribution expenditures. 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 $595.7 million and $514.6 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited, an affiliated company in the UK, for certain corporate and administrative services provided by the corporate functions of National Grid plc to its US subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected on these financial statements. Were these amounts allocated to the Company, the estimated effect on net income would be approximately $12.6 million and $13.0 million before taxes, and $8.2 million and $8.5 million after taxes, for each of the years ended March 31, 2013 and March 31, 2012, respectively.

Note 11. Cumulative Preferred Stock

The Company has certain issues of non-participating cumulative preferred stock outstanding which can be called at the option of the Company. There are no mandatory redemption provisions on the Company's cumulative preferred stock. A summary of cumulative preferred stock at March 31, 2013 and March 31, 2012 is as follows:

	Shares Outstanding		Amount		
	March 31,		**March 31,**		Call
Series	**2013**	2012	**2013**	2012	Price
	(in thousands of dollars, except per share and number of shares data)				
$100 par value -					
3.40% Series	**57,524**	57,524	**$ 5,753**	$ 5,753	$ 103.500
3.60% Series	**137,152**	137,152	**13,715**	13,715	104.850
3.90% Series	**95,171**	95,171	**9,517**	9,517	106.000
Total	**289,847**	289,847	**$ 28,985**	$ 28,985	

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 $1.1 million for the years ended March 31, 2013 and March 31, 2012.

Note 12. Dividend Restrictions

The indenture securing the Company's mortgage debt provides that retained earnings shall be reserved and held unavailable for the payment of dividends on common stock to the extent that expenditures for maintenance and repairs plus provisions for depreciation do not exceed 2.25% of depreciable property as defined therein. These provisions have never resulted in a restriction of the Company's retained earnings.

The Company is limited by the MRP, NYPSC orders, and FERC orders with respect to the amount of dividends the Company can pay. As long as the bond ratings on the least secure forms of debt issued by the Company and National Grid plc remain investment grade and do not fall to the lowest investment grade rating (with one or more negative watch downgrade notices issued with respect to such debt), the Company is allowed to pay dividends.