NATIONAL GRID PLC
Form 6-K
June 27, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 6-K
REPORT OF FOREIGN ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934
Date: 27 June 2008
NATIONAL GRID plc
(Registrant s Name)
1-3 Strand
London
WC2N 5EH
(Registrant s Address)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F þ Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATIONAL GRID plc

By: /s/ David C Forward
David C Forward
Assistant Secretary

Date: 27 June 2008

National Grid plc hereby furnishes to the U.S. Securities and Exchange Commission (Commission), financial statement information reported on Form 6-K for Niagara Mohawk Power Corporation and subsidiary companies (Niagara Mohawk), its indirect wholly owned US subsidiary. This Form 6-K is being furnished to the Commission solely to comply with the requirements of Section 4.03 of a Senior Notes Indenture dated June 30, 1998 (Indenture) relating to Niagara Mohawk s outstanding 7 3/4% Series of Senior Notes (Senior Notes), which are described in Note E Long-term debt. Form 6-K will cease immediately upon the repayment of the Senior Notes on October 1, 2008.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated balance sheets and related consolidated statements of operations, of comprehensive income, of retained earnings and of cash flows present fairly, in all material respects, the financial position of Niagara Mohawk Power Corporation and its subsidiaries (Niagara Mohawk) at March 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Niagara Mohawk s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note H to the financial statements, Niagara Mohawk changed the manner in which it accounts for pension and postretirement benefit plans effective March 31, 2007 in accordance with Financial Accounting and Standards Board Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, New York
June 27, 2008

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARY COMPANIES
Consolidated Statements of Operations
(In thousands of dollars)

	For the Years Ended March 31, 2008	2007	2006
Operating revenues:			
Electric	**$3,378,648**	$3,256,621	$3,306,942
Gas	**876,154**	875,034	1,037,081
Total operating revenues	**4,254,802**	4,131,655	4,344,023
Operating expenses:			
Purchased electricity	**1,411,565**	1,389,893	1,464,626
Purchased gas	**583,626**	582,802	741,419
Other operation and maintenance	**850,695**	792,795	717,745
Depreciation and amortization	**217,372**	209,552	203,994
Amortization of stranded costs and rate plan deferrals	**488,668**	416,920	266,816
Other taxes	**206,034**	210,731	209,553
Income taxes	**92,233**	120,943	190,194
Total operating expenses	**3,850,193**	3,723,636	3,794,347
Operating income	**404,609**	408,019	549,676
Other income (deductions), net	**(2,696)**	(5,041)	(7,758)
Operating and other income	**401,913**	402,978	541,918
Interest:			
Interest on long-term debt	**86,869**	101,265	138,415
Interest on debt to associated companies	**75,417**	85,956	75,358
Other interest	**36,568**	26,180	11,069
Total interest expense	**198,854**	213,401	224,842
Net income	**203,059**	189,577	317,076
Dividends on preferred stock	**1,484**	1,626	1,626
Income available to common shareholder	**$ 201,575**	$ 187,951	$ 315,450

Consolidated Statements of Comprehensive Income
(In thousands of dollars)

	For the Years Ended March 31, 2008	2007	2006
Net income	**$203,059**	$189,577	$317,076

Other comprehensive income (loss), net of taxes:			
Unrealized gains (losses) on securities	**(1,243)**	585	(337)
Hedging activity	**(57)**	(17,526)	4,009
Change in additional minimum pension liability		(70)	358
Amortization of postretirement costs	**151**		
Reclassification adjustment for gains (losses) included in net income	**14,293**	21,769	(21,807)
Total other comprehensive income (loss)	**13,144**	4,758	(17,777)
Comprehensive income	**$216,203**	$194,335	$299,299

Per share data is not relevant because Niagara Mohawk s common stock is wholly-owned by Niagara Mohawk Holdings, Inc.

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

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NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARY COMPANIES
Consolidated Statements of Retained Earnings
(In thousands of dollars)

	For the Years Ended March 31,		
	2008	2007	2006
Retained earnings at beginning of period	**$ 976,688**	$788,737	$473,287
Adoption of new accounting standard FIN 48	**(8,393)**		
Adjusted balance at beginning of period	**968,295**	788,737	473,287
Net income	**203,059**	189,577	317,076
Dividends on preferred stock	**(1,484)**	(1,626)	(1,626)
Retained earnings at end of period	**$1,169,870**	$976,688	$788,737

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

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARY COMPANIES
Consolidated Balance Sheets
(In thousands of dollars)

	March 31, 2008	March 31, 2007
ASSETS		
Utility plant, at original cost**:**		
Electric plant	**$ 6,101,860**	$ 5,854,677
Gas plant	**1,675,667**	1,617,848
Common plant	**292,518**	288,837
Total utility plant	**8,070,045**	7,761,362
Less: Accumulated depreciation and amortization	**2,446,947**	2,320,023
Net utility plant	**5,623,098**	5,441,339
Goodwill	**1,291,911**	1,242,461
Other property and investments	**47,658**	47,506
Current assets:		
Cash and cash equivalents	**19,566**	15,746
Restricted cash	**4,841**	37,648
Accounts receivable (less reserves of $154,236 and $126,619, respectively, and including receivables from associated companies of $13,522 and $10,232, respectively)	**648,660**	670,548
Materials and supplies, at average cost:		
Gas storage	**6,646**	4,277
Other	**28,035**	27,926
Derivative instruments	**30,814**	7,945
Prepaid taxes	**73,861**	75,573
Current deferred income taxes	**110,715**	107,774
Regulatory asset swap contracts	**51,119**	221,540
Other	**15,389**	14,595
Total current assets	**989,646**	1,183,572
Regulatory and other non-current assets:		
Regulatory assets:		
Merger rate plan stranded costs	**1,892,944**	2,220,179
Swap contracts regulatory asset		46,500
Regulatory tax asset	**97,991**	100,765
Deferred environmental restoration costs	**439,833**	397,407
Pension and postretirement benefit plans	**1,098,294**	1,028,129
Loss on reacquired debt	**44,430**	51,975
Other	**244,830**	380,313
Total regulatory assets	**3,818,322**	4,225,268

Other non-current assets	**34,505**	26,609
Total regulatory and other non-current assets	**3,852,827**	4,251,877
Total assets	**$11,805,140**	$12,166,755

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

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARY COMPANIES
Consolidated Balance Sheets
(In thousands of dollars)

	March 31, 2008	March 31, 2007
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stockholder s equity:		
Common stock ($1 par value)	**$ 187,365**	$ 187,365
Authorized - 250,000,000 shares		
Issued and outstanding - 187,364,863 shares		
Additional paid-in capital	**2,913,140**	2,913,384
Accumulated other comprehensive income (loss)	**13,086**	(58)
Retained earnings	**1,169,870**	976,688
Total common stockholder s equity	**4,283,461**	4,077,379
Preferred equity:		
Cumulative preferred stock ($100 par value, optionally redeemable)	**28,963**	41,170
Authorized - 3,400,000 shares		
Issued and outstanding - 289,630 and 411,715 shares, respectively		
Long-term debt	**649,405**	1,249,194
Long-term debt to affiliates	**1,200,000**	1,200,000
Total capitalization	**6,161,829**	6,567,743
Current liabilities:		
Accounts payable (including payables to associated companies of $39,726 and $37,767, respectively)	**345,277**	330,976
Customers deposits	**33,805**	37,819
Accrued interest	**49,314**	56,625
Accrued taxes	**27,752**	30,343
Short-term debt to affiliates	**291,700**	395,300
Current portion of liability for swap contracts	**51,119**	221,540
Current portion of long-term debt	**600,000**	200,000
Other	**77,340**	105,886
Total current liabilities	**1,476,307**	1,378,489
Non-current liabilities:		
Accumulated deferred income taxes	**1,596,685**	1,694,047
Liability for swap contracts		46,500
Employee pension and other benefits	**805,239**	996,006
Liability for environmental remediation costs	**439,833**	397,407
Nuclear fuel disposal costs	**165,156**	158,196
Cost of removal regulatory liability	**369,111**	350,073
Deferred credits related to income taxes	**168,234**	
Regulatory liabilities	**485,025**	439,809

Other	**137,721**	138,485
Total other non-current liabilities	**4,167,004**	4,220,523
Commitments and contingencies		
Total capitalization and liabilities	**$11,805,140**	$12,166,755

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

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NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARY COMPANIES
Consolidated Statements of Cash Flows
(In thousands of dollars)

	For the Years Ended March 31,		
	2008	2007	2006
Operating activities:			
Net income	**$ 203,059**	$ 189,577	$ 317,076
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**217,372**	209,552	203,994
Amortization of stranded costs and rate plan deferrals	**488,668**	416,920	266,816
Provision for deferred income taxes	**(81,819)**	147,843	103,474
Changes in operating assets and liabilities:			
Net accounts receivable	**21,888**	(16,896)	(82,100)
Materials and supplies	**(2,478)**	12,729	(23,695)
Accounts payable and accrued expenses	**(20,395)**	66,986	(1,194)
Prepaid/accrued interest and taxes	**56,292**	(160,263)	88,984
Pension and other postretirement benefits	**(284,092)**	(99,623)	11,708
Other, net	**68,565**	6,691	(141,464)
Net cash provided by operating activities	**667,060**	773,516	743,599
Investing activities:			
Construction additions	**(378,984)**	(339,080)	(269,941)
Change in restricted cash	**32,807**	28,745	(59,026)
Other investments	**(159)**	(363)	8,023
Other, net	**631**	2,307	(58,084)
Net cash used in investing activities	**(345,705)**	(308,391)	(379,028)
Financing activities:			
Dividends paid on preferred stock	**(1,484)**	(1,626)	(1,626)
Reductions in long-term debt	**(200,000)**	(275,000)	(550,420)
Redemption of preferred stock	**(12,451)**		
Net change in short-term debt to affiliates	**(103,600)**	(183,600)	178,400
Net cash used in financing activities	**(317,535)**	(460,226)	(373,646)
Net increase (decrease) in cash and cash equivalents	**3,820**	4,899	(9,075)
Cash and cash equivalents, beginning of period	**15,746**	10,847	19,922
Cash and cash equivalents, end of period	**$ 19,566**	$ 15,746	$ 10,847

Supplemental disclosures of cash flow information:

Interest paid	**$ 212,141**	$ 224,481	$ 244,499
Income taxes paid (received)	**$ 104,382**	$ 120,181	$ (16,210)

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

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Niagara Mohawk was organized in 1937 under the laws of New York State and is engaged principally in the regulated energy delivery business in New York State. The Company provides electric service to approximately 1,620,000 electric customers in the areas of eastern, central, northern and western New York and sells, distributes and transports natural gas to approximately 576,000 gas customers in areas of central, northern and eastern New York.

Basis of Presentation: Niagara Mohawk is subject to regulation by the New York State Public Service Commission (PSC) and the Federal Energy Regulatory Commission (FERC) with respect to its rates for service under a methodology that establishes prices based on Niagara Mohawk s costs. Niagara Mohawk s accounting policies conform to generally accepted accounting principles in the United States of America (GAAP), including the accounting principles for rate-regulated entities with respect to Niagara Mohawk s transmission, distribution and gas operations (regulated business), and are in accordance with the accounting requirements and ratemaking practices of the regulatory authorities.

Basis of Consolidation: Niagara Mohawk is a wholly-owned subsidiary of Niagara Mohawk Holdings, Inc. (Holdings), which is wholly-owned by National Grid USA (National Grid). National Grid is a wholly owned subsidiary of National Grid plc (formerly known as National Grid Transco plc). National Grid acquired and merged with Holdings in January 2002.

The accompanying Consolidated Financial Statements reflect the results of operations, comprehensive income, retained earnings, financial position and cash flows of Niagara Mohawk and its subsidiaries. Inter-company balances and transactions have been eliminated.

Niagara Mohawk is affiliated with certain other US subsidiaries of National Grid. The New England affiliates are New England Power Company, The Narragansett Electric Company, Massachusetts Electric Company, Nantucket Electric Company, Granite State Electric Company, New England Hydro-Transmission Electric Company, Inc., New England Hydro-Transmission Corporation, New England Hydro Finance Company, Inc. and National Grid USA Service Company, Inc. (Service Company). Due to the recent acquisition discussed below, Niagara Mohawk is also affiliated with certain subsidiaries of KeySpan Corporation (KeySpan) including its service companies.

Acquisition: Following an extensive approval process, National Grid plc, the ultimate parent of Niagara Mohawk, completed the acquisition of KeySpan on August 24, 2007 for consideration of $7.5 billion together with the assumption of approximately $4.5 billion of debt.

See Note B Rate and Regulatory Issues for further discussion regarding merger synergy savings.

Approvals were received from both National Grid plc and KeySpan shareholders and from a number of governmental and regulatory bodies, including the Federal Trade Commission in respect of the Hart-Scott-Rodino Antitrust Improvements Act, the Committee on Foreign Ownership in the US, the FERC, the New Hampshire Public Utilities Commission and the PSC. National Grid plc and KeySpan also reached an amended agreement with the Long Island Power Authority, which was approved by the comptroller of New York.

The acquisition of KeySpan has significantly expanded National Grid plc s operations in the northeastern US as KeySpan was the fifth largest distributor of natural gas in the US and the largest in the northeast US, serving 2.6 million customers in New York, Massachusetts and New Hampshire. KeySpan also operated an electricity transmission and distribution network serving 1.1 million customers in New York under a long-term contract with the Long Island Power Authority. KeySpan s other interests included 2.5 GW of merchant electricity generation and 4.1 GW of contracted electricity generation, together with a small portfolio of non-regulated, energy-related services, and strategic investments in certain gas pipeline, storage and liquefied natural gas assets.

Goodwill: The acquisition of Niagara Mohawk was accounted for by the purchase method, the application of which, including the recognition of goodwill, was recorded on the books of Niagara Mohawk, the most significant subsidiary of Holdings. The merger transaction resulted in approximately $1.2 billion of goodwill. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, Niagara Mohawk reviews its goodwill annually for impairment and when events or circumstances indicate that the asset may be impaired. Niagara Mohawk utilized a discounted cash flow approach incorporating its most recent business plan forecasts in the performance of the annual goodwill impairment test. The result of the annual analysis determined that no adjustment to the goodwill carrying value was required. Niagara Mohawk recorded an adjustment to goodwill during the current fiscal year of $49 million upon adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, related to the pre-merger period in fiscal year 2008. See Note G Income Taxes.

Use of Estimates: 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 liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Utility Plant: The cost of additions to utility plant and replacements of retirement units of property are capitalized. Costs include direct material, labor, overhead and Allowance for Funds Used During Construction (AFUDC) (see below). Replacement of minor items of utility plant and the cost of current repairs and maintenance are charged to expense. Whenever utility plant is retired, its original cost, together with the cost of removal, less salvage, is charged to accumulated depreciation.

AFUDC: Niagara Mohawk capitalizes AFUDC as part of construction costs. AFUDC is capitalized in Utility plant with offsetting cash credits to Other interest and non-cash credits to Other income (deductions), net on the Consolidated Statement of Operations. This method is in accordance with an established rate-making practice under which a utility is permitted a return on, and the recovery of, prudently incurred capital costs through their ultimate inclusion in rate base and in the provision for depreciation. AFUDC rates are determined in accordance with FERC and PSC regulations. The average AFUDC rates in effect at March 31, 2008 and 2007 were 4.98% and 5.23%, respectively. AFUDC is segregated into its two components, borrowed funds and other funds, and is reflected in the Other interest and Other income (deductions) sections, respectively, in Niagara Mohawk s Consolidated Statements of Operations.

The amounts of AFUDC credits were recorded as follows:

	Fiscal Years Ended March 31,		
(In thousands of dollars)	**2008**	2007	2006
Other income (deductions)	**$**	$	$
Other interest	**3,507**	2,176	2,040

Depreciation: For accounting and regulatory purposes, Niagara Mohawk s depreciation is computed on the straight-line basis using the average service lives. Niagara Mohawk performs depreciation studies to determine service lives of classes of property and adjusts the depreciation rates when necessary.

The weighted average service life, in years, for each asset category is presented in the table below:

	Fiscal Years Ended March 31,		
	2008	2007	2006
Asset Category:			
Electric	**36**	37	34
Gas	**44**	43	42
Common	**22**	20	20

Revenues: Niagara Mohawk bills its customers on a monthly cycle basis at approved tariffs based on energy delivered and a minimum customer service charge. Revenues are determined based on these bills plus an estimate for unbilled

energy delivered between the cycle billing date and the end of the accounting period. The unbilled revenues included in accounts receivable at March 31, 2008 and 2007 were approximately $165 million and $170 million, respectively. Niagara Mohawk recognizes changes in accrued unbilled electric revenues in its results of operations. At March 31, 2008 and 2007, approximately $146 million and $152 million were recognized in results of operations. Pursuant to Niagara Mohawk s 2000 multi-year gas settlement, changes in accrued unbilled gas revenues are deferred. At March 31, 2008 and 2007, approximately $19 million and $18 million, respectively, of unbilled gas revenues remain unrecognized in results of operations. Niagara Mohawk cannot predict when unbilled gas revenues will be allowed to be recognized in results of operations.

In August 2001, the PSC approved certain electric rate plan changes. The changes allowed for certain commodity-related costs to be passed through to customers beginning September 2001. At the same time, a transmission revenue adjustment mechanism was implemented which reconciles actual and rate forecast transmission revenues for pass-back to, or recovery from, customers. The commodity adjustment clause and the transmission revenue adjustment mechanism have remained in effect under the Merger Rate Plan (MRP) which became effective upon the closing of the merger on January 31, 2002.

The PSC approved a multi-year gas rate settlement agreement (as amended through Niagara Mohawk s MRP and ended in December 2004 with Niagara Mohawk having the right to request a change in rates at any time, if needed) in July 2000 that included a provision for the continuation of a full gas cost collection mechanism, effective August 2000. This gas cost collection mechanism was originally reinstated in an interim agreement that became effective November 1999. The gas cost collection mechanism has continued under the MRP. Niagara Mohawk s gas cost collection mechanism provides for the collection or pass-back of increases or decreases in purchased gas costs.

On May 23, 2008, Niagara Mohawk filed for a $95 million rate increase for its 576,000 customer gas business with the PSC. This filing would represent the first delivery rate increase since 1996. The filing also includes proposals for revenue decoupling, expanded capital infrastructure investments, gas marketing and a new low income rate discount. The filing further reflects an 11% return on equity and a 50% debt and 50% equity capital structure. See Note B Rate and Regulatory Issues.

Federal and State Income Taxes: Regulated federal and state income taxes are recorded under the provisions of FASB SFAS No. 109 Accounting for Income Taxes. Income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred investment tax credits are amortized over the useful life of the underlying property. Effective on April 1, 2007, Niagara Mohawk implemented FIN 48 which applies to all income tax positions reflected on Niagara Mohawk s balance sheets that have been included in previous tax returns or are expected to be included in future tax returns. FIN 48 addresses the methodology to be used prospectively in recognizing, measuring and classifying the amounts associated with tax positions that are deemed to be uncertain, including related interest and penalties. See Note G Income Taxes for the impact of the adoption of FIN 48.

Service Company Charges: the affiliated service companies have furnished services to Niagara Mohawk at the cost of such services since the merger with National Grid. These costs including operating costs and capital expenditures approximated $164 million and $149 million for the fiscal years ended March 31, 2008 and 2007, respectively.

Cash and Cash Equivalents: Niagara Mohawk considers all highly liquid investments, purchased with an original maturity of three months or less, to be cash and cash equivalents.

Restricted Cash: Restricted cash consists of margin accounts for hedging activity, health care claims deposits, New York State Department of Conservation securitization for certain site cleanup, mortgage lien release deposits and worker s compensation premium deposits.

Derivatives: Niagara Mohawk accounts for derivative financial instruments under SFAS No. 133, Accounting for Derivatives and Hedging Activities, and SFAS No. 149, Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities, as amended. Under the provisions of SFAS No. 133, all derivatives except those qualifying for the normal purchase/normal sale exception are recognized on the balance sheet at their fair value. Fair value is determined

using current quoted market prices when available. If a contract is designated as a cash flow hedge, the change in its market value is generally deferred as a component of other comprehensive income until the transaction it is hedging is completed. Conversely, the change in the market value of a derivative not designated as a cash flow hedge is deferred as a regulatory asset or liability as Niagara Mohawk has received approval from the PSC to establish a regulatory asset or liability for derivative instruments that did not qualify for hedge accounting and were the result of regulatory rulings. A cash flow hedge is a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. To qualify as a cash flow hedge, the fair value changes in the derivative must be expected to offset 80% to 120% of the changes in fair value or cash flows of the hedged item. Niagara Mohawk will no longer apply cash flow hedge treatment for future transactions and will record the activity to a regulatory asset.

Comprehensive Income (Loss): Comprehensive income (loss) is the change in the equity of a company, not including those changes that result from shareholder transactions. While the primary component of comprehensive income (loss) is reported as net income or loss, the other components of comprehensive income (loss) relate to changes in SFAS No. 158, Employers Accounting for Defined Benefit Pension and Postretirement Plans, deferred gains and losses associated with hedging activity, and unrealized gains and losses associated with certain investments held as available for sale. See Note C Changes in Equity Accounts.

Power Purchase Agreements: Niagara Mohawk accounts for its power purchase agreements, which are not deemed to be derivatives or leases, as executory contracts. Niagara Mohawk assesses several factors in determining how to account for its power purchase contracts. These factors include:

- the term of the contract compared to the economic useful life of the facility generating the electricity;
- the involvement, if any, that Niagara Mohawk has in operating the facility;
- the amount of any fixed payments Niagara Mohawk must make, even if the facility does not generate electricity; and
- the level of control Niagara Mohawk has over the amount of electricity generated by the facility, and who bears the risk in the event the facility is unable to generate.

New Accounting Standards: In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure for uncertain tax positions taken or expected to be taken in income tax returns. The cumulative effect of applying the provision of this interpretation is required to be reported separately as an adjustment to the opening balance of retained earnings in the year of adoption. FIN 48 was effective for fiscal years beginning after December 15, 2006. Niagara Mohawk adopted FIN 48 on April 1, 2007. See Note G Income Taxes for the impact of the adoption of the new standard on Niagara Mohawk s financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which provides enhanced guidance for using fair value measurements in financial reporting. While the standard does not expand the use of fair value in any new circumstance, it has applicability to several current accounting standards that require or permit entities to measure assets and liabilities at fair value. This standard defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued two staff positions which amend SFAS No. 157. FASB Staff Position (FSP) SFAS No. 157-1 excludes the application of SFAS No. 157 for the purposes of lease classification under SFAS No. 13 Accounting for Leases. FSP SFAS No. 157-2 delays the adoption of SFAS No. 157 to fiscal years beginning after November 15, 2008, except for nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value on a recurring basis. Niagara Mohawk is currently evaluating the impact of this enhanced guidance and at this time cannot determine the full impact that the potential requirements may have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS No. 115. This statement permits companies to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Niagara Mohawk is evaluating the impact that the adoption of SFAS No. 159 will have on its financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51, Consolidated Financial Statements. The objective of SFAS No. 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 shall be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of SFAS No. 160 is not expected to have an impact on Niagara Mohawk s financial statements.

In December 2007, the FASB issued SFAS No. 141(R), SFAS No. 141 (revised 2007), Business Combinations, which replaces SFAS No. 141, Business Combinations. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling (minority) interests in an acquiree, and any goodwill acquired in a business combination or gain recognized from a bargain purchase. The impact to Niagara Mohawk of applying SFAS No. 141(R) for periods subsequent to implementation will be dependent upon the nature of any transactions within the scope of SFAS No. 141(R).

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, which is an amendment of SFAS No. 133. SFAS No. 161 requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 will not have an impact on Niagara Mohawk s financial statements.

Reclassifications: Certain amounts from prior fiscal years have been reclassified on the accompanying consolidated financial statements to conform to the fiscal 2008 presentation.

NOTE B RATE AND REGULATORY ISSUES

General:

Niagara Mohawk s financial statements conform to GAAP, including the accounting principles for rate-regulated entities with respect to its regulated operations. Niagara Mohawk applies the provisions of SFAS No. 71, Accounting for the Effects of Certain Types of Regulation. In accordance with SFAS No. 71, Niagara Mohawk records regulatory assets (expenses deferred for future recovery from customers) and regulatory liabilities (revenues collected for future payment of expenses or for return to customers) on the balance sheet. Niagara Mohawk s regulatory assets were approximately $3.9 billion and $4.4 billion as of March 31, 2008 and 2007, respectively. These regulatory assets are probable of recovery under the MRP and Gas Multi-Year Rate and Restructuring Agreement. Niagara Mohawk is earning a return on most of its regulatory assets under its MRP. Niagara Mohawk believes that the prices it will charge for electric service in the future, including the Competitive Transition Charges (CTCs), will be sufficient to recover and earn a return on the MRP s stranded regulatory assets over their planned amortization periods, assuming no unforeseen reduction in load or bypass of the CTCs. Niagara Mohawk s ongoing electric business continues to be rate-regulated on a cost-of-service basis under the MRP and, accordingly, Niagara Mohawk continues to apply SFAS No. 71 to it. In addition, Niagara Mohawk s Independent Power Producer (IPP) contracts, and the Purchase Power Agreements entered into when Niagara Mohawk exited the power generation business, continue to be the obligations of the regulated business.

In the event Niagara Mohawk determines, as a result of lower than expected revenues and (or) higher than expected costs, that its net regulatory assets are not probable of recovery, it can no longer apply the principles of SFAS No. 71 and would

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be required to record an after-tax, non-cash charge against income for any remaining regulatory assets and liabilities. If Niagara Mohawk could no longer apply SFAS No. 71, the resulting charge would be material to Niagara Mohawk s reported financial condition and results of operations.

Niagara Mohawk noted no such changes in the regulatory environment that would cause a change in the financial condition and results of operations.

The following table details the various categories of regulatory assets and liabilities:

At March 31 *(in thousands of dollars)*	**2008**	2007
Regulatory liabilities included in other accrued expenses:		
Rate adjustment mechanisms	**$ (5,380)**	$ (4,948)
Current portion of regulatory assets:		
Swap contracts	**51,119**	221,540
Total net regulatory assets current	**45,739**	216,592
Regulatory assets:		
Merger rate plan stranded costs	**1,892,944**	2,220,179
Swap contracts		46,500
Regulatory tax asset	**97,991**	100,765
Deferred environmental restoration costs	**439,833**	397,407
Pension and postretirement benefit plans	**1,098,294**	1,028,129
Loss on reacquired debt	**44,430**	51,975
Other	**244,830**	380,313
Regulatory liabilities:		
Cost of removal reserve	**(369,111)**	(350,073)
Stranded costs and CTC related	**(82,483)**	(82,414)
Postretirement benefit	**(25,552)**	(25,552)
Medicare Act tax benefit deferral	**(55,356)**	(39,171)
Economic development fund	**(17,826)**	(12,555)
Unbilled gas revenue	**(17,952)**	(17,052)
Environmental insurance proceeds	**(8,354)**	(10,904)
Other	**(277,502)**	(252,161)
Total net regulatory assets non-current	**2,964,186**	3,435,386
Net regulatory assets	**$3,009,925**	