THE UNITED ILLUMINATING COMPANY

UNAUDITED FINANCIAL STATEMENTS

AS OF

SEPTEMBER 30, 2016 AND DECEMBER 31, 2015 AND

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

TABLE OF CONTENTS

THE UNITED ILLUMINATING COMPANY
STATEMENT OF INCOME
(In Thousands)
(Unaudited)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Operating Revenues	$ 234,344	$ 236,355	$ 662,815	$ 676,759
Operating Expenses				
Operation				
Purchased power	44,260	47,041	149,674	180,858
Operation and maintenance	64,192	70,979	192,786	197,348
Transmission wholesale	30,724	30,272	74,474	67,969
Depreciation and amortization	20,186	16,962	59,306	50,599
Taxes - other than income taxes	28,397	26,723	74,330	72,108
Total Operating Expenses	187,759	191,977	550,570	568,882
Operating Income	46,585	44,378	112,245	107,877
Other Income and (Deductions), net (Note A)				
Other income	3,102	1,660	8,038	7,011
Other (deductions)	(3)	(371)	(63)	(723)
Total Other Income and (Deductions), net	3,099	1,289	7,975	6,288
Interest Charges, net				
Interest on long-term debt	10,937	10,848	32,774	31,969
Other interest, net	(422)	(94)	(2,470)	(457)
	10,515	10,754	30,304	31,512
Amortization of debt expense and redemption premiums	309	352	1,110	1,091
Total Interest Charges, net	10,824	11,106	31,414	32,603
Income from Equity Investments	3,320	3,408	9,892	10,284
Income Before Income Taxes	42,180	37,969	98,698	91,846
Income Taxes (Note E)	14,336	11,406	31,268	29,208
Net Income	$ 27,844	$ 26,563	$ 67,430	$ 62,638

The accompanying Notes to Financial
Statements are an integral part of the financial statements.

THE UNITED ILLUMINATING COMPANY
STATEMENT OF CASH FLOWS
(In Thousands)
(Unaudited)

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Cash Flows From Operating Activities		
Net income	$ 67,430	$ 62,638
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Depreciation and amortization	60,416	51,690
Deferred income taxes	20,999	3,223
Pension expense	22,248	17,235
Allowance for funds used during construction (AFUDC) - equity	(4,778)	(4,494)
Undistributed (earnings) losses in equity investments	(9,894)	(10,284)
Other regulatory activity, net	(18,164)	10,315
Other non-cash items, net	(530)	844
Changes in:		
Accounts receivable, net	(17,887)	(19,166)
Unbilled revenues	(3,104)	3,755
Prepayments	(11,948)	(8,202)
Accounts payable	(5,945)	(20,274)
Cash distribution received from GenConn	9,968	10,147
Taxes accrued and refundable	15,802	11,758
Accrued liabilities	(2,728)	4,521
Accrued pension	(14,958)	(7,179)
Accrued post-employment benefits	(159)	(397)
Other assets	98	(3,103)
Other liabilities	3,403	(908)
Total Adjustments	42,839	39,481
Net Cash provided by Operating Activities	110,269	102,119
Cash Flows from Investing Activities		
Plant expenditures including AFUDC debt	(127,759)	(119,677)
Cash distribution from GenConn	3,906	3,981
Deposits in New England West Solution (NEEWS) (Note C)	-	(1,451)
Changes in restricted cash	10	(195)
Intercompany receivable	11,500	3,000
Net Cash (used in) Investing Activities	(112,343)	(114,342)
Cash Flows from Financing Activities		
Issuance of long term debt	-	50,000
Payment of long term debt	-	(27,500)
Payment of common stock dividend	-	(59,700)
Other	(333)	(295)
Net Cash (used in) Financing Activities	(333)	(37,495)
Unrestricted Cash and Temporary Cash Investments:		
Net change for the period	(2,407)	(49,718)
Balance at beginning of period	5,657	96,363
Balance at end of period	$ 3,250	$ 46,645
Non-cash investing activity:		
Plant expenditures included in ending accounts payable	$ 9,060	$ 13,753

The accompanying Notes to Financial Statements are an integral part of the financial statements.

THE UNITED ILLUMINATING COMPANY
BALANCE SHEET

ASSETS
(In Thousands)
(Unaudited)

	September 30, 2016	December, 2015
Current Assets		
Unrestricted cash and temporary cash investments	$ 3,250	$ 5,657
Restricted cash	1,717	1,727
Utility accounts receivable less allowance of $3,000 and $3,500, respectively	124,573	106,186
Unbilled revenues	42,984	39,880
Current regulatory assets (Note A)	36,236	44,469
Materials and supplies, at average cost	6,078	7,619
Refundable taxes	5,759	11,741
Prepayments	14,190	2,242
Intercompany receivable	42,500	54,000
Current portion of derivative assets (Note A), (Note I)	9,560	10,507
Other current assets	132	107
Total Current Assets	286,979	284,135
Other Investments		
Equity investment in GenConn (Note A)	106,320	110,306
Other	9,738	9,702
Total Other Investments	116,058	120,008
Total Property, Plant and Equipment	2,549,067	2,441,295
Less accumulated depreciation	554,296	539,289
	1,994,771	1,902,006
Construction work in progress	157,330	187,212
Net Property, Plant and Equipment	2,152,101	2,089,218
Regulatory Assets (Note A)	457,481	431,923
Deferred Charges and Other Assets		
Unamortized debt issuance expenses	300	210
Other long-term receivable	1,479	1,484
Derivative assets (Note A), (Note I)	12,682	18,757
Other	1,820	380
Total Deferred Charges and Other Assets	16,281	20,831
Total Assets	$ 3,028,900	$ 2,946,115

The accompanying Notes to Financial
Statements are an integral part of the financial statements.

THE UNITED ILLUMINATING COMPANY
BALANCE SHEET

LIABILITIES AND CAPITALIZATION
(In Thousands)
(Unaudited)

	September 30, 2016	December 31, 2015
Current Liabilities		
Accounts payable	$ 91,098	$ 110,955
Accrued liabilities	20,829	23,524
Current portion of long-term debt	40,000	-
Current regulatory liabilities (Note A)	3,098	10,079
Interest accrued	9,987	10,888
Taxes accrued	22,100	12,280
Current portion of derivative liabilities (Note A), (Note I)	25,474	28,466
Total Current Liabilities	212,586	196,192
Deferred Income Taxes (Note E)	465,706	465,717
Regulatory Liabilities	263,868	249,827
Other Noncurrent Liabilities		
Pension accrued	158,973	153,636
Other post-retirement benefits accrued	44,281	42,487
Derivative liabilities (Note A), (Note I)	81,495	67,764
Environmental liabilities	32,741	33,011
Other	9,816	5,800
Total Other Noncurrent Liabilities	327,306	302,698
Commitments and Contingencies (Note H)		
Capitalization (Note B)		
Long-term debt	823,060	862,737
Common Stock Equity		
Common stock	1	1
Paid-in capital	709,230	709,230
Retained earnings	227,143	159,713
Net Common Stock Equity	936,374	868,944
Total Capitalization	1,759,434	1,731,681
Total Liabilities and Capitalization	$ 3,028,900	$ 2,946,115

The accompanying Notes to Financial
Statements are an integral part of the financial statements.

THE UNITED ILLUMINATING COMPANY
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
September 30, 2016
(Thousands of Dollars)
(Unaudited)

	Common Stock				Paid-in		Retained		
	Shares		Amount		Capital		Earnings		Total
Balance as of December 31, 2014	100	$	1	$	704,730	$	162,149	$	866,880
Net income							57,264		57,264
Cash dividends							(59,700)		(59,700)
Equity infusion from parent					4,500				4,500
Balance as of December 31, 2015	100	$	1	$	709,230	$	159,713	$	868,944
Net income							67,430		67,430
Cash dividends									-
Balance as of September 30, 2016	100	$	1	$	709,230	$	227,143	$	936,374

The accompanying Notes to Financial
Statements are an integral part of the financial statements.

THE UNITED ILLUMINATING COMPANY

NOTES TO FINANCIAL STATEMENTS – UNAUDITED

(A) BUSINESS ORGANIZATION AND STATEMENT OF ACCOUNTING POLICIES

The United Illuminating Company (UI), a wholly owned subsidiary of UIL Holdings Corporation, formerly Green Merger Sub, Inc., and a wholly-owned subsidiary of Avangrid, Inc., is a regulated operating electric public utility established in 1899. On December 16, 2015, UIL Holdings Corporation, a Connecticut corporation (Predecessor UIL) merged with and into Green Merger Sub, Inc., after which Green Merger Sub, Inc. changed its name to UIL Holdings Corporation (UIL Holdings). Throughout this document "UIL Holdings" shall refer to UIL Holdings and Predecessor UIL unless the context otherwise indicates. See Note (C) "Regulatory Proceedings" for further information regarding the merger. UI is engaged principally in the purchase, transmission, distribution and sale of electricity for residential, commercial and industrial purposes. UI is regulated as an electric distribution company by the Connecticut Public Utilities Regulatory Authority (PURA) and is also subject to regulation by the Federal Energy Regulatory Commission (FERC).

UI is also a party to a joint venture with certain affiliates of NRG Energy, Inc. (NRG affiliates) pursuant to which UI holds 50% of the membership interests in GCE Holding LLC, whose wholly owned subsidiary, GenConn Energy LLC (together with GCE Holding LLC, GenConn) operates peaking generation plants in Devon, Connecticut (GenConn Devon) and Middletown, Connecticut (GenConn Middletown).

Accounting Records

The accounting records of UI are maintained in conformity with accounting principles generally accepted in the United States of America (GAAP) and in accordance with the uniform systems of accounts prescribed by the FERC and the PURA.

Basis of Presentation

The preparation of financial statements in conformity with GAAP requires management to use estimates and assumptions that affect (1) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and (2) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts related to deferred tax liabilities, regulatory liabilities, operation and maintenance expense, depreciation and amortization expense, taxes other than income taxes, other interest, and other income and (deductions) that were reported as such in the Financial Statements in previous periods have been reclassified to conform to the current presentation as a result of UIL Holdings presenting such information consistent with its parent Avangrid, Inc. due to the merger. In addition, certain immaterial amounts have been reclassified to conform to the current presentation.

UI has evaluated subsequent events through the date its financial statements were available to be issued, November 9, 2016.

Derivatives

UI is party to contracts, and involved in transactions, that are derivatives.

<u>Contracts for Differences (CfDs)</u>

Pursuant to Connecticut's 2005 Energy Independence Act, the Connecticut Public Utilities Regulatory Authority (PURA) solicited bids to create new or incremental capacity resources in order to reduce federally mandated congestion charges, and selected four new capacity resources. To facilitate the transactions between the selected capacity resources and Connecticut electric customers, and provide the commitment necessary for owners of these resources to obtain necessary financing, PURA required that UI and The Connecticut Light and Power Company (CL&P) execute long-term contracts with the selected resources. In August 2007, PURA approved four CfDs, each of which specifies a capacity quantity and a monthly settlement that reflects the difference between a forward market price and the contract price. UI executed two of the contracts and CL&P executed the other two contracts. The costs or benefits of each contract will be paid by or allocated to customers and will be subject to a cost-sharing agreement between UI and CL&P pursuant to which approximately 20% of the cost or benefit is borne by or allocated to UI customers and approximately 80% is borne by or allocated to CL&P customers.

PURA has determined that costs associated with these CfDs will be fully recoverable by UI and CL&P through electric rates, and in accordance with ASC 980 "Regulated Operations," UI has deferred recognition of costs (a regulatory asset) or obligations (a regulatory liability). The CfDs are marked-to-market in accordance with ASC 815 "Derivatives and Hedging." For those CfDs signed by CL&P, UI records its approximate 20% portion pursuant to the cost-sharing agreement noted above. As of September 30, 2016, UI has recorded a gross derivative asset of $22.2 million, a regulatory asset of $83.5 million, a gross derivative liability of $107.0 million ($79.1 million of which is related to UI's portion of the CfD signed by CL&P) and a regulatory liability of $1.2 million. See Note (I) "Fair Value of Financial Instruments" for additional CfD information.

The gross derivative assets and liabilities as of September 30, 2016 and December 31, 2015 were as follows:

	September 30, 2016	December 31, 2015
	(In Thousands)	
Gross derivative assets:		
Current Assets	$ 9,560	$ 10,507
Deferred Charges and Other Assets	$ 12,682	$ 18,757
Gross derivative liabilities:		
Current Liabilities	$ 25,474	$ 28,466
Noncurrent Liabilities	$ 81,495	$ 67,764

The unrealized gains and losses from fair value adjustments to these derivatives, which are recorded in regulatory assets or regulatory liabilities, for the three and nine-month periods ended September 30, 2016 and 2015, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In Thousands)		(In Thousands)	
Regulatory Assets - Derivative liabilities	$ (4,351)	$ (3,206)	$ 15,815	$ 7,751
Regulatory Liabilities - Derivative assets	$ (485)	$ 313	$ (467)	$ 5,886

The fluctuations in the balances of the derivatives as well as the related unrealized gains in the nine months ended September 30, 2016 as compared to year ended December 31, 2015 are primarily due to decreases in forward prices for capacity and reserves.

Equity Investments

UI is party to a 50-50 joint venture with the NRG affiliates in GenConn, which operates two peaking generation plants in Connecticut. UI's investment in GenConn is being accounted for as an equity investment, the carrying value of which was $106.3 million and $110.3 million as of September 30, 2016 and December 31, 2015, respectively. As of September 30, 2016, there was $0.1 million of undistributed earnings from UI's equity investment in GenConn.

UI's pre-tax income from its equity investment in GenConn was $3.3 million and $3.4 million for the three-month period ended September 30, 2016 and 2015, respectively. UI's pre-tax income from its equity investment in GenConn was $9.9 million and $10.3 million for the nine-month periods ended September 30, 2016 and 2015, respectively.

Cash distributions from GenConn are reflected as either distributions of earnings or as returns of capital in the operating and investing sections of the Statement of Cash Flows, respectively. UI received cash distributions from GenConn of $5.3 million and $5.5 million during the three-month period ended September 30, 2016 and 2015, respectively. UI received cash distributions from Gen Conn of $13.9 million and $14.1 million in the nine-month periods ended September 30, 2016 and 2015, respectively.

Regulatory Accounting

Unless otherwise stated below, all of UI's regulatory assets earn a return. UI's regulatory assets and liabilities as of September 30, 2016 and December 31, 2015:

	Remaining Period	September 30, 2016	December 31, 2015
		(In Thousands)	
Regulatory Assets:			
Unamortized redemption costs	7 to 19 years	$ 9,102	$ 9,697
Pension and other post-retirement benefit plans	(a)	181,030	181,030
Unfunded future income taxes	(b)	184,126	179,187
Contracts for differences	(c)	84,726	67,705
Deferred transmission expense	(d)	5,536	10,425
Other	(f)	29,197	28,348
Total regulatory assets		493,717	476,392
Less current portion of regulatory assets		36,236	44,469
Regulatory Assets, Net		$ 457,481	$ 431,923
Regulatory Liabilities:			
Accumulated deferred investment tax credits	20 years	$ 11,814	$ 10,156
Rate credits	Not applicable.	-	9,359
Excess generation service charge	(e)	2,524	20,895
Middletown/Norwalk local transmission network service collections	35 years	19,825	20,255
Pension and other post-retirement benefit plans	(a)	6,537	6,537
Asset removal costs	(f)	66,690	63,272
Deferred income taxes	(b)	143,517	119,607
Contracts for differences	(c)	-	739
Other	(f)	16,059	9,086
Total regulatory liabilities		266,966	259,906
Less current portion of regulatory liabilities		3,098	10,079
Regulatory Liabilities, Net		$ 263,868	$ 249,827

(a) Life is dependent upon timing of final pension plan distribution; balance, which is fully offset by a corresponding asset/liability, is recalculated each year in accordance with ASC 715 "Compensation-Retirement Benefits." See Note (F) "Pension and Other Benefits" for additional information.

(b) The balance will be extinguished when the asset, which is fully offset by a corresponding liability; or liability has been realized or settled, respectively.

(c) Asset life is equal to delivery term of related contracts (which vary from approximately 4 - 11 years); balance fluctuates based upon quarterly market analysis performed on the related derivatives (Note I); amount, which does not earn a return, is fully offset by corresponding derivative asset/liability. See "Contracts for Differences" discussion above for additional information.

(d) Regulatory asset or liability which defers transmission income or expense and fluctuates based upon actual revenues and revenue requirements.

(e) Regulatory asset or liability which defers generation-related and nonbypassable federally mandated congestion costs or revenues for future recovery from or return to customers. Amount fluctuates based upon timing differences between revenues collected from rates and actual costs incurred.

(f) Amortization period and/or balance vary depending on the nature, cost of removal and/or remaining life of the underlying assets/liabilities; liability amount includes decoupling ($1.6 million) and certain other amounts that are not currently earning a return. See Note (C) "Regulatory Proceedings" for a discussion of the decoupling recovery period.

Variable Interest Entities

UI has identified GenConn as a variable interest entity (VIE), which is accounted for under the equity method. UI is not the primary beneficiary of GenConn, as defined in ASC 810 "Consolidation," because it shares control of all significant activities of GenConn with its joint venturer, NRG affiliates. As such, GenConn is not subject to consolidation. GenConn recovers its costs through CfDs, which are cost of service-based and have been approved by PURA. As a result, with the achievement of commercial operation by GenConn Devon and GenConn Middletown, UI's exposure to loss is primarily related to the potential for unrecovered GenConn operating or capital costs in a regulatory proceeding, the effect of which would be reflected in the carrying value of UI's 50% ownership position in GenConn and through "Income from Equity Investments" in UI's Financial Statements. Such exposure to loss cannot be determined at this time. For further discussion of GenConn, see "–Equity Investments" as well as Note (C) Regulatory Proceedings – Equity Investment in Peaking Generation.

UI has identified the selected capacity resources with which it has CfDs as VIEs and has concluded that it is not the primary beneficiary as it does not have the power to direct any of the significant activities of these capacity resources. As such, UI has not consolidated the selected capacity resources. UI's maximum exposure to loss through these agreements is limited to the settlement amount under the CfDs as described in "–Derivatives – Contracts for Differences (CfDs)" above. UI has no requirement to absorb additional losses nor has UI provided any financial or other support during the periods presented that were not previously contractually required.

UI has identified the entities for which it is required to enter into long-term contracts to purchase Renewable Energy Credits (RECs) as VIEs. In assessing these contracts for VIE identification and reporting purposes, UI has aggregated the contracts based on similar risk characteristics and significance to UI. UI is not the primary beneficiary as it does not have the power to direct any of the significant activities of these entities. UI's exposure to loss is primarily related to the purchase and resale of the RECs, but, any losses incurred are recoverable through electric rates. For further discussion of RECs, see Note (C) Regulatory Proceedings – New Renewable Source Generation.

New Accounting Pronouncements

As of September 30, 2016 there have been no material changes to any significant accounting policies described in our financial statements as of December 31, 2015 and 2014. There have been no new accounting pronouncements issued since the issuance of our financial statements as of December 31, 2015 and 2014 that we expect to have a material effect on our interim financial statements.

(B) CAPITALIZATION

Common Stock

UI had 100 shares of common stock, no par value, outstanding at September 30, 2016 and December 31, 2015.

(C) REGULATORY PROCEEDINGS

Merger with Avangrid, Inc.

As discussed in Note A, "Business Organization and Statement of Accounting Policies", on December 16, 2015, UI's parent company, UIL Holdings, merged with Avangrid, Inc. PURA and DPU approvals were obtained upon commitments made by UIL Holdings and Avangrid, Inc. that included $9.4 million in rate credits to UI customers returned to customers in the first quarter of 2016, $7.0 million in contributions to a clean energy fund and disaster relief. These commitments were accrued upon completion of the merger.

In addition, the commitments include a distribution rate freeze to January 1, 2017 for UI. UIL Holdings and Avangrid, Inc. further committed to no change in the day-to-day management and operation of UIL Holdings' Connecticut and Massachusetts utilities, to hiring 150 employees or contractors within the State of Connecticut over the next three years, to maintain UI's high service reliability and to improve certain customer service metrics in Connecticut over the next three years.

The commitments also included comprehensive "ring fencing" provisions to protect the Connecticut and Massachusetts utilities from involuntary bankruptcy associated with potential future adverse changes in financial circumstances of Avangrid, Inc. affiliates. These provisions include the creation of a special purpose entity with at least one independent director, dividend limitations on the

Connecticut utilities where the investment grade credit rating is in jeopardy or if a minimum common equity ratio is not maintained, commitments to maintain separate books and records and a prohibition on commingling of funds.

In connection with the commitments, UI negotiated a proposed partial consent order with the Connecticut Department of Energy and Environmental Protection (DEEP) to remediate the English Station site in New Haven, Connecticut, formerly owned by UI. See Note (H) "Commitments and Contingencies" for further discussion regarding English Station.

Rates

Utilities are entitled by Connecticut statutes to charge rates that are sufficient to allow them an opportunity to cover their reasonable operating and capital costs, to attract needed capital and to maintain their financial integrity, while also protecting relevant public interests.

UI's allowed distribution return on equity ("ROE") established by PURA is 9.15%. UI is required to return to customers 50% of any distribution earnings over the allowed ROE in a calendar year by means of an earnings sharing mechanism. Under the settlement agreement entered into in connection with PURA's approval of the merger of UIL Holdings with Avangrid, Inc., UI agreed not to request new distribution rates effective prior to January 1, 2017.

On July 1, 2016, UI filed an application with the Connecticut Public Utilities Regulatory Authority, or PURA, requesting approval of a three-year rate plan commencing January 1, 2017, and extending through December 31, 2019. UI expects PURA to rule on the rate request in December 2016. UI's application requests an increase of $65.6 million in 2017, an additional $21.1 million in 2018, and an additional $13.4 million in 2019, totaling $100.1 million over the three years. During the litigation of the case, the three-year cumulative request was modified to $98.3 million. The original application includes a rate levelization proposal to moderate the customer impact of the necessary revenue increases. The proposal defers a portion of the first and second year increases and spreads recovery of the overall increase by approximately equivalent amounts over the three years of the rate plan with carrying charges included. The proposal results in levelized revenue requirement increases of $40.7 million in 2017, $47.4 million in 2018 and $39.1 million in 2019, followed by an offset of $25.6 million at the end of the three year rate plan to equate the levelized recovery to the non-levelized revenue requirement increase.

UI's rate request is attributable primarily to the amount of capital expenditures devoted to its electric distribution system for the purpose of reliability and system resiliency, both in relation to routine operations and during major storm events. UI's application also proposes continuation of its revenue decoupling mechanism and proposes a new earnings sharing mechanism (ESM). Under the proposed ESM, 50% of UI's earnings in excess of the allowed ROE, plus a deadband above the allowed ROE, would be flowed through to the benefit of customers. The proposed ESM includes a 20-basis point deadband in 2017 above the authorized ROE, within which there would be no sharing. This deadband would be 30 basis points in 2018 and 40 basis points in 2019. UI proposes to continue applying any dollars due to customers to reduce the storm regulatory asset, if one exists. If none exists, then the customer share would be provided through a bill credit.

Power Supply Arrangements

Under Connecticut law, UI's retail electricity customers are able to choose their electricity supplier while UI remains their electric distribution company. UI purchases power for those of its customers under standard service rates who do not choose a retail electric supplier and have a maximum demand of less than 500 kilowatts and its customers under supplier of last resort service for those who are not eligible for standard service and who do not choose to purchase electric generation service from a retail electric supplier. The cost of the power is a "pass-through" to those customers through the GSC charge on their bills.

UI must procure the power to serve its standard service load pursuant to a procurement plan approved by PURA. Under the procurement plan UI procures wholesale power for its standard service customers on a full requirements basis pursuant to contracts with a maximum duration of 12 months, with the delivery of such wholesale power to commence no later than six months from the applicable bid day.

UI has wholesale power supply agreements in place for its entire standard service load for all of 2016, 80% of its standard service load and 20% of its standard service load for the first half of 2017. Supplier of last resort service is procured on a quarterly basis, however, from time to time there are no bidders in the procurement process for supplier of last resort service and in such cases UI manages the load directly. UI determined that its contracts for standard service and supplier of last resort service are derivatives under ASC 815 “Derivatives and Hedging” and elected the “normal purchase, normal sale” exception under ASC 815 “Derivatives and Hedging.” UI regularly assesses the accounting treatment for its power supply contracts. These wholesale power supply agreements contain default provisions that include required performance assurance, including certain collateral obligations, in the event that UI’s credit rating on senior debt were to fall below investment grade. If UI’s credit rating were to decline one rating at Standard & Poor’s or two ratings at Moody’s and UI were to be placed on negative credit watch, monthly amounts due and payable to the power suppliers would be accelerated to semi-monthly payments. UI’s credit rating would have to decline two ratings at Standard & Poor’s and three ratings at Moody’s to fall below investment grade. If this were to occur, UI would have to deliver collateral security in an amount equal to the receivables due to the sellers for the thirty-day period immediately preceding the default notice. If such an event had occurred as of September 30, 2016, UI would have had to post an aggregate of approximately $9.58 million in collateral. UI would have been and remains able to provide that collateral.

New Renewable Source Generation

Under Connecticut law Public Act (PA 11-80), Connecticut electric utilities are required to enter into long-term contracts to purchase Connecticut Class I Renewable Energy Certificates, or RECs, from renewable generators located on customer premises. Under this program, UI is required to enter into contracts totaling approximately $200 million in commitments over an approximate 21-year period. The obligations will phase in over a six-year solicitation period, and are expected to peak at an annual commitment level of about $13.6 million per year after all selected projects are online. Upon purchase, UI accounts for the RECs as inventory. UI expects to partially mitigate the cost of these contracts through the resale of the RECs. PA 11-80 provides that the remaining costs (and any benefits) of these contracts, including any gain or loss resulting from the resale of the RECs, are fully recoverable from (or credited to) customers through electric rates.

Through UI’s renewable connections program UI is developing up to 10 MW of renewable generation. The costs for this program will be recovered on a cost of service basis. PURA established a base ROE to be calculated as the greater of: (A) the current UI authorized distribution ROE (currently 9.15%) plus 25 basis points and (B) the current authorized distribution ROE for CL&P (currently 9.17%), less target equivalent market revenues (reflected as 25 basis points). In addition, UI will retain a percentage of the market revenues from the project, which percentage is expected to equate to approximately 25 basis points on a levelized basis over the life of the project. UI expects the cost of this program, a planned 2.8 MW fuel cell facility in New Haven, solar photovoltaic and fuel cell facilities totaling 5 MW in Bridgeport, and a 2.2 MW fuel cell facility in Woodbridge to be approximately $47 million.

Pursuant to Connecticut law (PA 13-303), on September 19, 2013, at the direction DEEP UI entered into two contracts for energy and/or RECs from Class I renewable resources, the Number Nine Wind Farm and the Fusion Solar Center, totaling approximately 3.5% of UI’s distribution load, which were subsequently approved by PURA. Costs of each of these agreements will be fully recoverable through electric rates. On December 18, 2013, Allco Finance Limited, an unsuccessful bidder for such contracts, filed a complaint against DEEP in the United States District Court in Connecticut alleging that DEEP’s direction to UI and CL&P to enter into the contracts violated the Supremacy Clause of the U.S. Constitution and the Federal Power Act by setting wholesale electricity rates. This complaint was dismissed in December 2014. On January 2, 2015 Allco filed an appeal with the United States Court of Appeals for the Second Circuit. On November 6, 2015 the Second Circuit affirmed the district court’s judgment on alternative grounds. On June 29, 2016 UI and Number Nine Wind Farm mutually agreed to a termination of their contract prior to the facility achieving commercial operation.

Pursuant to Section 8 of Public Act 13-303, “An Act Concerning Connecticut’s Clean Energy Goals,” (PA 13-303), in January 2014, at DEEP’s direction, UI entered into three contracts for the purchase of RECs associated with an aggregate of 5.7 MW of energy production from biomass plants in New England. The costs of these agreements will be fully recoverable through electric rates.

Transmission

PURA decisions do not affect the revenue requirements determination for UI’s transmission business, including the applicable ROE, which are within the jurisdiction of the FERC. The FERC has issued orders establishing allowable ROEs for transmission projects of transmission owners in New England, including UI. The FERC established a base-level ROE of 11.14%, as well as a 50 basis point ROE adder on Pool Transmission Facilities (PTF) for participation in the RTO for New England and a 100 basis point ROE incentive for projects included in the ISO-NE Regional System Plan that were completed and on line as of December 31, 2008.

UI's overall transmission ROE is determined by the mix of UI's transmission rate base between new and existing transmission assets, and whether such assets are PTF or non-PTF. UI's transmission assets are primarily PTF. For 2015, UI's overall allowed weighted-average ROE for its transmission business was 11.35%. This includes the impact of the FERC order issued on October 16, 2014 and excludes any impacts of the reserve adjustment, both of which are discussed below.

FERC ROE Complaints

Beginning in 2011, several New England state attorneys general, state regulatory commissions, consumer advocates, consumer groups, municipal parties and other parties filed three separate complaints with the FERC against ISO-NE and several New England transmission owners, including UI. In the first complaint, filed in September 2011, the complainants claimed that the then current approved base ROE of 11.14% used in calculating formula rates for transmission service under the ISO-NE Open Access Transmission Tariff by the New England transmission owners was not just and reasonable and sought a reduction of the base ROE and a refund to customers for a refund period of October 1, 2011 through December 31, 2012. In 2012 and 2014, respectively, the complainants filed claims with the FERC similarly challenging the base ROE and seeking refunds for the 15-month periods beginning December 27, 2012 and July 31, 2014, respectively. The complainants in the third complaint also asked for a determination that the top of the zone of reasonableness caps the ROE for each individual project. The FERC issued an order consolidating the second and third complaints and establishing hearing procedures. The New England transmission owners petitioned FERC for a rehearing, which was denied in May 2015. Hearings were held in June 2015 on the second and third complaints before a FERC Administrative Law Judge, relating to the refund periods and going forward. On July 29, 2015, post-hearing briefs were filed by parties and on August 26, 2015 reply briefs were filed by parties. On July 13, 2015, the New England transmission owners filed a petition for review of FERC's orders establishing hearing and consolidation procedures for the second and third complaints with the U.S. Court of Appeals. The Administrative Law Judge issued an Initial Decision on March 22, 2016. The Initial Decision determined that, 1) for the 15 month refund period in Complaint II, the base ROE should be 9.59% and that the ROE Cap (base ROE plus incentive ROEs) should be 10.42% and 2) for the 15 month refund period in Complaint III and prospectively, the base ROE should be 10.90% and that the ROE Cap should be 12.19%. The Initial Decision is the Administrative Law Judge's recommendation to the FERC Commissioners. The FERC is expected to make its final decision in late 2016 or early 2017.

In 2014, the FERC determined that the base ROE should be set at 10.57% for the first complaint refund period and that a utility's total or maximum ROE should not exceed 11.74%. The FERC ordered the New England transmission owners to provide refunds to customers for the first complaint refund period and set the new base ROE of 10.57% prospectively from October 16, 2014.

On March 3, 2015, the FERC issued an Order on Rehearing in the first complaint (the March Order) denying all rehearing requests from the complainants and the New England transmission owners. On April 30, 2015, the New England transmission owners filed a petition for review of the FERC's decisions on the first complaint with the U.S. Court of Appeals for the D.C. Circuit. On May 1, 2015, two additional petitions for review of those FERC decisions were also filed at the D.C. Circuit by the complainants and by several customers. The appeals of the FERC's decisions on the first complaint have been consolidated and are currently pending before the D.C. Circuit. UI recorded additional pre-tax reserves of $6.0 million in 2016 relating to the third complaint and the March Order. As of June 30, 2016, net pre-tax reserves relating to refunds and potential refunds to customers under all three claims were approximately $4.2 million and cumulative pre-tax reserves were approximately $10.6 million, of which $6.4 million has already been refunded to customers. If adopted as final, the impact of the initial decision would be an additional reserve for Complaints II and III of $4.3 million, net of tax, which is based upon currently available information for these proceedings. We cannot predict the outcome of the Complaint II and III proceeding.

On April 29, 2016, the Complainants filed a fourth, related, complaint (Complaint IV) for a subsequent rate period requesting the base ROE be 8.61% and ROE Cap be 11.24%. The NETOs filed a response to the Complaint IV on June 3, 2016. On September 20, 2016, FERC accepted the Complaint IV, established a 15-month refund effective date of April 29, 2016, and set the matter for hearing and settlement judge procedures.

FERC Section 206 Proceeding

On December 28, 2015, the FERC issued an order instituting section 206 proceedings and establishing hearing and settlement judge procedures. Pursuant to section 206 of the Federal Power Act, or FPA, the FERC found that the ISO-NE Transmission, Markets, and Services Tariff is unjust, unreasonable, and unduly discriminatory or preferential. FERC stated that ISO-NE's Tariff lacks adequate transparency and challenge procedures with regard to the formula rates for ISO-NE Participating Transmission Owners, including UI.

FERC also found that the current RNS and LNS formula rates appear to be unjust, unreasonable, unduly discriminatory or preferential or otherwise unlawful as the formula rates appear to lack sufficient detail in order to determine how certain costs are derived and recovered in the formula rates. A settlement judge has been appointed and a settlement conference has convened. UI is unable to predict the outcome of this proceeding at this time.

New England East-West Solution

Pursuant to an agreement with CL&P (the Agreement), UI had the right to invest in, and own transmission assets associated with, the Connecticut portion of CL&P's New England East West Solution (NEEWS) projects to improve regional energy reliability. NEEWS consists of four inter-related transmission projects being developed by subsidiaries of Northeast Utilities (doing business as Eversource Energy), the parent company of CL&P, in collaboration with National Grid USA. Three of the projects have portions located in Connecticut: (1) the Greater Springfield Reliability Project (GSRP), which was fully energized in November 2013, (2) the Interstate Reliability Project (IRP), was fully energized in December 2015 and (3) the Central Connecticut Reliability Project (CCRP), which was reassessed as part of the Greater Hartford Central Connecticut Study (GHCC). As CL&P placed assets in service, it transferred title to certain NEEWS transmission assets to UI in proportion to UI's investments, but CL&P continues to maintain these portions of the transmission system pursuant to an operating and maintenance agreement with UI. Any termination of the Agreement pursuant to its terms would have no effect on the assets transferred to UI.

Deposits associated with NEEWS were recorded as assets at the time the deposit was made and they were reported in the 'Other' line item within the Deferred Charges and Other Assets section of the balance sheet. When title to the assets was transferred to UI, the amount of the corresponding deposit was reclassified from other assets to plant-in-service on the balance sheet and shown as a non-cash investing activity in the statement of cash flows.

As of September 30, 2016, UI had made aggregate deposits of $45 million under the Agreement since its inception, with assets associated with the GSRP valued at approximately $24.6 million and assets associated with the IRP valued at approximately $20 million having been transferred to UI. UI does not anticipate making any additional investments in NEEWS under the agreement.

Equity Investment in Peaking Generation

UI is party to a 50-50 joint venture with the NRG affiliates in GenConn, which operates two peaking generation plants in Connecticut. The two peaking generation plants, GenConn Devon and GenConn Middletown, are both participating in the ISO-New England markets. PURA has approved revenue requirements for the period from January 1, 2016 through December 31, 2016 of $29.3 million and $36.4 million for GenConn Devon and GenConn Middletown, respectively. In addition, PURA has ruled that GenConn project costs incurred that were in excess of the proposed costs originally submitted in 2008 were prudently incurred and are recoverable. Such costs are included in the determination of the 2015 approved revenue requirements.

(D) SHORT-TERM CREDIT ARRANGEMENTS

On April 5, 2016, Avangrid Inc. and its regulated subsidiaries, including UI, entered into a revolving credit facility with a syndicate of banks (the Credit Facility), that provides for maximum borrowings of up to $1.5 billion in the aggregate. Under the terms of the Credit Facility, each joint borrower has a maximum borrowing entitlement, or sublimit, which can be periodically adjusted to address specific short-term capital funding needs, subject to the maximum limit established by the banks. UI has a maximum sublimit of $250 million. Under the Credit Facility, each of the borrowers will pay an annual facility fee that is dependent on its credit rating. The maturity date for the Credit Facility is April 5, 2021.

As of September 30, 2016, UI did not have any borrowings outstanding under the Credit Facility.

(E) INCOME TAXES

The significant portion of UI's income tax expense, including deferred taxes, is recovered through its utility rates. UI's annual income tax expense and associated effective tax rate is impacted by differences in the treatment of certain transactions for book and tax purposes and by differences between the timing of deferred tax temporary difference activity and deferred tax recovery. In accordance with ASC 740, UI uses an estimated annual effective tax rate approach to calculate interim period income tax expense for ordinary income. UI also records separate income tax effects for significant unusual or infrequent items. The annualized effective income tax rates for the nine-month periods ended September 30, 2016 and 2015 were 31.8% and 31.0%, respectively. Income tax expense for the nine months of 2016 increased $2.1 million from the nine months of 2015 due to higher pre-tax income and a higher effective tax rate; partially offset by a one-time, $1.1 million adjustment in 2015 associated with the completion of the Internal Revenue Service's examination of income tax years 2009 through 2012.

(F) PENSION AND OTHER BENEFITS

During the nine months ended September 30, 2016, UI made $22.5 million in pension contributions. No further contributions are expected to be made during the remainder of 2016.

The following table represents the components of net periodic benefit cost for pension and other postretirement benefits (OPEB) as well as the actuarial weighted-average assumptions used in calculating net periodic benefit costs for the three-month and nine-month period ended September 30, 2016:

	Three Months Ended September 30,			
	Pension Benefits		Other Post-Retirement Benefits	
	2016	2015	2016	2015
	(In Thousands)			
Components of net periodic benefit cost:				
Service cost	$ 1,578	$ 1,955	$ 257	$ 251
Interest cost	5,718	5,542	787	895
Expected return on plan assets	(6,435)	(7,190)	(418)	(454)
Amortization of:				
Prior service costs	(1)	(1)	(382)	9
Actuarial (gain) loss	5,906	4,472	408	32
Net periodic benefit cost	$ 6,766	$ 4,778	$ 652	$ 733

	Nine Months Ended September 30,			
	Pension Benefits		Other Post-Retirement Benefits	
	2016	2015	2016	2015
	(In Thousands)			
Components of net periodic benefit cost:				
Service cost	$ 4,733	$ 5,865	$ 770	$ 870
Interest cost	17,155	16,626	2,361	2,577
Expected return on plan assets	(19,311)	(21,570)	(1,255)	(1,386)
Amortization of:				
Prior service costs	(4)	(3)	(1,145)	39
Actuarial (gain) loss	17,720	13,416	1,224	798
Net periodic benefit cost	$ 20,293	$ 14,334	$ 1,955	$ 2,898
Discount rate	4.24%	4.20%-4.30%	4.24%	4.30%
Average wage increase	3.80%	3.80%	N/A	N/A
Return on plan assets	7.75%	8.00%	7.75%	8.00%
Composite health care trend rate (current year)	N/A	N/A	7.00%	7.00%
Composite health care trend rate (2026 forward)	N/A	N/A	4.50%	5.00%

N/A – not applicable

(G) RELATED PARTY TRANSACTIONS

During the nine-month period ended September 30, 2016 and year ended December 31, 2015, UI received cash distributions from GenConn. See Note (A) "Business Organization and Statement of Accounting Policies – Equity Investments".

Inter-company Transactions

UI receives various administrative and management services from and enters into certain inter-company transactions with UIL Holdings and its subsidiaries. For the nine-month periods ended September 30, 2016 and 2015, UI recorded inter-company expenses of $30.9 million and $40.8 million, respectively, which consisted primarily of operation and maintenance expenses. Costs of the services that are allocated amongst UI and other of UIL Holdings' regulated subsidiaries are settled periodically by way of inter-company billings and wire transfers. At September 30, 2016 and December 31, 2015, the Balance Sheet reflects inter-company receivables, included in other accounts receivable of $7.7 million and $9.8 million, respectively, and inter-company payables, included in accounts payable, of $9.7 million and $19.3 million, respectively.

Dividends/Capital Contributions

In 2016 and 2015, UI made wire transfers to UIL Holdings on a quarterly basis in order to maintain its capitalization structure as allowed per PURA's final decision in UI's 2008 distribution rate proceeding. For the three-month period ended September 30, 2016, UI did not accrue any dividends to UIL Holdings and for the year ended December 31, 2015, UI accrued dividends to UIL Holdings of $59.7 million.

(H) COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, UI and its subsidiaries are involved in various proceedings, including legal, tax, regulatory and environmental matters, which require management's assessment to determine the probability of whether a loss will occur and, if probable, an estimate of probable loss. When assessments indicate that it is probable that a liability has been incurred and an amount can be reasonably estimated, UI accrues a reserve and discloses the reserve and related matter. UI discloses material matters when losses are probable but for which an estimate cannot be reasonably estimated or when losses are not probable but are reasonably possible. Subsequent analysis is performed on a periodic basis to assess the impact of any changes in events or circumstances and any resulting need to adjust existing reserves or record additional reserves. However, given the inherent unpredictability of these legal and regulatory proceedings, we cannot assure you that our assessment of such proceedings will reflect the ultimate outcome, and an adverse outcome in certain matters could have a material adverse effect on our results of operations or cash flows.

Connecticut Yankee Atomic Power Company

UI has a 9.5% stock ownership share in the Connecticut Yankee Atomic Power Company, an inactive nuclear generating company (Connecticut Yankee), the carrying value of which was $0.2 million as of September 30, 2016. Connecticut Yankee has completed the physical decommissioning of its generation facilities and is now engaged primarily in the long-term storage of its spent nuclear fuel. Connecticut Yankee collects its costs through wholesale FERC-approved rates from UI and several other New England utilities. UI recovers these costs from its customers through electric rates.

DOE Spent Fuel Litigation

In 1998, Connecticut Yankee filed claims in the United States Court of Federal Claims seeking damages resulting from the breach of the 1983 spent fuel and high level waste disposal contract between Connecticut Yankee and the DOE. In September 2010, the court issued its decision and awarded Connecticut Yankee damages of $39.7 million for its spent fuel-related costs through 2001, which was affirmed in May 2012. Connecticut Yankee received payment of the damage award and, in light of its ownership share, in July 2013 UI received approximately $3.8 million of such award which was credited back to customers through the CTA.

In December 2007, Connecticut Yankee filed a second set of complaints with the United States Court of Federal Claims against the DOE seeking damages incurred since January 1, 2002 for the DOE's failure to remove Connecticut Yankee's spent fuel. In November 2013, the court issued a final judgment, which was not appealed, awarding Connecticut Yankee damages of $126.3 million. In light of its ownership share, in June 2014, UI received approximately $12.0 million of such award which was applied, in part, against the remaining storm regulatory asset balance. The remaining regulatory liability balance was applied to the GSC "working capital allowance" and will be returned to customers through the nonbypassable federally mandated congestion charge

In August 2013, the Yankee Companies filed a third round of claims against the Government seeking damages for the years 2009-2014 (Phase III). The Phase III trial was completed in July 2015 and the court issued its decision on March 25, 2016 awarding the Yankee Companies a combined $76.8 million (Connecticut Yankee $32.6 million, Maine Yankee $24.6 million and Yankee Atomic $19.6 million). The damage awards will potentially flow through the Yankee Companies to shareholders, including UI, upon FERC approval, and will reduce retail customer charges or otherwise as specified by law. UI will receive their proportionate share of the awards that flow through based on percentage ownership. On July 18, 2016, the notice of appeal period expired and the Phase III trial award became final. On October 14, 2016, the Yankee Companies received the Government's payment of the damage award. We cannot predict the timing or amount of damage awards that may ultimately flow through to customers.

Environmental Matters

In complying with existing environmental statutes and regulations and further developments in areas of environmental concern, including legislation and studies in the fields of water quality, hazardous waste handling and disposal, toxic substances, climate change and electric and magnetic fields, UI may incur substantial capital expenditures for equipment modifications and additions, monitoring equipment and recording devices, as well as additional operating expenses. The total amount of these expenditures is not now determinable. Environmental damage claims may also arise from the operations of our subsidiaries. Significant environmental issues known to UI at this time are described below.

Site Decontamination, Demolition and Remediation Costs

In January 2012, Evergreen Power, LLC (Evergreen Power) and Asnat Realty LLC (Asnat), then and current owners of a former generation site on the Mill River in New Haven (the "English Station site") that UI sold to Quinnipiac Energy in 2000, filed a lawsuit in federal district court in Connecticut against UI seeking, among other things: (i) an order directing UI to reimburse the plaintiffs for costs they have incurred and will incur for the testing, investigation and remediation of hazardous substances at the English Station site and (ii) an order directing UI to investigate and remediate the site. In December 2013, Evergreen and Asnat filed a subsequent lawsuit in Connecticut state court seeking among other things: (i) remediation of the property; (ii) reimbursement of remediation costs; (iii) termination of UI's easement rights; (iv) reimbursement for costs associated with securing the property; and (v) punitive damages. UI believes the claims are without merit. These lawsuits were stayed pending the resolution of the proposed partial consent order described below.

On April 8, 2013, DEEP issued an administrative order addressed to UI, Evergreen Power, Asnat and others, ordering the parties to take certain actions related to investigating and remediating the English Station site. These proceedings were stayed pending the resolution of the proposed partial consent order described below.

On August 4, 2016, DEEP issued a Partial Consent Order that, subject to its terms and conditions, requires UI to investigate and remediate certain environmental conditions within the perimeter of the English Station site. Under the Partial Consent Order, to the extent that the cost of this investigation and remediation is less than $30 million, UI will remit to the State of Connecticut the difference between such cost and $30 million to be used for a public purpose as determined in the discretion of the Governor of the State of Connecticut, the Attorney General of the State of Connecticut, and the Commissioner of DEEP. UI is obligated to comply with the terms of the Partial Consent Order even if the cost of such compliance exceeds $30 million. Under the terms of the Partial Consent Order, the State will discuss options with UI on recovering or funding any cost above $30 million such as through public funding or recovery from third parties; however, it is not bound to agree to or support any means of recovery or funding.

In connection with the Partial Consent Order, on August 4, 2016, DEEP also issued a Consent Order to Evergreen Power, Asnat, and certain related parties that provides UI access to investigate and remediate the English Station site consistent with the Partial Consent Order. UI has initiated its process to investigate and remediate the environmental conditions within the perimeter of the English Station site pursuant to the Partial Consent Order.

As of December 31, 2015 we reserved $20.5 million for this case and have accrued the remaining $9.5 million in accordance with the settlement with PURA approving the acquisition. As of September 30, 2016 the reserve amount remained unchanged.

With respect to transmission-related property adjacent to the New Haven Harbor Generating Station, UI performed an environmental analysis that indicated remediation expenses would be approximately $3.2 million. UI has accrued these estimated expenses, which were recovered in transmission rates.

(I) FAIR VALUE MEASUREMENTS

As required by ASC 820 "Fair Value Measurements and Disclosures," financial assets and liabilities are classified in their entirety, based on the lowest level of input that is significant to the fair value measurement. UI's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The following tables set forth the fair value of UI's financial assets and liabilities, other than pension benefits and other postretirement benefits, as of September 30, 2016 and December 31, 2015:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
September 30, 2016	(In Thousands)			
Assets:				
Derivative assets	$ -	$ -	$ 22,242	$ 22,242
Supplemental retirement benefit trust life insurance policies	-	9,574	-	9,574
	-	9,574	22,242	31,816
Liabilities:				
Derivative liabilities	-	-	106,969	106,969
Long-term debt	-	1,000,618	-	1,000,618
	-	1,000,618	106,969	1,107,587
Net fair value assets/(liabilities), September 30, 2016	$ -	$ (991,044)	$ (84,727)	$ (1,075,771)
December 31, 2015				
Assets:				
Derivative assets	$ -	$ -	$ 29,264	$ 29,264
Supplemental retirement benefit trust life insurance policies	-	9,544	-	9,544
	-	9,544	29,264	38,808
Liabilities:				
Derivative liabilities	-	-	96,230	96,230
Long-term debt	-	955,420	-	955,420
	-	955,420	96,230	1,051,650
Net fair value assets/(liabilities), December 31, 2015	$ -	$ (945,876)	$ (66,966)	$ (1,012,842)

Fair value measurements categorized in Level 3 of the fair value hierarchy are prepared by individuals with expertise in valuation techniques, pricing of energy and energy-related products, and accounting requirements. The derivative assets consist primarily of CfDs. The determination of fair value of the CfDs was based on a probability-based expected cash flow analysis that was discounted at the September 30, 2016 and December 31, 2015 risk-free interest rates, as applicable, and an adjustment for non-performance risk using credit default swap rates. Certain management assumptions were required, including development of pricing that extended over the term of the contracts. UI believes this methodology provides the most reasonable estimates of the amount of future discounted cash flows associated with the CfDs.

Additionally, on a quarterly basis, UI performs analytics to ensure that the fair value of the derivatives is consistent with changes, if any, in the various fair value model inputs. Additional quantitative information about Level 3 fair value measurements is as follows:

	Unobservable Input	Range at September 30, 2016	Range at December 31, 2015
Contracts for differences	Risk of non-performance	0.25% - 0.75%	0.06% - 0.88%
	Discount rate	0.88% - 1.60%	1.31% - 2.27%
	Forward pricing ($ per MW)	$3.15 - $9.55	$3.15 - $11.19

Significant isolated changes in the risk of non-performance, the discount rate or the contract term pricing would result in an inverse change in the fair value of the CfDs.

The determination of the fair value of the supplemental retirement benefit trust life insurance policies was based on quoted prices as of September 30, 2016 and December 31, 2015 in the active markets for the various funds within which the assets are held.

Long-term debt is carried at cost on the balance sheet. The fair value of long-term debt as displayed in the table above is based on evaluated prices that reflect significant observable market information such as reported trades, actual trade information of similar securities, benchmark yields, broker/dealer quotes of new issue prices and relevant credit information.

The following tables set forth a reconciliation of changes in the fair value of the assets and liabilities above that are classified as Level 3 in the fair value hierarchy for the nine-month period ended September 30, 2016:

	Nine Months Ended September 30, 2016 (In Thousands)	
Net derivative assets/(liabilities), December 31, 2015	$	(66,966)
Unrealized gains and (losses), net		(17,761)
Net derivative assets/(liabilities), September 30, 2016	$	(84,727)
Change in unrealized gains (losses), net relating to net derivative assets/(liabilities), still held as of September 30, 2016	$	(17,761)

	Nine Months Ended September 30, 2016 (In Thousands)	
Net regulatory assets/(liabilities), December 31, 2015	$	66,966
Unrealized (gains) and losses, net		17,761
Net regulatory assets/(liabilities), September 30, 2016	$	84,727

CONSOLIDATED FINANCIAL STATEMENTS

OF

THE SOUTHERN CONNECTICUT GAS COMPANY

AS OF SEPTEMBER 30, 2016 AND DECEMBER 31, 2015 AND
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

(UNAUDITED)

TABLE OF CONTENTS

THE SOUTHERN CONNECTICUT GAS COMPANY
CONSOLIDATED STATEMENT OF INCOME
(In Thousands)
(Unaudited)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Operating Revenues	$ 61,919	$ 46,217	$ 249,462	$ 248,545
Operating Expenses				
Operation				
Natural gas purchased	29,764	14,075	108,930	104,180
Operation and maintenance	20,320	21,148	67,301	67,920
Depreciation and amortization	6,445	5,944	19,292	17,399
Taxes - other than income taxes	5,227	4,548	18,467	18,587
Total Operating Expenses	61,756	45,715	213,990	208,086
Operating Income	163	502	35,472	40,459
Other Income and (Deductions), net				
Other income	40	1,335	701	1,006
Other (deductions)	(246)	(619)	(634)	(446)
Total Other Income and (Deductions), net	(206)	716	67	560
Interest Charges, net				
Interest on long-term debt	3,344	3,344	10,031	10,031
Other interest, net	61	(211)	116	(20)
	3,405	3,133	10,147	10,011
Amortization of debt expense and redemption premiums	116	77	395	231
Total Interest Charges, net	3,521	3,210	10,542	10,242
Income (Loss) Before Income Taxes	(3,564)	(1,992)	24,997	30,777
Income Taxes	(1,709)	(1,142)	8,948	11,230
Net Income (Loss)	$ (1,855)	$ (850)	$ 16,049	$ 19,547

THE SOUTHERN CONNECTICUT GAS COMPANY
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In Thousands)
(Unaudited)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net Income (Loss)	$ (1,855)	$ (850)	$ 16,049	$ 19,547
Other Comprehensive Income (Loss), net of income taxes				
Changes in unrealized gains(losses) related to pension and other post-retirement benefit plans	41	(368)	253	(280)
Comprehensive Income	$ (1,814)	$ (1,218)	$ 16,302	$ 19,267

Connecticut Energy Corporation, a wholly owned subsidiary of UIL Holdings Corporation, is a holding company whose sole business is ownership of the Southern Connecticut Gas Company (SCG). The Consolidated Financial Statements of SCG include the accounts of all variable interest entities where SCG has been determined to be the primary beneficiary including the Milford LNG facility owned by United Resources, Inc., a wholly owned subsidiary of UIL Holdings Corporation.

THE SOUTHERN CONNECTICUT GAS COMPANY
BALANCE SHEET
ASSETS
(In Thousands)
(Unaudited)

	September 30, 2016	December 31, 2015
Current Assets		
Unrestricted cash and temporary cash investments	$ 2,109	$ 6,946
Accounts receivable less allowance of $1,300 and $1,800, respectively	44,356	53,681
Unbilled revenues	11,941	15,805
Current regulatory assets	18,232	27,272
Natural gas in storage, at average cost	28,066	32,109
Materials and supplies, at average cost	1,920	2,311
Refundable taxes	13,002	10,793
Prepayments	2,894	523
Other	4	3,005
Total Current Assets	122,524	152,445
Other investments	9,708	9,645
Net Property, Plant and Equipment	660,963	641,071
Regulatory Assets	150,867	156,085
Deferred Charges and Other Assets		
Unamortized debt issuance expenses	180	125
Goodwill	134,931	134,931
Other	252	-
Total Deferred Charges and Other Assets	135,363	135,056
Total Assets	$ 1,079,425	$ 1,094,302

Connecticut Energy Corporation, a wholly owned subsidiary of UIL Holdings Corporation, is a holding company whose sole business is ownership of the Southern Connecticut Gas Company (SCG). The Consolidated Financial Statements of SCG include the accounts of all variable interest entities where SCG has been determined to be the primary beneficiary including the Milford LNG facility owned by United Resources, Inc., a wholly owned subsidiary of UIL Holdings Corporation.

THE SOUTHERN CONNECTICUT GAS COMPANY
BALANCE SHEET
LIABILITIES AND CAPITALIZATION
(In Thousands)
(Unaudited)

	September 30, 2016	December 31, 2015
Current Liabilities		
Current portion of long-term debt	$ 2,517	$ 2,517
Accounts payable	32,213	41,516
Accrued liabilities	16,414	16,148
Current regulatory liabilities	4,834	7,929
Interest accrued	1,986	2,271
Taxes accrued	2,655	3,687
Intercompany payable	14,400	46,000
Total Current Liabilities	75,019	120,068
Deferred Income Taxes	56,608	44,521
Regulatory Liabilities	176,895	170,205
Other Noncurrent Liabilities		
Pension accrued	40,753	42,173
Other post-retirement benefits accrued	16,304	15,913
Other	14,974	13,350
Environmental liabilities	48,779	49,000
Total Other Noncurrent Liabilities	120,810	120,436
Commitments and Contingencies		
Capitalization		
Long-term debt, net of unamortized premium	223,075	224,856
Noncontrolling interest	16,869	20,369
Common Stock Equity		
Common stock	18,761	18,761
Paid-in capital	369,737	369,737
Retained earnings	21,763	5,714
Accumulated other comprehensive income (loss)	(112)	(365)
Net Common Stock Equity	410,149	393,847
Total Capitalization	650,093	639,072
Total Liabilities and Capitalization	$ 1,079,425	$ 1,094,302

Connecticut Energy Corporation, a wholly owned subsidiary of UIL Holdings Corporation, is a holding company whose sole business is ownership of the Southern Connecticut Gas Company (SCG). The Consolidated Financial Statements of SCG include the accounts of all variable interest entities where SCG has been determined to be the primary beneficiary including the Milford LNG facility owned by United Resources, Inc., a wholly owned subsidiary of UIL Holdings Corporation.

THE SOUTHERN CONNECTICUT GAS COMPANY
STATEMENT OF CASH FLOWS
(In Thousands)
(Unaudited)

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Cash Flows From Operating Activities		
Net income	$ 16,049	$ 19,547
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,687	17,630
Deferred income taxes	12,465	13,667
Pension expense	5,310	4,032
Regulatory activity, net	14,127	7,648
Other non-cash items, net	(313)	(555)
Changes in:		
Accounts receivable, net	9,824	13,990
Unbilled revenues	3,864	14,954
Natural gas in storage	4,043	10,862
Prepayments	(2,372)	(1,948)
Accounts payable	(4,542)	(18,004)
Interest accrued	(285)	(909)
Taxes accrued/refundable, net	(3,262)	(9,639)
Accrued liabilities	266	994
Accrued pension	(5,470)	(8,419)
Accrued other post-employment benefits	(869)	(1,785)
Other assets	3,121	(263)
Other liabilities	555	304
Total Adjustments	56,149	42,559
Net Cash provided by Operating Activities	72,198	62,106
Cash Flows from Investing Activities		
Plant expenditures including AFUDC debt	(41,735)	(44,574)
Net Cash (used in) Investing Activities	(41,735)	(44,574)
Cash Flows from Financing Activities		
Payment of common stock dividend	-	(15,000)
Payment of noncontrolling interest dividend	(3,500)	-
Intercompany payable	(31,600)	2,000
Other	(200)	-
Net Cash (used in) provided by Financing Activities	(35,300)	(13,000)
Unrestricted Cash and Temporary Cash Investments:		
Net change for the period	(4,837)	4,532
Balance at beginning of period	6,946	428
Balance at end of period	$ 2,109	$ 4,960
Non-cash investing activity:		
Plant expenditures included in ending accounts payable	$ 3,430	$ 4,293

Connecticut Energy Corporation, a wholly owned subsidiary of UIL Holdings Corporation, is a holding company whose sole business is ownership of the Southern Connecticut Gas Company (SCG). The Consolidated Financial Statements of SCG include the accounts of all variable interest entities where SCG has been determined to be the primary beneficiary including the Milford LNG facility owned by United Resources, Inc., a wholly owned subsidiary of UIL Holdings Corporation

THE SOUTHERN CONNECTICUT GAS COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
September 30, 2016
(Thousands of Dollars)

	Common Stock				Paid-in		Retained Earnings (Accumulated		Accumulated Other Comprehensive		
	Shares		Amount		Capital		Deficit)		Income (Loss)		Total
Balance as of December 31, 2015	1,407,072	$	18,761	$	369,737	$	5,714	$	(365)	$	393,847
Net income							16,049				16,049
Other comprehensive loss, net of income taxes									253		253
Balance as of September 30, 2016	1,407,072	$	18,761	$	369,737	$	21,763	$	(112)	$	410,149

Connecticut Energy Corporation, a wholly owned subsidiary of UIL Holdings Corporation, is a holding company whose sole business is ownership of the Southern Connecticut Gas Company (SCG). The Consolidated Financial Statements of SCG include the accounts of all variable interest entities where SCG has been determined to be the primary beneficiary including the Milford LNG facility owned by United Resources, Inc., a wholly owned subsidiary of UIL Holdings Corporation.

FINANCIAL STATEMENTS

OF

CONNECTICUT NATURAL GAS CORPORATION

AS OF SEPTEMBER 30, 2016 AND DECEMBER 31, 2015 AND
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

(UNAUDITED)

TABLE OF CONTENTS

CONNECTICUT NATURAL GAS CORPORATION
STATEMENT OF INCOME
(In Thousands)
(Unaudited)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Operating Revenues	$ 51,880	$ 41,287	$ 227,567	$ 242,552
Operating Expenses				
Operation				
Natural gas purchased	22,459	11,635	95,127	114,372
Operation and maintenance	20,794	22,284	60,930	62,086
Depreciation and amortization	7,965	7,415	23,506	21,874
Taxes - other than income taxes	4,586	4,249	17,176	17,472
Total Operating Expenses	55,804	45,583	196,739	215,804
Operating Income (Loss)	(3,924)	(4,296)	30,828	26,748
Other Income and (Deductions), net				
Other income	146	244	906	820
Other (deductions)	(188)	(115)	(288)	(179)
Total Other Income and (Deductions), net	(42)	129	618	641
Interest Charges, net				
Interest on long-term debt	2,185	2,185	6,556	6,556
Other interest, net	80	102	144	408
	2,265	2,287	6,700	6,964
Amortization of debt expense and redemption premiums	92	23	364	69
Total Interest Charges, net	2,357	2,310	7,064	7,033
Income (Loss) Before Income Taxes	(6,323)	(6,477)	24,382	20,356
Income Taxes	(1,918)	(2,234)	8,380	7,243
Net Income (Loss)	(4,405)	(4,243)	16,002	13,113
Less:				
Preferred Stock Dividends of				
Subsidiary, Noncontrolling Interests	6	6	20	20
Net Income (Loss) attributable to Connecticut Natural Gas Corporation	$ (4,411)	$ (4,249)	$ 15,982	$ 13,093

CONNECTICUT NATURAL GAS CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
(In Thousands)
(Unaudited)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net Income (Loss)	$ (4,405)	$ (4,243)	$ 16,002	$ 13,113
Other Comprehensive Income (Loss), net of income taxes				
Changes in unrealized gains(losses) related to pension and other post-retirement benefit plans	-	-	-	128
Total Other Comprehensive Income (Loss), net of income taxes	(4,405)	(4,243)	16,002	13,241
Comprehensive Income				
Less:				
Preferred Stock Dividends of Subsidiary, Noncontrolling Interests	6	6	20	20
Comprehensive Income (Loss)	$ (4,411)	$ (4,249)	$ 15,982	$ 13,221

CONNECTICUT NATURAL GAS CORPORATION
BALANCE SHEET
ASSETS
(In Thousands)
(Unaudited)

	September 30, 2016	December 31, 2015
Current Assets		
Unrestricted cash and temporary cash investments	$ 411	$ 2,835
Accounts receivable less allowance of $1,400 and $3,300, respectively	45,327	50,404
Unbilled revenues	8,257	16,904
Current regulatory assets	12,063	17,090
Natural gas in storage, at average cost	24,357	28,837
Materials and supplies, at average cost	1,793	1,395
Refundable taxes	1,534	-
Prepayments	3,540	963
Other	175	175
Total Current Assets	97,457	118,603
Other investments	1,375	1,527
Total Property, Plant and Equipment	840,303	794,780
Less accumulated depreciation	276,900	265,758
	563,403	529,022
Construction work in progress	12,707	19,286
Net Property, Plant and Equipment	576,110	548,308
Regulatory Assets	143,964	130,561
Deferred Charges and Other Assets		
Unamortized debt issuance expenses	180	125
Goodwill	79,341	79,341
Other	1,128	230
Total Deferred Charges and Other Assets	80,649	79,696
Total Assets	$ 899,555	$ 878,695

CONNECTICUT NATURAL GAS CORPORATION
BALANCE SHEET
LIABILITIES AND CAPITALIZATION
(In Thousands)
(Unaudited)

	September 30, 2016	December 31, 2015
Current Liabilities		
Current portion of long-term debt	$ 30,624	$ 11,527
Accounts payable	30,874	41,236
Accrued liabilities	13,343	12,312
Current regulatory liabilities	14,831	18,764
Interest accrued	2,910	2,064
Intercompany payable	532	8,000
Taxes accrued	7,837	7,595
Total Current Liabilities	100,951	101,498
Deferred Income Taxes	59,700	33,751
Regulatory Liabilities	193,676	192,774
Other Noncurrent Liabilities		
Qualified Pension accrued	55,872	56,368
Other post-retirement benefits accrued	11,761	12,061
Other	7,093	7,200
Total Other Noncurrent Liabilities	74,726	75,629
Commitments and Contingencies		
Capitalization		
Long-term debt, net of unamortized premium	109,215	129,738
Preferred Stock, not subject to mandatory redemption	340	340
Common Stock Equity		
Common stock	33,233	33,233
Paid-in capital	315,304	315,304
Retained earnings	12,309	(3,673)
Accumulated other comprehensive income	101	101
Net Common Stock Equity	360,947	344,965
Total Capitalization	470,502	475,043
Total Liabilities and Capitalization	$ 899,555	$ 878,695

CONNECTICUT NATURAL GAS CORPORATION
STATEMENT OF CASH FLOWS
(In Thousands)
(Unaudited)

	Nine Months Ended September 30, 2016	2015
Cash Flows From Operating Activities		
Net Income	$ 16,002	$ 13,113
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,870	21,943
Deferred income taxes	11,947	287
Pension expense	6,408	5,526
Regulatory activity, net	(8,753)	12,447
Other non-cash items, net	(478)	(2,717)
Changes in:		
Accounts receivable, net	5,477	19,758
Unbilled revenues	8,647	17,477
Natural gas in storage	4,480	11,759
Prepayments	(2,577)	(1,948)
Accounts payable	(11,198)	(32,161)
Interest accrued	846	860
Taxes accrued/refundable, net	(1,292)	4,433
Accrued pension	(6,256)	(7,674)
Accrued other post-employment benefits	(948)	(1,195)
Accrued liabilities	1,031	1,653
Other assets	(1,419)	(544)
Other liabilities	17	142
Total Adjustments	29,802	50,046
Net Cash provided by Operating Activities	45,804	63,159
Cash Flows from Investing Activities		
Plant expenditures including AFUDC debt	(40,540)	(40,313)
Intercompany receivable	-	(5,000)
Net Cash (used in) Investing Activities	(40,508)	(45,313)
Cash Flows from Financing Activities		
Payment of common stock dividend	-	(11,000)
Payments of preferred stock dividend	(20)	-
Intercompany payable	(7,468)	-
Other	(200)	(20)
Net Cash (used in) Financing Activities	(7,720)	(11,020)
Unrestricted Cash and Temporary Cash Investments:		
Net change for the period	(2,424)	6,826
Balance at beginning of period	2,835	7,074
Balance at end of period	$ 411	$ 13,900
Non-cash investing activity:		
Plant expenditures included in ending accounts payable	$ 6,675	$ 6,509

CONNECTICUT NATURAL GAS CORPORATION
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
September 30, 2016
(Thousands of Dollars)

	Common Stock		Paid-in	Retained Earnings (Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit)	Income (Loss)	Total
Balance as of December 31, 2015	10,634,436	$ 33,233	$ 315,304	$ (3,673)	$ 101	$ 344,965
Net income				16,002		16,002
Payment of preferred stock dividend				(20)		(20)
Balance as of September 30, 2016	10,634,436	$ 33,233	$ 315,304	$ 12,309	$ 101	$ 360,947

FINANCIAL STATEMENTS

OF

THE BERKSHIRE GAS COMPANY

AS OF SEPTEMBER 30, 2016 AND DECEMBER 31, 2015 AND
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

(UNAUDITED)

TABLE OF CONTENTS

THE BERKSHIRE GAS COMPANY
STATEMENT OF INCOME
(In Thousands)
(Unaudited)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Operating Revenues	$ 7,418	$ 7,047	$ 48,162	$ 59,823
Operating Expenses				
Operation				
Natural gas purchased	1,433	603	14,801	22,382
Operation and maintenance	5,710	6,559	18,995	21,171
Depreciation and amortization	1,855	1,838	5,458	5,763
Taxes - other than income taxes	703	690	2,519	2,400
Total Operating Expenses	9,701	9,690	41,773	51,716
Operating Income (loss)	(2,283)	(2,643)	6,389	8,107
Other Income and (Deductions), net				
Other income	115	150	274	161
Other (deductions)	(7)	(15)	(87)	(44)
Total Other Income and (Deductions), net	108	135	187	117
Interest Charges, net				
Interest on long-term debt	814	842	2,441	2,526
Other interest, net	(1)	(15)	(14)	(37)
	813	827	2,427	2,489
Amortization of debt expense and redemption premiums	27	31	100	93
Total Interest Charges, net	840	858	2,527	2,582
Income (Loss) Before Income Taxes	(3,015)	(3,366)	4,049	5,642
Income Taxes	(1,252)	(1,486)	1,506	2,046
Net Income (Loss)	$ (1,763)	$ (1,880)	$ 2,543	$ 3,596

THE BERKSHIRE GAS COMPANY
STATEMENT OF COMPREHENSIVE INCOME
(In Thousands)
(Unaudited)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net Income (Loss)	$ (1,763)	$ (1,880)	$ 2,543	$ 3,596
Other Comprehensive Income (Loss)	(2)	(1)	17	(1)
Comprehensive Income (Loss)	$ (1,765)	$ (1,881)	$ 2,560	$ 3,595

THE BERKSHIRE GAS COMPANY
BALANCE SHEET
ASSETS
(In Thousands)
(Unaudited)

	September 30, 2016	December 31, 2015
Current Assets		
Unrestricted cash and temporary cash investments	$ 144	$ 2,950
Accounts receivable less allowance of $1,186 and $1,303, respectively	5,990	8,618
Unbilled revenues	911	4,003
Current regulatory assets	3,589	3,960
Natural gas in storage, at average cost	2,021	2,344
Materials and supplies, at average cost	1,707	825
Other	1,183	2,812
Total Current Assets	15,545	25,512
Other investments	758	855
Total Property, Plant and Equipment	219,254	204,691
Less accumulated depreciation	71,654	68,546
	147,600	136,145
Construction work in progress	1,143	6,405
Net Property, Plant and Equipment	148,743	142,550
Regulatory Assets	32,122	36,979
Deferred Charges and Other Assets		
Unamortized debt issuance expenses	30	23
Goodwill	51,933	51,933
Other	334	22
Total Deferred Charges and Other Assets	52,297	51,978
Total Assets	$ 249,465	$ 257,874

THE BERKSHIRE GAS COMPANY
BALANCE SHEET
LIABILITIES AND CAPITALIZATION
(In Thousands)
(Unaudited)

	September 30, 2016	December 31, 2015
Current Liabilities		
Current portion of long-term debt	$ 2,393	$ 2,393
Accounts payable	3,069	7,219
Accrued liabilities	4,054	4,519
Current regulatory liabilities	236	-
Interest accrued	610	853
Taxes accrued	8,149	7,254
Intercompany payable	1,800	-
Total Current Liabilities	20,311	22,238
Deferred Income Taxes	26,676	28,867
Regulatory Liabilities	36,032	34,780
Other Noncurrent Liabilities		
Pension accrued	10,437	10,758
Other post-retirement benefits accrued	1,813	1,792
Environmental remediation costs	2,950	2,600
Other	4,750	4,774
Total Other Noncurrent Liabilities	19,950	19,924
Commitments and Contingencies		
Capitalization		
Long-term debt	41,963	42,592
Common Stock Equity		
Paid-in capital	106,095	106,095
Retained earnings	(1,560)	3,397
Accumulated other comprehensive income (loss)	(2)	(19)
Net Common Stock Equity	104,533	109,473
Total Capitalization	146,496	152,065
Total Liabilities and Capitalization	$ 249,465	$ 257,874

THE BERKSHIRE GAS COMPANY
STATEMENT OF CASH FLOWS
(In Thousands)
(Unaudited)

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Cash Flows From Operating Activities		
Net income	$ 2,543	$ 3,596
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,558	5,622
Deferred income taxes	498	(2,938)
Pension expense	1,071	981
Regulatory activity, net	2,186	6,667
Other non-cash items, net	(265)	358
Changes in:		
Accounts receivable, net	2,941	6,672
Unbilled revenues	3,092	4,585
Natural gas in storage	323	1,630
Accounts payable	(4,259)	(7,481)
Taxes accrued/refundable, net	876	(962)
Accrued liabilities	(465)	(247)
Accrued pension	(1,392)	(1,071)
Accrued other-post benefits	21	(50)
Other assets	455	(418)
Other liabilities	98	(155)
Total Adjustments	10,738	13,193
Net Cash provided by Operating Activities	13,281	16,789
Cash Flows from Investing Activities		
Plant expenditures including AFUDC debt	(10,354)	(10,176)
Net Cash used in Investing Activities	(10,354)	(10,176)
Cash Flows from Financing Activities		
Payment of common stock dividend	(7,500)	(1,700)
Intercompany payable	1,800	-
Other	(33)	-
Net Cash used in Financing Activities	(5,733)	(1,700)
Unrestricted Cash and Temporary Cash Investments:		
Net change for the period	(2,806)	4,913
Balance at beginning of period	2,950	6,734
Balance at end of period	$ 144	$ 11,647
Non-cash investing activity:		
Plant expenditures included in ending accounts payable	$ 864	$ 428

THE BERKSHIRE GAS COMPANY
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
September 30, 2016
(Thousands of Dollars)

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of December 31, 2015	100	$ -	$ 106,095	$ 3,397	$ (19)	$ 109,473
Net income				2,543		2,543
Other comprehensive income, net of income taxes					17	17
Payment of common stock dividend				(7,500)		(7,500)
Balance as of September 30, 2016	100	$ -	$ 106,095	$ (1,560)	$ (2)	$ 104,533

Central Maine Power Company
and Subsidiaries

Consolidated Financial Statements (Unaudited)
For the Nine Months Ended September 30, 2016 and 2015

Table of Contents

September 30, 2016 and 2015

Financial Statements (Unaudited) **Page(s)**

Central Maine Power Company
Consolidated Statements of Income (Unaudited)

Periods ended September 30,	Three Months 2016	Three Months 2015	Nine Months 2016	Nine Months 2015
(Thousands)				
Operating Revenues				
Sales and services	**$ 235,252**	$ 242,044	**$ 641,835**	$ 617,056
Operating Expenses				
Electricity purchased	**16,330**	15,611	**43,444**	42,795
Operating expenses and Maintenance Expenses	**93,825**	107,764	**292,805**	282,857
Depreciation and amortization	**25,944**	20,499	**77,923**	73,184
Other taxes	**14,527**	10,999	**40,668**	32,590
Total Operating Expenses	**150,626**	154,873	**454,840**	431,426
Operating Income	**84,626**	87,171	**186,995**	185,630
Other (Income)	**(1,211)**	(2,181)	**(4,105)**	(4,114)
Other Deductions	**52**	677	**293**	406
Interest Charges, Net	**13,264**	13,428	**39,970**	41,467
Income Before Income Taxes	**72,521**	76,601	**150,837**	147,871
Income Taxes	**29,731**	30,997	**61,058**	60,330
Net Income	**42,790**	45,604	**89,779**	87,541
Less: Net Income Attributable to Noncontrolling Interest	**87**	173	**211**	282
Net Income Attributable to CMP	**42,703**	45,431	**89,568**	87,259
Preferred Stock Dividends	-	-	**-**	-
Earnings Available for CMP Common Stock	**$ 42,703**	$ 45,431	**$ 89,568**	$ 87,259

Central Maine Power Company
Consolidated Statements of Comprehensive Income (Unaudited)

Periods ended September 30,	Three Months 2016	Three Months 2015	Nine Months 2016	Nine Months 2015
(Thousands)				
Net Income	**$ 42,790**	$ 45,604	**$ 89,779**	$ 87,541
Other Comprehensive Loss, Net of Tax				
Amortization of pension cost for nonqualified plans	**-**	-	**-**	-
Unrealized gain (loss) on derivatives qualifed as hedges:				
Unrealized gain (loss) during period on derivatives qualified as hedges	**(19)**	(357)	**17**	(398)
Reclassification adjustment for loss (gain) included in net income	**90**	249	**311**	494
Reclassification adjustment for loss on settled cash flow treasury hedges included in net income	**321**	495	**966**	986
Net unrealized gain on derivatives qualified as hedges	**392**	387	**1,294**	1,082
Other Comprehensive Income	**392**	387	**1,294**	1,082
Comprehensive Income	**43,182**	45,991	**91,073**	88,623
Less:				
Comprehensive Income Attributable to Other Noncontrolling Interests	**87**	173	**211**	282
Comprehensive Income Attributable to Central Maine Power Company	**$ 43,095**	$ 45,818	**$ 90,862**	$ 88,341

Central Maine Power Company

Consolidated Balance Sheets (Unaudited)

(Thousands)	September 30, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	**$ 3,966**	$ 5,360
Accounts receivable and unbilled revenues, net	**164,898**	149,281
Accounts receivable from affiliates	**2,116**	1,762
Notes receivable from affiliates	**-**	23,437
Materials and supplies	**15,187**	15,828
Prepayments and other current assets	**57,744**	121,095
Regulatory assets	**15,785**	22,032
Total Current Assets	**259,696**	338,795
Utility Plant, at Original Cost	**3,781,531**	3,675,772
Less accumulated depreciation	**896,721**	826,309
Net Utility Plant in Service	**2,884,810**	2,849,463
Construction work in progress	**155,933**	152,707
Total Utility Plant	**3,040,743**	3,002,170
Other Property and Investments	**1,479**	1,506
Regulatory and Other Assets		
Regulatory assets	**503,138**	521,482
Goodwill	**324,938**	324,938
Other	**3,224**	5,304
Total Regulatory and Other Assets	**831,300**	851,724
Total Assets	**$ 4,133,218**	$ 4,194,195

Central Maine Power Company

Consolidated Balance Sheets (Unaudited)

	September 30, 2016	December 31, 2015
(Thousands)		
Liabilities		
Current Liabilities		
Current portion of long-term debt	**$ 1,358**	$ 41,312
Notes payable to affiliates	**51,502**	-
Accounts payable and accrued liabilities	**110,493**	123,070
Accounts payable to affiliates	**32,466**	32,893
Interest accrued	**10,289**	18,671
Taxes accrued	**15,884**	7,454
Other current liabilities	**49,185**	59,781
Regulatory liabilities	**22,906**	44,799
Total Current Liabilities	**294,083**	327,980
Regulatory and Other Liabilities		
Regulatory liabilities	**106,037**	100,228
Deferred income taxes regulatory	**160,678**	165,119
Other Non-current liabilities		
Deferred income taxes	**664,148**	626,868
Pension and other postretirement benefits	**206,507**	226,560
Other	**19,493**	54,678
Total Regulatory and Other liabilities	**1,156,863**	1,173,453
Long-term debt	**1,042,589**	1,043,512
Total Liabilities	**2,493,535**	2,544,945
Commitments		
Preferred Stock		
Preferred stock	**571**	571
Common Stock Equity		
Common stock	**156,057**	156,057
Capital in excess of par value	**713,936**	713,893
Retained earnings	**766,279**	777,406
Accumulated other comprehensive loss	**(7,208)**	(8,514)
Total CMP Common Stock Equity	**1,629,064**	1,638,842
Noncontrolling Interest	**10,048**	9,837
Total Equity	**1,639,112**	1,648,679
Total Liabilities and Equity	**$ 4,133,218**	$ 4,194,195

Central Maine Power Company

Consolidated Statements of Cash Flows (Unaudited)

Nine months ended September 30,	**2016**	2015
(Thousands)		
Operating Activities		
Net income	**$ 89,779**	$ 87,259
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**77,923**	73,184
Amortization of regulatory and other assets and liabilities	**(1,852)**	(27,558)
Amortization of Debt issuance costs	**494**	(153)
Deferred taxes	**(2,886)**	16,948
Carrying Costs of regulatory assets and liabilities	**696**	1,086
Pension income	**16,825**	14,086
Other non-cash items	**4,024**	-
Changes in operating assets and liabilities		
Accounts receivable and unbilled revenues, net	**(15,971)**	(15,816)
Materials and supplies	**641**	11,867
Accounts payable and accrued liabilities	**(16,964)**	26,471
Changes in accrued taxes	**20,278**	(19,381)
Changes in other assets and other liabilities	**(13,813)**	(8,348)
Changes in regulatory assets and liabilities	**6,771**	14,350
Net Cash Provided by Operating Activities	**165,945**	173,995
Investing Activities		
Utility plant additions	**(120,759)**	(224,875)
Contribution in aid of construction	**19,344**	9,002
Government grants	**107**	-
Proceeds from sale of property, plant and equipment	**317**	-
Notes receivable from affiliates	**23,437**	3
Investments,net	**26**	7,092
Net Cash Used in Investing Activities	**(77,528)**	(208,778)
Financing Activities		
Non-current note issuance	**-**	150,000
Repayments of non-current debt	**(40,880)**	-
Repayment of short term debt, net	**-**	-
Repayment of short term debt-affiliates	**51,502**	(118,192)
Repayment of capital leases	**(433)**	-
Dividends paid on common and preferred stock	**(100,000)**	-
Net Cash Provided by Financing Activities	**(89,811)**	31,808
Net Increase in Cash and Cash Equivalents	**(1,394)**	(2,975)
Cash and Cash Equivalents, Beginning of Period	**5,360**	5,023
Cash and Cash Equivalents, End of Period	**$ 3,966**	$ 2,048
	-	

Central Maine Power Company
Consolidated Statement of Changes in Common Stock Equity (Unaudited)

(Thousands)	Common Stock Outstanding $5 Par Value Shares		Amount		Capital in Excess of Par Value		Retained Earnings		Accumulated Other Comprehensive Loss		Total Common Stock Equity		Noncon-trolling interest		Total
Balance, January 1, 2016	31,211	$	156,057	$	713,893	$	777,406	$	(8,514)	$	1,638,842	$	9,837	$	1,648,679
Net income attributable to CMP							89,568				89,568		211		89,779
Other comprehensive loss, net of tax									1,294		1,294				1,294
Comprehensive income															91,073
Adjustment To return earnings															
Dividends							(100,695)				(100,695)				(100,695)
Preferred stock															-
Dividends to noncontrolling interest															-
Adjustment Share Premium Mapping issue					(12)				12						-
Stock-based compensation					55						55				55
Balance, September 30, 2016	31,211	$	156,057	$	713,936	$	766,279	$	(7,208)	$	1,629,064	$	10,048	$	1,639,112

Rochester Gas and Electric Corporation

Financial Statements (Unaudited)
For the Nine Months Ended September 30, 2016 and 2015

Table of Contents

September 30, 2016 and 2015

Rochester Gas and Electric Corporation

Statements of Income (Unaudited)

	Three Months		Nine Months	
Periods ended September 30,	**2016**	2015	**2016**	2015
(Thousands)				
Operating Revenues				
Electric	**$ 174,322**	$ 147,967	**$ 616,324**	$ 428,268
Natural gas	**30,866**	34,866	**182,627**	203,961
Total Operating Revenues	**205,188**	182,833	**798,951**	632,229
Operating Expenses				
Electricity purchased and fuel used in generation	**36,232**	32,448	**83,718**	96,575
Natural gas purchased	**4,870**	4,376	**49,555**	71,942
Operations and maintenance expense	**81,967**	77,604	**274,259**	219,516
Depreciation and amortization	**19,714**	19,671	**62,348**	59,490
Other taxes	**28,461**	24,818	**82,019**	73,505
Total Operating Expenses	**171,244**	158,917	**551,899**	521,028
Operating Income	**33,944**	23,916	**247,052**	111,201
Other (Income)	**(3,649)**	(2,561)	**(12,189)**	(9,939)
Other Deductions	**193**	427	**571**	1,333
Interest Charges, Net	**11,102**	19,389	**46,657**	58,717
Income Before Income Taxes	**26,298**	7,515	**212,013**	61,090
Income Tax Expense	**10,321**	1,184	**160,577**	22,401
Net Income	**$ 15,977**	$ 6,331	**$ 51,436**	$ 38,689

Rochester Gas and Electric Corporation

Statements of Comprehensive Income (Unaudited)

	Three Months		Nine Months	
Periods ended September 30,	**2016**	2015	**2016**	2015
(Thousands)				
Net Income	**$ 15,977**	$ 6,331	**$ 51,436**	$ 38,689
Other Comprehensive Loss, Net of Tax				
Net unrealized holding gain (loss) on investments	**4**	16	**9**	32
Amortization of pension cost for nonqualified plans	**-**	-	**-**	-
Unrealized gain (loss) on derivatives qualified as hedges:				
Unrealized gain (loss) during period on derivatives qualified as hedges	**(13)**	(174)	**(24)**	(165)
Reclassification adjustment for loss included in net income	**51**	50	**181**	271
Reclassification adjustment for loss on settled cash flow treasury hedges included in net income	**875**	463	**2,626**	2,622
Net unrealized gain on derivatives qualified as hedges	**913**	339	**2,783**	2,728
Other Comprehensive Income, net of Tax	**917**	355	**2,792**	2,760
Comprehensive Income	**$ 16,894**	$ 6,686	**$ 54,228**	$ 41,449

Rochester Gas & Electric Corporation

Balance Sheets (Unaudited)

		September 30, 2016		December 31, 2015
(Thousands)				
Assets				
Current Assets				
Cash and cash equivalents	**$**	**13**	$	1,136
Accounts receivable and unbilled revenues, net		**131,959**		139,282
Accounts receivable from affiliated		**3,298**		5,007
Natural gas in storage, at average cost		**8,371**		5,891
Materials and supplies, at average cost		**10,747**		10,382
Current Derivative Assets		**1,285**		-
Deferred income taxes		**-**		11,002
Broker margin accounts		**2,113**		10,570
Prepaid property taxes		**59,338**		30,516
Other current assets		**7,284**		5,321
Regulatory assets		**63,405**		32,980
Total Current Assets		**287,813**		252,087
Property, Plant and Equipment, at Original Cost		**3,019,992**		2,904,955
Less accumulated depreciation		**893,575**		854,747
Net Utility Plant in Service		**2,126,417**		2,050,208
Construction work in progress		**369,697**		329,307
Total Utility Plant in Service		**2,496,114**		2,379,515
Other Property and Investments		**4,137**		4,745
Regulatory and Other Assets				
Regulatory assets		**498,961**		508,381
Other		**708**		365
Total regulatory and Other assets		**499,669**		508,746
Total Assets	**$**	**3,287,733**	$	3,145,093

Rochester Gas and Electric Corporation

Balance Sheets (Unaudited)

	September 30, 2016	December 31, 2015
(Thousands)		
Liabilities		
Current Liabilities		
Current portion of long-term debt	**$ 510**	$ 39,873
Notes payable to affiliates	**145,518**	69,717
Accounts payable and accrued liabilities	**199,480**	144,698
Accounts payable to affiliates	**34,265**	47,643
Interest accrued	**8,561**	13,155
Taxes accrued	**1,516**	1,835
Environmental remediation costs	**10,417**	4,745
Other	**29,384**	36,941
Regulatory liabilities	**30,096**	18,558
Total Current Liabilities	**459,747**	377,165
Regulatory and Other Liabilities		
Regulatory liabilities	**430,515**	433,100
Deferred income taxes	**17,581**	14,547
Other Non-current liabilities		
Deferred income taxes	**445,073**	399,063
Nuclear plant obligations	**122,481**	122,258
Pension and other postretirement benefits	**185,423**	187,542
Asset retirement obligation	**3,484**	8,388
Environmental remediation costs	**130,950**	133,513
Other	**22,402**	53,181
Total Regulary and Other Liabilities	**1,357,909**	1,351,592
Long-term debt	**664,545**	665,066
Total Liabilities	**2,482,201**	2,393,823
Commitments and Contingencies		
Common Stock Equity		
Common stock	**194,429**	194,429
Capital in excess of par value	**529,977**	529,943
Retained earnings	**242,369**	190,933
Accumulated other comprehensive (loss)	**(44,005)**	(46,797)
Treasury stock	**(117,238)**	(117,238)
Total Common Stock Equity	**805,532**	751,270
Total Liabilities and Equity	**$ 3,287,733**	$ 3,145,093

Rochester Gas and Electric Corporation

Statements of Cash Flows (Unaudited)

For the Nine Months Ended September 30,	2016	2015
(Thousands)		
Operating Activities		
Net income	$ 51,436	$ 38,689
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	62,348	63,874
Amortization of regulatory and other assets and liabilities, net	27,606	641
Carrying cost of regulatory assets and liabilities	7,784	-
Other Non Cash Items	(888)	(1,954)
Amortization of Debt costs	918	699
Deferred income taxes and investment tax credits, net	160,115	(12,624)
Pension expense	15,846	12,196
Changes in operating assets and liabilities		
Accounts receivable and unbilled revenues, net	9,032	22,241
Inventories	(2,845)	11,576
Accounts payable and accrued liabilities	34,191	6,544
Taxes accrued	(2,673)	15,641
Regulatory assets/liabilities	(58,310)	34,238
Other assets/ liabilities	(184,265)	(22,888)
Net Provided by Operating Activities	120,295	168,873
Investing Activities		
Utility plant additions	(166,674)	(131,148)
Contribution in aid of construction	4,497	6,843
Proceeds from sale of property, plant and equipment	5,153	-
Governmental grants	-	16,479
Investments, net	607	3,629
Net Cash Used in Investing Activities	(156,417)	(104,197)
Financing Activities		
Repayments of long-term debt	(39,850)	(1,420)
Repayment to affiliates of short term debt	75,801	(63,700)
Repaymnet of capital leases	(952)	(358)
Net Cash Used in Financing Activities	34,999	(65,478)
Net Decrease in Cash and Cash Equivalents	(1,123)	(802)
Cash and Cash Equivalents, Beginning of Period	1,136	811
Cash and Cash Equivalents, End of Period	$ 13	$ 9

Rochester Gas and Electric Corporation

Statement of Changes in Common Stock Equity (Unaudited)

(Thousands)

	Common Stock Outstanding Shares		Common Stock $5.00 Par Value Amount		Capital in Excess of Par Value		Retained Earnings		Accumulated Other Comprehensive Loss		Treasury Stock
Balance, January 1, 2016	**38,886**	**$**	**194,429**	**$**	**529,943**	**$**	**190,933**	**$**	**(46,797)**	**$**	**(117,238)**
Net income							51,436				
Other comprehensive loss, net of tax									2,792		
Comprehensive income											
Stock-based compensation					34						
Balance, September 30, 2016	**38,886**	**$**	**194,429**	**$**	**529,977**	**$**	**242,369**	**$**	**(44,005)**	**$**	**(117,238)**

New York State Electric & Gas Corporation

Financial Statements (Unaudited)
For the Nine Months Ended September 30, 2016 and 2015

Table of Contents

September 30, 2016 and 2015

New York State Electric & Gas Corporation

Statements of Income (Unaudited)

Periods ended September 30,	Three Months 2016	Three Months 2015	Nine Months 2016	Nine Months 2015
(Thousands)				
Operating Revenues				
Electric	$ 324,000	$ 317,863	$ 912,354	$ 1,001,673
Natural gas	38,755	41,828	215,993	239,883
Total Operating Revenues	362,755	359,691	1,128,347	1,241,556
Operating Expenses				
Electricity purchased	110,435	98,083	269,495	337,221
Natural gas purchased	5,132	3,768	51,277	86,206
Other operating and maintenance expenses	147,257	153,913	446,010	458,379
Depreciation and amortization	27,840	27,958	92,944	110,883
Other taxes	34,920	33,348	106,398	106,617
Total Operating Expenses	325,584	317,070	966,124	1,099,306
Operating Income	37,171	42,621	162,223	142,250
Other (Income)	(480)	(5,065)	(10,993)	(22,385)
Other Deductions	110	(1,067)	745	451
Interest Charges, Net	11,060	21,717	48,611	62,886
Income Before Income Taxes	26,481	27,036	123,860	101,298
Income Taxes	10,311	9,284	49,461	39,866
Net Income	$ 16,170	$ 17,752	$ 74,399	$ 61,432

New York State Electric & Gas Corporation

Statements of Comprehensive Income (Unaudited)

Periods ended September 30,	Three Months 2016	Three Months 2015	Nine Months 2016	Nine Months 2015
(Thousands)				
Net Income	$ 16,170	$ 17,752	$ 74,399	$ 61,432
Other Comprehensive Income, Net of Tax				
Amortization of pension cost for nonqualified plans	-	-	-	-
Unrealized gain (loss) on derivatives qualified as hedges				
Unrealized gain (loss) during period on derivatives qualified as hedges	(44)	(543)	12	(519)
Reclassification adjustment for loss included in net income	147	294	517	849
Reclassification adjustment for loss on settled cash flow treasury included in net income	16	100	48	336
Net unrealized gain on derivatives qualified as hedges	119	(149)	577	666
Other Comprehensive Income	119	(149)	577	666
Comprehensive Income	$ 16,289	$ 17,603	$ 74,976	$ 62,098

New York State Electric & Gas Corporation

Balance Sheets (Unaudited)

	September 30, 2016	December 31, 2015
(Thousands)		
Assets		
Current Assets		
Cash and cash equivalents	**$ 15**	$ 3,408
Accounts receivable and unbilled revenues, net	**194,489**	215,172
Accounts receivable from affiliates	**14,623**	10,981
Fuel and natural gas in storage, at average cost	**15,119**	13,336
Materials and supplies, at average cost	**16,161**	14,758
Broker margin accounts	**6,507**	24,001
Prepaid property taxes	**55,874**	34,819
Other current assets	**13,456**	10,224
Regulatory assets	**125,724**	70,395
Total Current Assets	**441,968**	397,094
Utility Plant, at Original Cost	**5,159,766**	4,950,776
Less accumulated depreciation	**2,031,682**	1,981,015
Net Utility Plant in Service	**3,128,084**	2,969,761
Construction work in progress	**210,817**	323,565
Total Utility Plant	**3,338,901**	3,293,326
Other Property and Investments	**10,383**	10,402
Regulatory and Other Assets		
Regulatory assets	**1,115,633**	1,249,977
Other	**-**	-
Total Regulatory and Other Assets	**1,115,633**	1,249,977
Total Assets	**$ 4,906,885**	$ 4,950,799

New York State Electric & Gas Corporation

Balance Sheets (Unaudited)

	September 30, 2016	December 31, 2015
(Thousands)		
Liabilities		
Current Liabilities		
Bank overdraft	**$4,432**	$-
Current portion of long-term debt	**100,676**	100,417
Notes payable to affiliates	**219,044**	340,845
Accounts payable and accrued liabilities	**179,126**	128,087
Accounts payable to affiliates	**61,777**	73,379
Interest accrued	**14,445**	7,296
Taxes accrued	**3,706**	21,491
Derivative liabilities	**406**	981
Environmental remediation costs	**25,112**	27,805
Customer deposits	**13,662**	13,193
Regulatory liabilities	**90,803**	45,926
Other	**56,709**	58,732
Total Current Liabilities	**769,898**	818,152
Regulatory and Other Liabilities		
Regulatory liabilities	**726,850**	782,659
Deferred income taxes	**176,695**	195,403
Other non-current liabilities		
Deferred income taxes	**692,821**	644,485
Other postretirement benefits	**308,096**	330,835
Asset retirement obligation	**15,475**	14,902
Environmental remediation costs	**125,812**	140,176
Other	**22,093**	31,761
Total Regulatory and Other Liabilities	**2,067,842**	2,140,221
Long-term debt	**846,632**	844,908
Total Liabilities	**3,684,372**	3,803,281
Commitments and Contingencies		
Preferred Stock		
Common Stock Equity		
Common stock	**430,057**	430,057
Capital in excess of par value	**268,383**	268,364
Retained earnings	**525,289**	450,890
Accumulated other comprehensive (loss)	**(1,216)**	(1,793)
Total NYSEG Common Stock Equity	**1,222,513**	1,147,518
Total Liabilities and Equity	**$ 4,906,885**	$ 4,950,799

New York State Electric & Gas Corporation

Statements of Cash Flows (Unaudited)

Periods ended September 30,	**2016**	2015
(Thousands)		
Operating Activities		
Net income	**$ 74,399**	$ 61,432
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**92,944**	110,883
Amortization of regulatory and other assets and liabilities	**64,462**	(733)
Carrying costs of regulatory assets and liabilities	**3,739**	11,161
Amortization of Debt issuance costs	**407**	735
Other Non Cash Items	**(5,709)**	(6,594)
Deferred taxes	**13,799**	(60,161)
Pension expense	**46,824**	38,785
Changes in operating assets and liabilities		
Accounts receivable and unbilled revenues, net	**22,089**	25,915
Inventories	**(3,186)**	6,934
Accounts payable and accrued liabilities	**34,543**	36,131
Taxes accrued	**(19,069)**	57,963
Other current liabilities	**(74,865)**	(7,807)
Changes in other assets	**8,062**	451
Changes in Regulatory Assets And Regulatory Liabilities	**(20,679)**	(202)
Net Cash Provided by Operating Activities	**237,760**	274,893
Investing Activities		
Utility plant additions	**(198,208)**	(176,314)
Contribution in aid of construction	**31,539**	8,629
Proceeds from sale of property, plant and equipment	**44,403**	-
Investments, net	**16**	5,770
Net Cash Used in Investing Activities	**(122,250)**	(161,915)
Financing Activities		
Bank overdraft	**4,432.00**	-
Long-term note repayments	**-**	(57,836)
Issuance of promissory note	**-**	14,000
Long-term note issuances	**31**	200,000
Repayment of short term debt-affiliates	**(121,800)**	(275,905)
Repayment of capital leases	**(1,566)**	(358)
Net Cash Provided by (Used in) Financing Activities	**(118,903)**	(120,099)
Net Increase (Decrease) in Cash and Cash Equivalents	**(3,393)**	(7,121)
Cash and Cash Equivalents, Beginning of Period	**3,408**	7,143
Cash and Cash Equivalents, End of Period	**$ 15**	$ 22

New York State Electric & Gas Corporation

Statement of Changes in Common Stock Equity (Unaudited)

(Thousands)

	Common Stock Outstanding Shares	$6.66 2/3 Par Value Amount	Capital in Excess of Par	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2016	**64,508**	**$ 430,057**	**$ 268,364**	**450,890**	**$ (1,793)**	**$ 1,147,518**
Net income				**74,399**		**74,399**
Other comprehensive income, net of tax					**577**	**577**
Comprehensive income						**74,976**
Stock-based compensation			**19**			**19**
Balance, September 30, 2016	**64,508**	**$ 430,057**	**$ 268,383**	**$ 525,289**	**$ (1,216)**	**$ 1,222,513**