The Brooklyn Union Gas Company

Consolidated Financial Statements

For the years ended March 31, 2020, 2019, and 2018

THE BROOKLYN UNION GAS COMPANY

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Brooklyn Union Gas Company

We have audited the accompanying consolidated financial statements of The Brooklyn Union Gas Company (the "Company"), which comprise the consolidated balance sheets and statements of capitalization as of March 31, 2020 and 2019 and the related consolidated statements of income, cash flows, and changes in shareholders' equity for each of the three years in the period ended March 31, 2020, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Brooklyn Union Gas Company as of March 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

June 26, 2020

THE BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2020	2019	2018
Operating revenues	**$ 1,770,398**	$ 1,914,219	$ 1,684,134
Operating expenses:			
Purchased gas	**463,693**	697,783	606,484
Operations and maintenance	**647,344**	620,311	584,059
Depreciation	**119,432**	103,589	90,553
Other taxes	**246,102**	233,505	218,241
Total operating expenses	**1,476,571**	1,655,188	1,499,337
Operating income	**293,827**	259,031	184,797
Other deductions, net:			
Interest on long-term debt	**(110,487)**	(71,805)	(47,317)
Other interest, including affiliate interest, net	**(12,557)**	(23,007)	(7,389)
Loss on sale of assets	**-**	-	(43,187)
Other income (deductions), net	**21,493**	(16,521)	(25,676)
Total other deductions, net	**(101,551)**	(111,333)	(123,569)
Income before income taxes	**192,276**	147,698	61,228
Income tax expense	**48,990**	40,547	12,768
Net income	**$ 143,286**	$ 107,151	$ 48,460

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2020	2019	2018
Operating activities:			
Net income	**$ 143,286**	$ 107,151	$ 48,460
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**119,432**	103,589	90,553
Accrued interest on tax reserves	**745**	-	-
Regulatory amortizations	**18,518**	18,521	29,507
Deferred income tax expense	**126,631**	74,728	9,274
Bad debt expense	**35,688**	16,911	13,518
Loss on sale of assets	**-**	-	43,187
ROU asset impairment	**15,473**	-	-
Allowance for equity funds used during construction	**(19,627)**	(3,792)	(529)
Amortization of debt discount and issuance costs	**1,709**	1,367	1,751
Pension and postretirement benefits expenses, net	**23,971**	27,883	62,130
Pension and postretirement benefits contributions	**(37,797)**	(60,650)	(40,687)
Environmental remediation payments	**(52,062)**	(27,921)	(45,471)
Changes in operating assets and liabilities:			
Accounts receivable and other receivables, net, and unbilled revenues	**(2,217)**	(65,149)	(88,353)
Accounts receivable from/payable to affiliates, net	**(24,409)**	(526)	-
Inventory	**(38,907)**	(10,155)	21,355
Regulatory assets and liabilities, net	**33,603**	94,333	60,417
Derivative instruments	**(6,375)**	3,849	814
Prepaid and accrued taxes	**(13,045)**	(38,409)	13,414
Accounts payable and other liabilities	**(17,910)**	49,736	30,196
Other, net	**(10,686)**	587	13,469
Net cash provided by operating activities	**296,021**	292,053	263,005
Investing activities:			
Capital expenditures	**(806,030)**	(700,202)	(642,588)
Proceeds from sale of assets	**-**	-	162,918
Intercompany money pool	**599,685**	(601,683)	(168,970)
Cost of removal	**(91,418)**	(78,380)	(62,650)
Other	**(565)**	(33)	(318)
Net cash used in investing activities	**(298,328)**	(1,380,298)	(711,608)
Financing activities:			
Payments on long-term debt	**-**	-	(230,000)
Issuance of long-term debt	**-**	1,000,000	650,000
Payment of debt issuance costs	**-**	(6,096)	(5,372)
Intercompany money pool	**-**	(401,546)	34,813
Capital contributions from parent	**-**	500,000	-
Net cash provided in financing activities	**-**	1,092,358	449,441
Net (decrease) increase in cash, cash equivalents and restricted cash	**(2,307)**	4,113	838
Cash, cash equivalents and restricted cash, beginning of year	**10,427**	6,314	5,476
Cash, cash equivalents and restricted cash, end of year	**$ 8,120**	$ 10,427	$ 6,314
Supplemental disclosures:			
Interest paid	**$ (108,748)**	$ (67,404)	$ (49,434)
Income taxes refunded	**69,323**	46,800	10,053
Significant non-cash items:			
Capital-related accruals included in accounts payable	**50,280**	77,452	60,690
Parent tax loss allocation	**-**	22,664	2,638

THE BROOKLYN UNION GAS COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 8,120**	$ 10,086
Restricted cash	**-**	341
Accounts receivable	**464,069**	470,118
Allowance for doubtful accounts	**(55,216)**	(34,760)
Accounts receivable from affiliates	**22,227**	11,592
Intercompany money pool	**281,262**	880,947
Unbilled revenues	**89,114**	96,080
Inventory	**91,595**	52,688
Regulatory assets	**21,463**	18,902
Accrued tax benefits	**67,098**	58,487
Other	**59,251**	45,321
Total current assets	**1,048,983**	1,609,802
Property, plant and equipment, net	**5,979,542**	5,248,773
Non-current assets:		
Regulatory assets	**2,503,835**	1,967,584
Goodwill	**1,451,141**	1,451,141
Postretirement benefits	**26,075**	51,488
Other	**29,633**	21,655
Total non-current assets	**4,010,684**	3,491,868
Total assets	**$ 11,039,209**	$ 10,350,443

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

THE BROOKLYN UNION GAS COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2020	2019
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 174,354**	$ 216,158
Accounts payable to affiliates	**81,629**	95,403
Regulatory liabilities	**121,105**	121,672
Environmental remediation costs	**128,769**	67,537
Other	**98,425**	69,772
Total current liabilities	**604,282**	570,542
Non-current liabilities:		
Regulatory liabilities	**931,282**	986,754
Deferred income tax liabilities, net	**733,720**	602,208
Postretirement benefits	**126,096**	62,990
Environmental remediation costs	**1,610,328**	1,251,492
Other	**164,953**	152,078
Total non-current liabilities	**3,566,379**	3,055,522
Commitments and contingencies (Note 11)		
Capitalization:		
Shareholders' equity	**4,234,009**	4,090,723
Long-term debt	**2,634,539**	2,633,656
Total capitalization	**6,868,548**	6,724,379
Total liabilities and capitalization	**$ 11,039,209**	$ 10,350,443

THE BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2020	2019
Total shareholders' equity			**$ 4,234,009**	$ 4,090,723
Long-term debt:	Interest Rate	Maturity Date		
Unsecured Notes:				
Senior Note	3.41%	March 10, 2026	**500,000**	500,000
Senior Note	3.87%	March 4, 2029	**550,000**	550,000
Senior Note	4.50%	March 10, 2046	**500,000**	500,000
Senior Note	4.27%	March 15, 2048	**650,000**	650,000
Senior Note	4.49%	March 4, 2049	**450,000**	450,000
Total debt			**2,650,000**	2,650,000
Unamortized debt issuance costs			**(15,461)**	(16,344)
Long-term debt			**2,634,539**	2,633,656
Total capitalization			**$ 6,868,548**	$ 6,724,379

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

THE BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance as of March 31, 2017	**$ -**	**$ -**	**$ 2,996,370**	**$ 413,440**	**$ 3,409,810**
Net income	-	-	-	48,460	48,460
Parent tax loss allocation	-	-	2,638	-	2,638
Balance as of March 31, 2018	**$ -**	**$ -**	**$ 2,999,008**	**$ 461,900**	**$ 3,460,908**
Net income	-	-	-	107,151	107,151
Capital contributions from parent	-	-	500,000	-	500,000
Parent tax loss allocation	-	-	22,664	-	22,664
Balance as of March 31, 2019	**$ -**	**$ -**	**$ 3,521,672**	**$ 569,051**	**$ 4,090,723**
Net income	-	-	-	143,286	143,286
Balance as of March 31, 2020	**$ -**	**$ -**	**$ 3,521,672**	**$ 712,337**	**$ 4,234,009**

The Company had 100 shares of common stock authorized, issued and outstanding, with a par value of $0.01 per share and 1 share of preferred stock, authorized, issued and outstanding, with a par value of $1 per share at March 31, 2020 and 2019.

THE BROOKLYN UNION GAS COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The Brooklyn Union Gas Company ("the Company") is a gas distribution company engaged in the transportation and sale of natural gas to approximately 1.3 million customers in the boroughs of Brooklyn and Staten Island and two-thirds of the borough of Queens, all in New York City.

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

Through its wholly-owned unregulated subsidiary, North East Transmission Co., Inc. ("NETCO"), the Company previously owned approximately 6.5 million common units (representing approximately an 8% interest) of Dominion Midstream Partners, LP ("DM"), which were sold to Deutsche Bank in February 2018.

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), including the accounting principles for rate-regulated entities. The consolidated financial statements reflect the ratemaking practices of the applicable regulatory authorities. All intercompany balances and transactions have been eliminated in consolidation.

The novel coronavirus (COVID-19) pandemic has disrupted the U.S. and global economies and is having a significant impact on global health. In March 2020, COVID-19 was declared a pandemic by the World Health Organization (WHO) and the Centers for Disease Control and Prevention. The COVID-19 pandemic has not had a material financial impact on the Company as of March 31, 2020; however, the extent to which the COVID-19 pandemic will impact the Company in the future is uncertain at this time. Due to this uncertainty, the valuations of certain assets and liabilities are necessarily more subjective. In particular, we identified the recoverability of customer receivables in relation to retail customers, in consideration of the suspension of debt collection activities and customer termination activities as an area of estimation uncertainty. In March 2020, the Company ceased certain customer cash collection activities in response to regulatory instructions and to changes in State, Federal and City level regulations and guidance, and actions to minimize risk to employees. The Company has also ceased customer termination activities as requested by relevant local authorities. The Company is monitoring COVID-19 developments closely.

The Company has evaluated subsequent events and transactions through June 26, 2020, the date of issuance of these consolidated financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the consolidated financial statements as of and for the year ended March 31, 2020. The Company continues to evaluate the ongoing impact of COVID-19 on both customers and financial performance and is complying with the request from NYPSC to share relevant information, including submitting comments in response to the Commission's proceeding considering the impacts of COVID-19 on New York utilities' costs and services, opened on June 11, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities included in the financial statements. Such estimates and assumptions include the impact of the ongoing COVID-19 pandemic and are reflected in the accompanying financial statements. Actual results could differ from those estimates.

Regulatory Accounting

The New York Public Service Commission ("NYPSC") regulates the rates the Company charges its customers. In certain cases, the rate actions of the NYPSC can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. In accordance with ASC 980, "Regulated Operations," regulatory assets and liabilities are reflected on the balance sheet consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

Revenues are recognized for gas distribution services provided on a monthly billing cycle basis. The Company records unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the reporting period (See Note 3, "Revenue" for additional details).

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2020, 2019, and 2018 were $64.1 million, $64.1 million, and $58.6 million, respectively.

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

Income Taxes

Federal and state income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses, and general business credit carryforwards. The Company assesses the available positive and negative evidence to estimate whether sufficient future taxable income of the appropriate tax character will be generated to realize the benefits of existing deferred tax assets. When the evaluation of the evidence indicates that the Company will not be able to realize the benefits of existing deferred tax assets, a valuation allowance is recorded to reduce existing deferred tax assets to the net realizable amount.

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

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary determines its tax provision based on the separate return method, modified by a benefits-for-loss allocation pursuant to a tax sharing agreement between NGNA and its subsidiaries. The benefit of consolidated tax losses and credits are allocated to the NGNA subsidiaries giving rise to such benefits in determining each subsidiary's tax expense in the year that the loss or credit arises. In a year that a consolidated loss or credit carryforward is utilized, the tax benefit utilized in consolidation is paid proportionately to the subsidiaries that gave rise to the benefit regardless of whether that subsidiary would have utilized the benefit. The tax sharing agreement also requires NGNA to allocate its parent tax losses, excluding deductions from acquisition indebtedness, to each subsidiary in the consolidated federal tax return with taxable income. The allocation of NGNA's parent tax losses to its subsidiaries is accounted for as a capital contribution and is performed in conjunction with the annual intercompany cash settlement process following the filing of the federal tax return.

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience, and management's assessment of collectability from individual customers, as appropriate. The collectability of receivables is continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible. The Company recorded bad debt expense of $35.7 million, $16.9 million, and $13.5 million for the years ended March 31, 2020, 2019, and 2018, respectively, within operation and maintenance expenses in the accompanying consolidated statements of income. For the year ended March 31, 2020, the bad debt expense is reflective of an additional provision in relation to the impact of COVID-19.

Inventory

Inventory is composed of materials and supplies as well as gas in storage. Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized as used. There were no significant write-offs of obsolete inventory for the years ended March 31, 2020, 2019, or 2018.

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

The Company had materials and supplies of $16.8 million and $16.7 million and gas in storage of $74.8 million and $36.0 million as of March 31, 2020 and 2019, respectively.

Fair Value Measurements

The Company measures derivative instruments and pension and postretirement benefit other than pension plan assets at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following is the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data;
- Level 3: unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs; and
- Not categorized: certain investments are not categorized within the fair value hierarchy. These investments are typically in commingled funds or limited partnerships that are not publicly traded and have ongoing subscription and redemption activity. As a practical expedient, the fair value of these investments is the Net Asset Value ("NAV") per fund share, derived from the underlying securities' quoted prices in active markets.

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

Property, Plant and Equipment

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

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. The average composite rates for the years ended March 31, 2020, 2019, and 2018 were 2.0%, 2.1%, and 2.0%, respectively.

Depreciation expense includes a component for the estimated cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability or regulatory asset. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company recognized a regulatory liability for the amount that was in excess of costs incurred of $8.6 million and $83.8 million as of March 31, 2020 and 2019, respectively.

Allowance for Funds Used During Construction

The Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. The equity component of AFUDC is reported in the accompanying consolidated statements of income as non-cash income in other income (deductions), net. The debt component of AFUDC is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base. The Company recorded AFUDC related to equity of $19.6 million, $3.8 million, and $0.5 million, and AFUDC related to debt of $7.6 million, $9.7 million, and $5.2 million, for the years ended March 31, 2020, 2019, and 2018, respectively. The average AFUDC rates for the years ended March 31, 2020, 2019, and 2018 were 6.8%, 2.7%, and 1.7%, respectively.

Impairment of Long-Lived Assets

The Company tests the impairment of long-lived assets when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If identified, the recoverability of an asset is determined by comparing its carrying value to the estimated undiscounted cash flows that the asset is expected to generate. If the comparison indicates that the carrying value is not recoverable, an impairment loss is recognized for the excess of the carrying value over the estimated fair value. For the year ended March 31, 2020, there was an impairment charge of $15.5 million against a corporate real-estate right-of-use ("ROU") asset. The impairment arose due to the Company's decision to exit the leased property prior to the end of the lease term. In estimating the impairment charge, the Company determined fair value using an income approach. For the years ended 2019 and 2018, there were no impairment losses recognized for long-lived assets.

Goodwill

The Company tests goodwill for impairment annually on January 1, and when events occur or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. The Company has early adopted Accounting Standards Update ("ASU") No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which eliminates step two from the two-step goodwill impairment test required under the current standard. The goodwill impairment test requires a recoverability test performed based on the comparison of the Company's estimated fair value with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is not considered impaired. If the carrying value exceeds the estimated fair value, the Company is required to recognize an impairment charge for such excess, limited to the carrying amount of goodwill.

As of March 31, 2020, and March 31, 2019, the fair value of the Company was calculated utilizing only the income approach. The Company believes that this approach provides the most reliable information about the Company's estimated fair value. Based on the resulting fair value from the annual analysis, the Company determined that no adjustment to the goodwill carrying value was required as of March 31, 2020 or 2019.

Employee Benefits

The Company participates with other NGUSA subsidiaries in defined benefit pension plans and postretirement benefit other than pension ("PBOP") plans for its employees, administered by NGUSA. The Company recognizes its portion of the pension and PBOP plans' funded status on the consolidated balance sheet as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The pension and PBOP plans' assets are commingled and allocated to measure and record pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

New and Recent Accounting Guidance

Accounting Guidance Recently Adopted

Leases

In February 2016, the FASB issued ASU No. 2016-02 "Leases" ("Topic 842") and further amended the standard in 2018 and 2019. The new standard supersedes the lease accounting guidance under Topic 840. Under the new standard, a lease is defined as a contract, or part of a contract, that conveys the right to control the use of one or more identified assets for a period of time in exchange for consideration. Lessees will need to recognize leases on the balance sheet as a ROU asset and a related lease liability and classify each lease component as either operating or finance. The lease liability will be equal to the present value of the lease payments. The right-of-use asset will be based on the liability, subject to certain adjustments, such as initial direct costs. Lessor accounting under Topic 842 remains largely consistent with Topic 840.

The Company adopted this new guidance on April 1, 2019 using the modified retrospective approach. The Company recognized approximately $50.9 million of operating lease liabilities and right-of-use assets on the balance sheets upon transition at April 1, 2019. The implementation of the guidance did not have a material impact on the Company's results of operations or statement of cash flows, as the pattern of recognition of operating lease expense was consistent with Topic 840 The Company's leases are further discussed in Note 6 "Property, Plant and Equipment" and Note 12, "Leases."

Accounting Guidance Not Yet Adopted

Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU No. 2016-13 "Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Statements" requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. In May 2019, the FASB issued ASU 2019-05, "Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief", permitting entities to irrevocably elect the fair value option for financial instruments that were previously recorded at amortized cost basis within the scope of Topic 326, with the exception of held-to-maturity debt securities. For the Company, the requirements in these updates, as amended in November 2019 by ASU 2019-10 "Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates", will be effective for fiscal years beginning after March 31, 2024, including interim periods within those fiscal years. The Company is currently assessing the application of this standard to determine if it will have a material impact on the presentation, results of operations, cash flows, and financial position of the Company.

Reclassifications

Certain reclassifications have been made to the financial statements to conform the prior period's balances to the current period's presentation. These reclassifications had no effect on reported income, statement of cashflows, total assets, or stockholders' equity as previously reported.

3. REVENUE

The following table presents, for the years ended March 31, 2020 and 2019, revenue from contracts with customers, as well as additional revenue from sources other than contracts with customers, disaggregated by major source:

	Years ended March 31,	
	2020	2019
	(in thousands of dollars)	
Revenue from contracts with customers:		
Gas distribution	**$ 1,705,913**	$ 1,794,623
Off system sales	**50,529**	126,112
Total revenue from contracts with customers	**1,756,442**	1,920,735
Revenue from regulatory mechanisms	**13,649**	(9,545)
Other revenue	**307**	3,029
Total operating revenues	**$ 1,770,398**	$ 1,914,219

Gas Distribution: The Company owns and maintains a natural gas distribution network in downstate New York. Distribution revenues are primarily from the sale of gas and related services to retail customers. Distribution sales are regulated by the NYPSC, which is responsible for determining the prices and other terms of services as part of the rate making process. The arrangement where a utility provides a service to a customer in exchange for a price approved by a regulator is referred to as a tariff sales contract. Gas distribution revenues are derived from the regulated sale and distribution of natural gas to residential, commercial, and industrial customers within the Company's service territory under the tariff rates. The tariff rates approved by the regulator are designed to recover the costs incurred by the Company for products and services provided and along with a return on investment.

The performance obligation related to distribution sales is to provide natural gas to the customers on demand. The natural gas supplied under the respective tariff represents a single performance obligation as it is a series of distinct goods or services that are substantially the same. The performance obligation is satisfied over time because the customer simultaneously receives and consumes the natural gas as the Company provides these services. The Company records revenues related to the distribution sales based upon the approved tariff rate and the volume delivered to the customers, which corresponds with the amount the Company has the right to invoice.

The distribution revenue also includes estimated unbilled amounts, which represent the estimated amounts due from retail customers for natural gas provided to customers by the Company, but not yet billed. Unbilled revenues are determined based on estimated unbilled sales volumes for the respective customer classes and then applying the applicable tariff rate to those volumes. Actual amounts billed to customers when the meter readings occur, may be different from the estimated amounts.

Certain customers have the option to obtain natural gas from other suppliers. In those circumstances, revenue is only recognized for providing delivery of the commodity to the customer.

Off System Sales (OSS): Represents direct sales of gas to participants in the wholesale natural gas marketplace, which occur after customers' demands are satisfied.

Revenue from Regulatory Mechanisms: The Company records revenues in accordance with accounting principles for rate-regulated operations for arrangements between the Company and the regulator, which are not accounted for as contracts with customers. These include various deferral mechanisms such as capital trackers, energy efficiency programs, and other programs that also qualify as Alternative Revenue Programs ("ARPs"). ARPs enable the Company to adjust rates in the future, in response to past activities or completed events. The Company's gas distribution rates have a revenue decoupling mechanism ("RDM") which allows for annual adjustments to the Company's delivery rates as a result of the reconciliation between allowed revenue and billed revenue. The Company also has other ARPs related to the achievement of certain objectives, demand side management initiatives, and certain other rate making mechanisms. The Company recognizes ARP's with a corresponding offset to a regulatory asset or liability account when the regulatory specified events or conditions have been met, when the amounts are determinable, and are probable of recovery (or payment) through future rate adjustments.

Other Revenues: Includes lease income and other transactions that are not considered contracts with customers.

4. REGULATORY ASSETS AND LIABILITIES

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

	March 31,	
	2020	2019
	(in thousands of dollars)	
Regulatory assets		
Current:		
Derivative instruments	**$ 1,678**	$ 8,053
Facilities system surcharge	**2,395**	2,984
Gas safety and reliability surcharge	**2,020**	2,115
Revenue decoupling mechanism	**8,849**	2,508
Temperature control revenues	**6,521**	3,242
Total	**21,463**	18,902
Non-current:		
Environmental response costs	**1,880,474**	1,477,892
Postretirement benefits	**323,251**	244,813
Temperature control/interruptible sharing	**103,855**	103,855
Other	**196,255**	141,024
Total	**2,503,835**	1,967,584
Regulatory liabilities		
Current:		
Energy efficiency	**27,558**	25,567
Gas costs adjustment	**23,010**	26,390
Revenue decoupling mechanism	**69,462**	66,586
Other	**1,075**	3,129
Total	**121,105**	121,672
Non-current:		
Carrying charges	**82,419**	67,338
Cost of removal	**8,558**	83,790
Postretirement benefits	**66,715**	82,858
Regulatory tax liability, net	**426,466**	431,349
Transition balancing accounts	**71,163**	71,163
Other	**275,961**	250,256
Total	**$ 931,282**	$ 986,754

Carrying charges: The Company records carrying charges on regulatory balances for which cash expenditures have been made and are subject to recovery, or for which cash has been collected and is subject to refund as approved in accordance with the NYPSC. Carrying charges are not recorded on items for which expenditures have not yet been made.

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

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

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

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

Facilities system surcharge: On May 1, 2018, the Company entered the New York Facilities Agreement ("NYFA") with The Brooklyn Union Gas Company and Consolidated Edison Company of New York, Inc. to design, maintain and operate their respective constructed portion of a system of gas mains and associated facilities for receiving and distributing natural gas. On October 18, 2018, the NYPSC issued an order to allow the Company to recover or refund NYFA costs as compared to the amount reflected in base rates. An initial surcharge was implemented on November 1, 2018, effective for the five-month period ending March 31, 2019.

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

Gas safety and reliability surcharge: The regulatory asset represents the recovery of costs to incrementally replace leak prone pipes, costs to repair leaks that do not present an immediate risk to public safety, and positive revenue adjustments earned for achieving performance metrics. The surcharge is reconciled on a calendar year basis and included in the delivery rate adjustment recovered from firm sales and firm transportation customers in the following fiscal year.

Postretirement benefits: The regulatory asset balance represents the Company's, unamortized, non-cash accrual of net pension actuarial gains and losses in addition to actual costs associated with Company's pension plans in excess of amounts received in rates that are to be collected in future periods. The regulatory liability represents the Company's, unamortized, non-cash accrual of net PBOP actuarial gains and losses in addition to excess amounts received in rates over actual costs of the Company's PBOP plans that are to be passed back in future periods.

Regulatory tax liability, net: Represents over-recovered federal and state deferred taxes of the Company primarily as a result of regulatory flow through accounting treatment, state income tax rate changes and excess federal deferred taxes as a result of the Tax Cuts and Jobs Act of 2017 ("Tax Act").

Revenue decoupling mechanism ("RDM"): As approved by the NYPSC, the gas RDM allows for an annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed and actual billed revenues. Any difference is recorded as a regulatory asset or regulatory liability.

Temperature control/interruptible ("TC/IT") sharing: Under a previous rate agreement, the Company was subject to an annual price cap on interruptible and temperature control customers and was allowed to defer related amounts, subject to sharing with customers – 90% to customers and 10% to shareholders. This mechanism was discontinued under the current rate agreement. In conjunction with its 2019 rate case filing (see Note 5, "Rate Matters", for additional details) the Company proposed to combine this and other regulatory assets and liabilities into a single net deferral liability to be refunded to customers.

Temperature control revenues: The temperature control service revenue is reconciled to the revenue target approved by the NYPSC on a calendar year basis. Any difference between the actual revenue collected and target revenue is deferred and credited or surcharged to firm sales and firm transportation customers in the following fiscal year through the delivery rate adjustment.

Transition balancing accounts ("TBA"): In May 2002, the NYPSC approved the gas restructuring joint proposal ("the proposal"), which required the Company to take measures toward the transition to a competitive retail market for gas service in the Company’s service territories. Allowed costs within the TBA were ordered to be funded by various sources including but not limited to excess earnings, which are earnings due to ratepayers in excess of the threshold returns on equity specified within the Company’s rate plan. All TBA activities from the proposal have concluded, and no further TBA related activity have occurred since 2008. The timing for the disposition of any associated deferred balances will be determined by future NYPSC rulings.

5. RATE MATTERS

Rate Case Filing

On January 29, 2016, the Company and KeySpan Gas East Corporation (the “New York Gas Companies”) filed to adjust their base gas rates, to be effective from January 1, 2017. The filing requested to increase gas delivery base revenues. On September 7, 2016, the New York Gas Companies filed a Joint Proposal establishing a three year rate plan beginning January 1, 2017 and ending December 31, 2019. The NYPSC issued an order approving the Joint Proposal on December 15, 2016 and the new rates went into effect beginning January 1, 2017.

The rate plan provided for a revenue increase of $272 million in the first year, an additional $41 million in the second year, and an additional $48.9 million in the third year, for a cumulative three year increase of $947 million, for the Company. In an effort to mitigate the potential bill impacts that the revenue increases would have on customers in the first year, the revenue increases are levelized over the three year rate period. As such, for U.S. GAAP reporting, revenues are recognized equal to the amounts actually billed to customers during each period rather than per the provisions of the rate plan. The settlement is based upon a 9% return on equity (“ROE”) and 48% common equity ratio and includes an earnings sharing mechanism in which customers will share earnings when the Company’s ROE is in excess of 9.5%. In the period following the expiration of the Company’s rate plan, the Company is required to defer the difference between the levelized rate increases and the calculated revenue requirements for the benefit of customers.

Key provisions of the settlement include funding for removal of a specific mileage of leak prone pipe (“LPP”) in each rate year. Additionally, recovery of proactive LPP replacement costs incurred in excess of this mileage are permitted and recovered through the Gas Safety and Reliability Surcharge. This also includes a positive revenue adjustment mechanism for unit cost savings versus those specific in rates.

The Company has capital tracker mechanisms that reconcile the Company's capital expenditures to the amounts permitted in rates. The Net Utility Plant and Depreciation Expense tracker applies to the Companies’ aggregate total average net plant and depreciation expense combined and was a downward only reconciliation through the end of rate year three and a two-way tracker in the period following the expiration of the term of the Company’s rate plan. Under the City/State Construction Reconciliation, the Company is authorized to defer 90% of the revenue requirement impact difference (excluding operations and maintenance expense) between actual and forecast city/state construction costs for future recovery from or return to customers.

The Company’s RDM was also adjusted to include revenue-per-class RDMs for industrial and commercial customers not previously subject to the RDM.

Each rate year, the Company will fully reconcile actual SIR expense to the Forecast Rate Allowance. Any under or over expenditures will be deferred for future refund to or recovery from customers (with the exception of the Citizens site). The Company will continue to absorb 10% of the remaining investigation costs for the Citizens site.

The Company’s environmental SIR expense has also been moved from a surcharge to base rates. Beginning in January 2018, to the extent that the difference between actual SIR expense and the Forecast Rate Allowance exceeds $25 million on a cumulative basis, the Company will utilize its SIR Recovery Surcharge. The surcharge is designed to provide recovery for the differences between actual SIR expenses and the amounts allowed in rates and will be calculated annually and be limited to an amount no greater than 2% of the Company’s prior year aggregate revenues. Differences over this threshold will be deferred for future recovery. The terms of the rate plan continue beyond rate year three until the Commission issues an Order in the current rate proceeding.

On April 30, 2019, the Company and KeySpan Gas East Corporation filed to increase revenues for the twelve months ending March 31, 2021 ("Rate Year"). The Companies filed Corrections and Updates on July 3, 2019, which requested rate increases of $195.6 million for the Company and $61.2 million for KeySpan Gas East Corporation. The filings propose to invest over $1.5 billion in the Rate Year to modernize the New York Gas Companies' gas infrastructure by replacing aging pipelines, implementing safety improvements, enhancing storm hardening and resiliency, and reducing methane emissions. The filings also include proposals to enhance gas safety and promote a sustainable and affordable path toward a low-carbon energy future. After a series of litigation hearings held from February 10, 2020 through February 25, 2020 by an administrative law judge, on June 5, 2020 the Company informed the NYPSC and the administrative law judge of the intention to resume settlement discussions. Settlement discussions resumed on June 15, 2020 and are ongoing at this time. To facilitate those discussions, the New York Gas Companies requested an additional three-month extension of the suspension period, such that new rates would now become effective November 1, 2020. The final approved rate order will include a make-whole provision that will assure the New York Gas Companies are restored to the same financial position they would have been in had new rates gone into effect on April 1, 2020.

Downstate Gas Moratorium

On May 15, 2019, the Company stopped fulfilling applications for new firm service connections, or requests for additional firm load from existing customers, in the affected areas of its service territory because the available firm gas supplies are insufficient to keep pace with demand. On October 11, 2019, the NYPSC issued an "Order Instituting Proceeding and to Show Cause" that directed the Company to provide gas service to a subset of previously denied applicants and show cause why the Company should not be subject to financial penalties.

On November 24, 2019, the New York Gas Companies reached settlements resolving the Order to Show Cause relating to the downstate gas moratorium. The settlement was approved November 26, 2019 in a one Commissioner Order by the NYPSC. Specifically, the New York Gas Companies are lifting the moratorium for approximately two years and implementing $35 million in customer assistance, demand response, energy efficiency and other shareholder funded programs. The settlement also provides for the appointment of a monitor to oversee gas supply operations and compliance with the settlement.

The New York Gas Companies also agreed to develop a range of options to address the natural gas constraints facing the region, which were presented at a series of public meetings in the downstate New York service territory. These meetings were designed to facilitate a dialogue with customers, residents, advocates, business leaders and local elected officials on potential solutions. Following the public meetings, the New York Gas Companies published a report that summarized the pubic feedback and provided additional information and analysis on the various long-term natural gas supply options. The New York Gas Companies are now working with regulators, stakeholders, and customers to find long-term solutions to the gas supply constraints in the region.

Downstate Order to Show Cause

On July 12, 2019, the NYPSC initiated a proceeding requiring the New York Gas Companies to demonstrate why a penalty action should not be commenced for more than 1,600 alleged gas safety violations. The alleged violations concern the Commission's investigation of improper operator qualification and related issues following a 2016 anonymous letter alleging a contractor had facilitated employees cheating on operator qualification exams. The NYPSC also alleges violations for the New York Gas Companies' employees and other contractors' workers whose qualifications had lapsed. The order directs the New York Gas Companies to respond within 45 days. The New York Gas Companies filed a response to the allegations. At this time, the Company is unable to determine the amount and probability of any potential penalty.

Tax Act

In response to the Tax Act, the NYPSC issued an Order Instituting Proceeding under Case 17-M-0815 - Proceeding on Motion of the Commission on Changes in Law that May Affect Rates. This proceeding was instituted to solicit comments on the Tax Act's implications and places the utilities on notice of the NYPSC's intent to protect ratepayers' interest and to ensure that any cost reductions from the changes in federal income taxes are deferred for future ratepayer benefit. On August 9, 2018, the NYPSC issued an order in its generic proceeding considering the impacts of federal tax reform. NYPSC Staff had advocated that all New York utilities implement a sur-credit by October 1st that would reflect the immediate effects of the Tax Act and also return any deferred benefits to customers. In response, the Company filed a proposal to (i) delay any sur-credit to January 1 to offset scheduled rate increases and (ii) retain any deferred benefits, including accumulated deferred federal income taxes ("ADFIT"), for future rate moderation.

The NYPSC's order effectively approved all aspects of the Company's proposal. The NYPSC agreed that the Company should be allowed to defer both the pass back of calendar year 2018 tax savings and the amortization of excess ADFIT balances, and use the benefits as a rate moderator when base rates are next revised in 2020/2021. Specifically the NYPSC approved the Company's proposal to implement a sur-credit to reflect the lower tax rate effective January 1, 2019 to offset planned rate increases and retain the calendar year 2018 deferred amounts for future rate mitigation and/or to offset investments. Deferring the tax benefits until January 1, 2019 results in a deferred balance of $40 million.

New York Management Audit

Under the New York Public Service Law, the NYPSC is required to conduct periodic audits of various aspects of public utility activities. In 2018 the NYPSC initiated a comprehensive management and operations audit of our three New York regulated businesses. New York law requires periodic management audits of all utilities at least once every five years. National Grid's New York regulated business last underwent a New York management audit in 2014 and 2015, when the NYPSC audited our New York gas business.

In September 2018, the NYPSC selected Saleeby Consulting Group as the independent auditor to perform the audit. The Company was fully committed to the audit with the goal of demonstrating its full capabilities and receiving meaningful feedback that would drive useful recommendations to improve the Company's electric and gas operations for the benefit of its customers. The audit began in November 2018 and ran until August 2019, with a final report due in September 2019. Unexpectedly, in October 2019, the NYPSC employees advised us that they were terminating the contract with the auditors, effective immediately, because of the poor quality of the draft audit report by the auditor, with no fault whatsoever on the part of the Company. NYPSC employees advised of their intention to complete the management audit themselves. The Audit is expected to be complete sometime in the second half of 2020.

6. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2020	2019
	(in thousands of dollars)	
Plant and machinery	**$ 6,468,974**	$ 5,525,047
Motor vehicles and equipment	**11,657**	11,762
Land and buildings	**220,056**	213,596
Assets in construction	**372,276**	556,549
Software and other intangibles	**129,617**	129,617
Operating leases	**34,908**	-
Total property, plant and equipment	**7,237,488**	6,436,571
Accumulated depreciation and amortization	**(1,250,386)**	(1,187,798)
Operating lease accumulated depreciation	**(7,560)**	-
Property, plant and equipment, net	**$ 5,979,542**	$ 5,248,773

7. EMPLOYEE BENEFITS

The Company participates with other NGUSA subsidiaries in qualified and non-qualified non-contributory defined benefit pension plans (the "Pension Plans") and PBOP plans (together with the Pension Plan (the "Plans")), covering a large percentage of employees.

Plan assets are maintained for all of NGUSA and its subsidiaries in commingled trusts. In respect of cost determination, plan assets are allocated to the Company based on its proportionate share of projected benefit obligation. The Plans' costs are first directly charged to the Company based on the Company's employees that participate in the Plans. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. The Company applies deferral accounting for pension and PBOP expenses associated with its regulated gas operations. Any differences between actual pension costs and amounts used to establish rates are deferred and collected from, or refunded to, customers in subsequent periods. Pension and PBOP service costs are included within operations and maintenance expense and non-service costs are included within other income (deductions), net in the accompanying consolidated statements of income. Portions of the net periodic benefit costs disclosed below have been capitalized as a component of property, plant and equipment.

Pension Plans

The Qualified Pension Plans are defined benefit pension plans which provide union employees, as well as non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory retirement programs provide additional pension benefits to certain executives and for eligible participants covers compensation levels in excess of the Internal Revenue Service ("IRS") limits. During the years ended March 31, 2020, 2019, and 2018, the Company made contributions of approximately $34.2 million, $58.7 million, and $23.5 million, respectively, to the Qualified Pension Plans. The Company expects to contribute approximately $9.0 million to the Qualified Pension Plans during the year ending March 31, 2021.

Benefit payments to Pension Plan participants for the years ended March 31, 2020, 2019, and 2018 were approximately $38.8 million, $36.2 million, and $16.3 million, respectively.

PBOP Plans

The PBOP plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. During the years ended March 31, 2020, 2019, and 2018, the Company made contributions of approximately $2.0 million, zero, and $15.5 million, respectively, to the PBOP Plans. The Company does not expect to contribute to the PBOP Plans during the year ending March 31, 2021.

Benefit payments to PBOP plan participants for the years ended March 31, 2020, 2019, and 2018 were $13.2 million, $10.9 million, and $21.6 million, respectively.

Defined Contribution Plan

NGUSA has defined contribution retirement plans that cover substantially all employees. For the years ended March 31, 2020, 2019, and 2018, the Company recognized an expense in the accompanying consolidated statements of income of $2.8 million, $2.7 million, and $2.4 million, respectively, for matching contributions.

Net Periodic Benefit Costs

The Company's net periodic benefit pension cost for the years ended March 31, 2020, 2019, and 2018 were $18.3 million, $28.1 million, and $35.5 million, respectively.

The Company's net periodic benefit PBOP (benefit) cost for the years ended March 31, 2020, 2019, and 2018 were $(0.1) million, $3.3 million, and $6.1 million, respectively.

Amounts Recognized in Regulatory Assets/Liabilities

The following tables summarize the Company's changes in actuarial gains/losses and prior service costs recognized in regulatory assets/liabilities for the years ended March 31, 2020, 2019, and 2018:

	Pension Plans		
	March 31,		
	2020	2019	2018
		(in thousands of dollars)	
Net actuarial losses	**$ 102,920**	$ 17,944	$ 12,883
Amortization of net actuarial losses	**(23,819)**	(30,761)	(34,579)
Amortization of prior service cost, net	**(20)**	(19)	(19)
Total	**$ 79,081**	$ (12,836)	$ (21,715)
Change in regulatory assets	**79,081**	(12,836)	(21,715)
Total	**$ 79,081**	$ (12,836)	$ (21,715)

	PBOP Plans		
	March 31,		
	2020	2019	2018
		(in thousands of dollars)	
Net actuarial losses (gains)	**$ 31,044**	$ 560	$ (16,469)
Amortization of net actuarial losses	**(2,132)**	(4,497)	(5,977)
Amortization of prior service benefit (cost), net	**58**	(21)	(20)
Total	**$ 28,970**	$ (3,958)	$ (22,466)
Change in regulatory liabilities	**28,970**	(3,958)	(22,466)
Total	**$ 28,970**	$ (3,958)	$ (22,466)

Amounts Recognized in Regulatory Assets/Liabilities – not yet recognized as components of net actuarial loss

The following tables summarize the Company's amounts in regulatory assets/liabilities on the balance sheet that have not yet been recognized as components of net actuarial loss as of March 31, 2020, 2019, and 2018:

	Pension Plans		
	March 31,		
	2020	2019	2018
		(in thousands of dollars)	
Net actuarial losses	**$ 179,202**	$ 100,101	$ 112,918
Prior service cost	**50**	70	89
Total	**$ 179,252**	$ 100,171	$ 113,007
Included in regulatory assets	**179,252**	100,171	113,007
Total	**$ 179,252**	$ 100,171	$ 113,007

	PBOP Plans		
	March 31,		
	2020	2019	2018
		(in thousands of dollars)	
Net actuarial losses (gains)	**$ 23,905**	$ (5,007)	$ (1,070)
Prior service cost	**(4)**	(62)	(41)
Total	**$ 23,901**	$ (5,069)	$ (1,111)
Included in regulatory liabilities	**23,901**	(5,069)	(1,111)
Total	**$ 23,901**	$ (5,069)	$ (1,111)

The amount of net actuarial loss to be amortized from regulatory assets or liabilities for the year ending March 31, 2021 for the Pension Plans and PBOP Plans is $30.6 million and $4.3 million, respectively.

Amounts Recognized on the Balance Sheet

The following table summarizes the portion of the funded status above that is recognized on the Company's balance sheet as of March 31, 2020 and 2019:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2020	2019	**2020**	2019
	(in thousands of dollars)			
Projected benefit obligation	**$ (891,674)**	$ (803,183)	**$ (273,590)**	$ (273,837)
Allocated fair value of assets	**765,578**	740,193	**299,665**	325,325
Funded status	**$ (126,096)**	$ (62,990)	**$ 26,075**	$ 51,488
Non-current assets	**$ -**	$ -	**$ 26,075**	$ 51,488
Non-current liabilities	**(126,096)**	(62,990)	**-**	-
Total	**$ (126,096)**	$ (62,990)	**$ 26,075**	$ 51,488

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2020:

(in thousands of dollars) Years Ended March 31,	Pension Plans	PBOP Plans
2021	$ 41,919	$ 11,539
2022	43,548	11,981
2023	44,912	12,500
2024	46,318	12,907
2025	47,280	13,276
2026-2030	248,855	69,739
Total	$ 472,832	$ 131,942

Assumptions Used for Employee Benefits Accounting

	Pension Plans		
	Years Ended March 31,		
	2020	2019	2018
Benefit obligations:			
Discount rate	**3.65%**	4.10%	4.10%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.00%**	6.50%	6.25%
Net periodic benefit costs:			
Discount rate	**4.10%**	4.10%	4.30%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.50%**	6.25%	6.50%

	PBOP Plans		
	Years Ended March 31,		
	2020	2019	2018
Benefit obligations:			
Discount rate	**3.65%**	4.10%	4.10%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.50%-7.00%**	6.50%-7.25%	6.25%-6.75%
Net periodic benefit costs:			
Discount rate	**4.10%**	4.10%	4.30%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.50%-7.25%**	6.25%-6.75%	6.50%-6.75%

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

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

Assumed Health Cost Trend Rate

	Years Ended March 31,	
	2020	2019
Health care cost trend rate assumed for next year		
Pre 65	**7.00%**	7.25%
Post 65	**5.50%**	5.75%
Prescription	**8.00%**	9.75%
Rate to which the cost trend is assumed to decline (ultimate)	**4.50%**	4.50%
Year that rate reaches ultimate trend		
Pre 65	**2031 +**	2028
Post 65	**2031 +**	2026
Prescription	**2031 +**	2027

Plan Assets

The Pension Plan is a trusted non-contributory defined benefit plan covering all eligible represented employees of the Company and eligible non-represented employees of the participating National Grid companies. The PBOP Plans are both a contributory and non-contributory, trusteed, employee life insurance, and medical benefit plan sponsored by the Company. Life insurance and medical benefits are provided for eligible retirees, dependents, and surviving spouses of the Company.

The Company manages the benefit plan investments for the exclusive purpose of providing retirement benefits to participants and beneficiaries and paying plan expenses. The benefit plans' named fiduciary is The Retirement Plans Committee ("RPC"). The RPC seeks to minimize the long-term cost of operating the Plans, with a reasonable level of risk. The investment objectives of the plans are to maintain a level and form of assets adequate to meet benefit obligations to participants, to achieve the expected long-term total return on the plans' assets within a prudent level of risk and maintain a level of volatility that is not expected to have a material impact on the Company's expected contribution and expense or the Company's ability to meet plan obligations.

The RPC has established and reviews at least annually the Investment Policy Statement ("IPS") which sets forth the guidelines for how plan assets are to be invested. The IPS contains a strategic asset allocation for each plan which is intended to meet the objectives of the pension plan by diversifying its funds across asset classes, investment styles and fund managers. An asset/liability study typically is conducted periodically to determine whether the current strategic asset allocation continues to represent the appropriate balance of expected risk and reward for the plan to meet expected liabilities. Each study considers the investment risk of the asset allocation and determines the optimal mix of assets for the plan. The target asset allocation for 2020 reflects the results of such a pension study conducted in 2019. The PBOP Plan asset liability studies are expected to be run within the next 12-18 months.

Individual fund managers operate under written guidelines provided by the RPC, which cover such areas as investment objectives, performance measurement, permissible investments, investment restrictions, trading and execution, and communication and reporting requirements. National Grid management in conjunction with a third party investment advisor, regularly monitors, and reviews asset class performance, total fund performance, and compliance with asset allocation guidelines. This information is reported to the RPC at quarterly meetings. The RPC changes fund managers and rebalances the portfolio as appropriate.

Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across market segments and is mainly invested in investment grade securities. Where investments are made in non-investment grade assets the higher volatility is carefully judged and balanced against the expected higher returns. While the majority of plan assets are invested in equities and fixed income other asset classes are utilized to further diversify the investments. These asset classes include private equity, real estate, and diversified alternatives. The objective of these other investments are enhancing long-term returns while improving portfolio diversification. For the PBOP Plans, since the earnings on a portion of the assets are taxable, those investments are managed to maximize after tax returns consistent with the broad asset class parameters established by the asset liability study. Investment risk and return are reviewed by the plan investment advisors, National Grid management and the RPC on a regular basis. The assets of the plans have no significant concentration of risk in one country (other than the United States), industry or entity.

The target asset allocations for the benefit plans as of March 31, 2020 and 2019 are as follows:

	Pension Plans		**Union PBOP Plans**		**Non-Union PBOP Plans**	
	March 31,		**March 31,**		**March 31,**	
	2020	2019	**2020**	2019	**2020**	2019
Equity	**37%**	37%	**63%**	63%	**70%**	70%
Diversified alternatives	**10%**	10%	**17%**	17%	**0%**	0%
Fixed income securities	**40%**	40%	**20%**	20%	**30%**	30%
Private equity	**5%**	5%	**0%**	0%	**0%**	0%
Real estate	**5%**	5%	**0%**	0%	**0%**	0%
Infrastructure	**3%**	3%	**0%**	0%	**0%**	0%
	100%	100%	**100%**	100%	**100%**	100%

Fair Value Measurements

The following tables provide the fair value measurements amounts for the pension and PBOP assets at the Plan level:

	March 31, 2020				
	Level 1	Level 2	Level 3	Not categorized	Total
	(in thousands of dollars)				
Pension assets:					
Equity	$ 341,072	$ -	$ -	$ 1,223,043	$ 1,564,115
Diversified alternatives	112,117	-	-	333,448	445,565
Corporate bonds	-	825,484	-	260,665	1,086,149
Government securities	(8,882)	574,654	-	531,619	1,097,391
Private equity	-	-	-	256,432	256,432
Real estate	-	-	-	217,993	217,993
Infrastructure	-	-	-	92,197	92,197
Total assets	$ 444,307	$ 1,400,138	$ -	$ 2,915,397	$ 4,759,842
Pending transactions		-	-	-	(211,365)
Total net assets					$ 4,548,477
PBOP assets:					
Equity	$ 136,913	$ -	$ -	$ 452,102	$ 589,015
Diversified alternatives	82,214	-	-	78,944	161,158
Corporate bonds	-	7,025	-	-	7,025
Government securities	29,324	190,633	-	-	219,957
Private equity	-	-	-	404	404
Insurance contracts	-	-	-	132,934	132,934
Total assets	$ 248,451	$ 197,658	$ -	$ 664,384	$ 1,110,493
Pending transactions					2,886
Total net assets					$ 1,113,379

	March 31, 2019				
	Level 1	Level 2	Level 3	Not categorized	Total
	(in thousands of dollars)				
Pension assets:					
Equity	$ 376,893	$ -	$ -	$ 1,298,495	$ 1,675,388
Diversified alternatives	122,552	-	-	324,661	447,213
Corporate bonds	-	828,666	-	295,337	1,124,003
Government securities	1,725	417,422	-	447,898	867,045
Private equity	-	-	-	232,589	232,589
Real estate	-	-	-	219,668	219,668
Infrastructure	-	-	-	66,939	66,939
Receivables	142,262	-	-	-	142,262
Payables	(251,231)	-	-	-	(251,231)
Grand Total	$ 392,201	$ 1,246,088	$ -	$ 2,885,587	$ 4,523,876
PBOP assets:					
Equity	$ 170,220	$ -	$ -	$ 532,528	$ 702,748
Diversified alternatives	89,995	-	-	85,762	175,757
Corporate bonds	-	8,330	-	-	8,330
Government securities	21,940	218,866	-	-	240,806
Private equity	-	-	-	701	701
Insurance contracts	-	-	-	150,681	150,681
Receivables	3,921	-	-	-	3,921
Payables	(1)	-	-	-	(1)
Total	$ 286,075	$ 227,196	$ -	$ 769,672	$ 1,282,943

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

Equity: Equity includes both actively- and passively-managed assets with investments in domestic equity index funds as well as international equities.

Diversified alternatives: Diversified alternatives consist of holdings of global tactical asset allocation funds that seek to invest opportunistically in a range of asset classes and sectors globally.

Corporate bonds: Corporate bonds consist of debt issued by various corporations and corporate money market funds. Corporate Bonds also includes small investments in preferred securities as these are used in the fixed income portfolios as yield producing investments. In addition, certain fixed income derivatives are included in this category such as credit default swaps to assist in managing credit risk.

Government securities: Government securities includes U.S. agency and treasury securities, as well as state and local municipality bonds. The plans hold a small amount of Non-U.S. government debt which is also captured here. U.S. Government money market funds are also included. In addition, interest rate futures and swaps are included in this category as a tool to manage interest rate risk.

Private equity: Private equity consists of limited partnerships investments where all the underlying investments are privately held. This consists of primarily buy-out investments with smaller allocations to venture capital.

Real estate: Real estate consist of limited partnership investments primarily in U.S. core open end real estate funds as well as some core plus closed end real estate funds.

Infrastructure: Infrastructure consists of limited partnerships investments that seek to invest in physical assets that are considered essential for a society to facilitate the orderly operation of its economy. Investments in infrastructure typically include transportation assets (such as airports and toll roads) and utility type assets. Investments in Infrastructure funds are utilized as a diversifier to other asset classes within the pension portfolio. Infrastructure investments are also typically income producing assets.

Insurance contracts: Insurance contracts consist of Trust Owned Life Insurance.

Pending transactions/Receivables/Payables: Accounts receivable and accounts payable are short term cash transactions that are expected to settle within a few days of the measurement date

8. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to March 31, 2020 are as follows:

(in thousands of dollars) **March 31,**	**Maturities of Long-Term Debt**
2021	$ -
2022	-
2023	-
2024	-
2025	-
Thereafter	2,650,000
Total	$ 2,650,000

The Company's debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the Company's debt and may restrict the Company's ability to draw upon its facilities or access the capital markets. As of March 31, 2020 and 2019, the Company was in compliance with all such covenants.

Debt Authorizations

On February 8, 2019 the NYPSC authorized the Company to issue up to $1.4 billion of long-term debt in one or more transactions through March 31, 2022. Under the authorization, on February 27, 2019, the Company issued $550 million of unsecured senior long-term debt at a fixed rate of 3.87% with a maturity date of March 4, 2029 and $450 million of unsecured senior long-term debt at a fixed rate of 4.49% with a maturity date of March 4, 2049. As of March 31, 2020, $400 million of debt authorization remains under the NYPSC order.

Under previous authorization, in March 2018, the Company issued $650 million of unsecured debt at 4.27% with a maturity date of March 15, 2048.

Dividend Restrictions

Pursuant to the NYPSC's orders, the ability of the Company to pay dividends to NGUSA is conditioned upon maintenance of a utility capital structure with debt not exceeding 56% of total utility capitalization. As of March 31, 2020, and 2019, the Company was in compliance with the utility capital structure required by the NYPSC. In accordance with the NYPSC order approving the acquisition of KeySpan Corporation, the Company is permitted to declare dividends in an amount not to exceed retained earnings accumulated since the date of acquisition plus unappropriated retained earnings, unappropriated undistributed earnings and accumulated other comprehensive income existing immediately prior to the date of acquisition.

Preferred Stock

In connection with the acquisition of KeySpan Corporation by NGUSA, the Company became subject to a requirement to issue a class of preferred stock, having one share (the "Golden Share"), subordinate to any existing preferred stock. The holder of the Golden Share would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation, receivership, or similar proceeding without the consent of the holder of the Golden Share. The NYPSC subsequently authorized the issuance of the Golden Share to a trustee, GSS Holdings, Inc. ("GSS"), who will hold the Golden Share subject to a Services and Indemnity Agreement requiring GSS to vote the Golden Share in the best interests of New York State ("NYS"). On July 8, 2011, the Company issued the Golden Share with a par value of $1.

Capital Contribution From Parent

On March 28, 2019, the Company received a capital contribution of $500 million from NGUSA. This contribution was made in order to achieve the agreed upon capital structure of 48% equity and 52% debt as set forth in the Joint Proposal (as discussed in Note 5, "Rate Matters" under "Rate Case Filing").

9. INCOME TAXES

Components of Income Tax Expense (Benefit)

	Years Ended March 31,		
	2020	2019	2018
		(in thousands of dollars)	
Current tax expense (benefit):			
Federal	**$ (78,834)**	$ (9,535)	$ 67
State	**1,193**	(24,646)	3,427
Total current tax expense (benefit)	**(77,641)**	(34,181)	3,494
Deferred tax expense (benefit):			
Federal	**111,915**	42,043	9,211
State	**14,716**	32,856	974
Total deferred tax expense (benefit)	**126,631**	74,899	10,185
Amortized investment tax credits (1)	**-**	(171)	(911)
Total deferred tax expense (benefit)	**126,631**	74,728	9,274
Total income tax expense	**$ 48,990**	$ 40,547	$ 12,768

(1) Investment tax credits ("ITC") are accounted for using the deferral and gross up method of accounting and amortized over the depreciable life of the property giving rise to the credits.

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2020, 2019, and 2018 are 25.5%, 27.5% and 20.9%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 21.0%, 21.0% and 31.55%, respectively, to the actual tax expense:

	Years Ended March 31,		
	2020	2019	2018
		(in thousands of dollars)	
Computed tax	**$ 40,378**	$ 31,016	$ 19,318
Change in computed taxes resulting from:			
Audit and related reserve movements	**-**	3,843	-
Federal Rate Change	**-**	-	(5,731)
State income tax, net of federal benefit	**12,569**	6,486	3,013
Temporary differences flowed through	**(3,907)**	(675)	57
Other items, net	**(50)**	(123)	(3,889)
Total changes	**8,612**	9,531	(6,550)
Total income tax expense	**$ 48,990**	$ 40,547	$ 12,768

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

Deferred Tax Components

	March 31,	
	2020	2019
	(in thousands of dollars)	
Deferred tax assets:		
Environmental remediation costs	**$ 480,342**	$ 364,110
Net operating losses	**128,109**	98,973
Regulatory liabilities	**287,785**	282,980
Other	**83,634**	45,010
Total deferred tax assets	**979,870**	791,073
Deferred tax liabilities:		
Property-related differences	**1,004,124**	834,128
Regulatory assets	**697,492**	548,358
Other	**11,974**	10,795
Total deferred tax liabilities	**1,713,590**	1,393,281
Deferred income tax liabilities, net	**$ 733,720**	$ 602,208

Net Operating Losses

The amounts and expiration dates of the Company's net operating loss carryforwards for the year ended March 31, 2020 are as follows:

Expiration of Net Operating Losses:	Gross Carryforward Amount (in thousands of dollars)		Expiration Period
Federal	$	549,018	2033-2038
Federal – No Expiration		144,351	Indefinite
New York State		655,218	2035-2040

As a result of the accounting for uncertain tax positions, the amount of deferred tax assets reflected in the financial statements is less than the amount of the tax effect of the federal and state net operating losses carryforward reflected on the income tax returns.

Federal and State Income Tax Audit Status

During the year ended March 31, 2020, the Company reached a settlement with the IRS for the tax years ended March 31, 2010, 2011 and 2012. The outcome of the settlement did not have a material impact on the Company's tax results for operations, financial position, or cash flows.

During the year ended March 31, 2020, the IRS began its examination of the next audit cycle which includes the income tax returns for the years ended March 31, 2013 through March 31, 2015. The examination is expected to conclude in the next fiscal year and result in a settlement agreement with the IRS. The Company does not anticipate the settlement to have a material impact on the Company's results of operations, financial position, or cash flows. The income tax returns for the years ended March 31, 2016 through March 31, 2019 remain subject to examination by the IRS.

The state of New York began the examination of the Company's New York State income tax returns for the years ended March 31, 2009 through March 31, 2012. The income tax returns for the years ended March 31, 2013 through March 31, 2019 remain subject to examination by the state of New York.

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

Jurisdiction	Tax Year
Federal	March 31, 2013
New York	March 31, 2009

Uncertain Tax Positions

The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income (deductions), net, in the accompanying statement of income. As of March 31, 2020, and 2019, the Company has accrued for interest related to unrecognized tax benefits of $13.2 million and $12.4 million, respectively. During the years ended March 31, 2020, 2019 and 2018, the Company recorded interest expense of $0.7 million, $3.2 million and $3.1 million, respectively. No tax penalties were recognized during the years ended March 31, 2020, 2019 and 2018.

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

10. ENVIRONMENTAL MATTERS

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

The Company has identified numerous MGP sites and related facilities, which were owned or operated by the Company or its predecessors. These former sites, some of which are no longer owned by the Company, have been identified to the NYPSC and the New York State Department of Environmental Conservation ("DEC") for inclusion on appropriate site inventories. Administrative Orders on Consent or Voluntary Cleanup Agreements have been executed with the DEC to address the investigation and remediation activities associated with certain sites. Expenditures incurred for the years ended March 31, 2020, 2019, and 2018 were $59.1 million, $27.9 million, and $45.5 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $1.7 billion and $1.3 billion as of March 31, 2020 and 2019, respectively. These costs are expected to be incurred over approximately 44 years, and these undiscounted amounts have been recorded as estimated liabilities on the balance sheet. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

During the year ended March 31, 2020, the Company received new information concerning the design and remediation work required at several sites, which resulted in the Company increasing its estimate for environmental reserve. The estimated increases were the result of new information arising from notices received from environmental regulators and updated cost estimates prepared by third party engineers. Based on this, the Company has revised the total cost estimate accordingly and has increased the provision by approximately $463.4 million. After recording an offsetting increase in regulatory assets relating to environmental remediation, there was no impact to the net assets of the Company.

By rate orders, the NYPSC has provided for the recovery of SIR costs. Accordingly, as of March 31, 2020 and 2019, the Company has recorded net environmental regulatory assets of $1.9 billion and $1.5 billion, respectively.

The Company believes that its ongoing operations, and its approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws. Where the Company has regulatory recovery, it believes that the obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position.

11. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has entered into various contracts for gas delivery, storage, and supply services. Certain of these contracts require payment of annual demand charges, which are recoverable from customers. The Company is liable for these payments regardless of the level of service required from third parties.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2020 are summarized in the table below:

(in thousands of dollars) March 31,	Gas Purchases
2021	$ 240,811
2022	229,123
2023	202,411
2024	121,282
2025	109,328
Thereafter	559,499
Total	$ 1,462,454

Legal Matters

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

Other Contingencies

As of March 31, 2020, and 2019, the Company had accrued an estimate for workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR") of $14.8 million and $15.0 million, respectively. IBNR reserves are reserves that have been established for claims and/or events that have transpired, but have not yet been reported to the Company for payment.

12. LEASES

The Company has elected the practical expedient "package" under Topic 842 in which any expired contracts need not be reassessed to determine whether they are or contain leases; classification of leases that commenced prior to the adoption of this standard will not be reassessed; and any initial direct costs for existing leases need not be reassessed. The Company elected the practical expedient not to reassess existing easements that were not previously accounted for as leases under Topic 840. Additionally, the Company elected the practical expedient not to evaluate whether sales tax and other similar taxes are lessor and lessee costs. Instead, such costs are deemed lessee costs. The Company elected not to take the "hindsight" practical expedient nor other specific practical expedients to combine lease and non-lease components for contracts in which the Company is the lessee or the lessor. The Company does not reflect short-term leases on the balance sheets. The expense related to short-term leases was not material for the year ended March 31, 2020. The Company, as a regulated entity, will continue to recognize lease expense based on a pattern that conforms to the regulatory ratemaking treatment.

The Company has no finance leases as of March 31, 2020. The Company has various operating leases, primarily related to buildings and land used to support its gas operations, with lease terms ranging between 27 and 45 years. The expense related to operating leases was $11.4 million for the year ended March 31, 2020. Rent expenses for operating leases were $5.7 million and $5.0 million for the years ended March 31, 2019 and 2018, respectively.

Certain building leases provide the Company with an option to extend the lease term. The Company has included the periods covered by the extension options in its determination of the lease term as management believes it is reasonably certain the Company will exercise its option.

In measuring lease liabilities, the Company excludes variable lease payments, other than those that depend on an index or a rate, or are in substance fixed payments, and includes lease payments made at or before the commencement date. The variable lease payments were not material for the year ended March 31, 2020.

Lease liabilities are recognized based on the present value of the lease payments over the lease term at the commencement date. For any leases that do not provide an implicit rate, the Company uses an estimate of its collateralized incremental borrowing rate based on the information available at the commencement date to determine the present value of future payments. Operating lease ROU assets are included in property, plant and equipment, net, and operating lease liabilities are included in other current liabilities and other noncurrent liabilities on the balance sheet.

As of March 31, 2020, the Company's operating leases had a weighted average discount rate of 2.71% and a weighted average remaining lease term of 5 years. The Company does not have material rights or obligations under operating leases that have not yet commenced.

For the year ended March 31, 2020, the Company paid $11.4 million for operating lease costs and had no non-cash impact from ROU assets obtained in exchange for new operating lease liabilities.

The following contains the Company's maturity analysis of its operating lease liabilities as of March 31, 2020, showing the undiscounted cash flows on an annual basis reconciled to the undiscounted cash flows of the operating lease liabilities recognized in the comparative balance sheet:

	Operating Leases	
Year Ending March 31,	*(in thousands of dollars)*	
2021	**$**	**9,426**
2022		**9,292**
2023		**9,242**
2024		**9,238**
2025		**8,471**
Thereafter		**-**
Total future minimum lease payments		**45,669**
Less: imputed interest		**(2,848)**
Total	**$**	**42,821**
Reported as of March 31, 2020:		
Current lease liability	**$**	**8,490**
Non-current lease liability		**34,331**
Total	**$**	**42,821**

The future minimum lease commitments as of March 31, 2019 under Topic 840:

	Operating Leases	
Year Ending March 31,	*(in thousands of dollars)*	
2020	$	11,086
2021		11,124
2022		10,989
2023		10,943
2024		10,939
Thereafter		10,028
Total future minimum lease payments	$	65,109

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

There are certain leases in which the Company is the lessor. Revenue under such leases was immaterial for the year ended March 31, 2020.

13. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

The Company records short-term receivables from, and payables to, certain of its affiliates in the ordinary course of business. The amounts receivable from, and payable to, its affiliates do not bear interest and are settled through the intercompany money pool. A summary of outstanding accounts receivable from affiliates and accounts payable to affiliates is as follows:

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2020	2019	**2020**	2019
	(in thousands of dollars)			
KeySpan Gas East Corporation	**$ 795**	$ 1,610	**$ 2,423**	$ 1,147
NGUSA	**8,121**	886	**43,031**	62,714
NGUSA Service Company	**12,178**	8,560	**34,867**	30,659
Other	**1,133**	536	**1,308**	883
Total	**$ 22,227**	$ 11,592	**$ 81,629**	$ 95,403

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool in which it participates. The Company is a participant in the Regulated Money Pool, except for NETCO, which participates in the Unregulated Money Pool, and can both borrow and invest funds. Investments in the Regulated Money and Unregulated Money Pools bear interest in accordance with the terms of the Regulated and Unregulated Money Pool Agreements. As the Company fully participates in the Regulated and Unregulated Money Pools rather than settling intercompany charges with cash, all changes in the intercompany money pool balance are reflected as investing or financing activities in the accompanying consolidated statements of cash flows. For the purpose of presentation in the statements of cash flows, it is assumed all amounts settled through the intercompany money pool are constructive cash receipts and payments, and therefore are presented as such.

The Regulated and Unregulated Money Pools are funded by operating funds from participants in the applicable pool. NGUSA has the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Money Pools, if necessary. As of March 31, 2020 and 2019, the Company had short-term intercompany money pool investments of $281.3 million and $880.9 million, respectively, including NETCO unregulated short-term intercompany money pool investments of $270.8 million and $263.7 million, respectively. The average interest rates for the intercompany money pool were 2.4%, 2.4%, and 1.6% for the years ended March 31, 2020, 2019, and 2018, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, and total transmission and distribution expenditures. Lastly, all other costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment, and operations and maintenance expense.

Charges from the service companies of NGUSA to the Company, are mostly related to traditional administrative support functions, of which for the years ended March 31, 2020, 2019, and 2018 were $471.1 million, $404.3 million, and $376.3 million, respectively.