Massachusetts Electric Company

Financial Statements

For the years ended March 31, 2019 and 2018

MASSACHUSETTS ELECTRIC COMPANY

FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED

March 31, 2019

I hereby certify that I am Vice-President, NE Controller of Massachusetts Electric Company and that the enclosed financial statements for the twelve months ended March 31, 2019 have been prepared in accordance with generally accepted accounting principles, and are, in my opinion, materially correct.

Christopher McCusker, Vice-President, NE Controller

7/25/2019
Date

MASSACHUSETTS ELECTRIC COMPANY

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Massachusetts Electric Company

We have audited the accompanying financial statements of Massachusetts Electric Company (the "Company"), which comprise the balance sheets and statements of capitalization as of March 31, 2019 and 2018 and the related statements of income, cash flows, and changes in shareholders' equity for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Massachusetts Electric Company as of March 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

July 25, 2019

MASSACHUSETTS ELECTRIC COMPANY
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2019	2018
Operating revenues	**$ 2,409,522**	$ 2,320,501
Operating expenses:		
Purchased electricity	**730,566**	628,363
Operations and maintenance	**1,254,514**	1,249,080
Depreciation	**150,161**	141,181
Other taxes	**70,844**	77,665
Total operating expenses	**2,206,085**	2,096,289
Operating income	**203,437**	224,212
Other income and (deductions):		
Interest on long-term debt	**(67,826)**	(67,879)
Other interest, including affiliate interest	**770**	407
Other income, net	**32,633**	5,861
Total other deductions, net	**(34,423)**	(61,611)
Income before income taxes	**169,014**	162,601
Income tax expense	**42,846**	55,227
Net income	**$ 126,168**	$ 107,374

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

MASSACHUSETTS ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,	
	2019	2018
Operating activities:		
Net income	**$ 126,168**	$ 107,374
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**150,161**	141,181
Deferred income taxes	**44,944**	19,257
Bad debt expense	**51,940**	42,654
Allowance for equity funds used during construction	**(7,791)**	(7,059)
Amortization of debt discount and issuance costs	**444**	444
Pension and postretirement benefits expenses, net	**9,090**	18,052
Pension and postretirement benefits contribution	**(19,631)**	(25,400)
Environmental remediation payments	**(4,710)**	(12,351)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**(57,242)**	(111,101)
Accounts receivable from/payable to affiliates, net	**(9,480)**	-
Inventory	**4,763**	(2,035)
Regulatory assets and liabilities, net	**4,636**	(8,774)
Prepaid and accrued taxes	**20,358**	39,888
Accounts payable and other liabilities	**5,402**	96,297
Renewable energy certificate obligations, net	**21,940**	7,098
Other, net	**(33,005)**	(876)
Net cash provided by operating activities	**307,987**	304,649
Investing activities:		
Capital expenditures	**(299,481)**	(340,231)
Intercompany money pool	**87,790**	217,600
Cost of removal	**(22,965)**	(30,416)
Other	**1,047**	(249)
Net cash used in investing activities	**(233,609)**	(153,296)
Financing activities:		
Common stock dividends to Parent	**(65,000)**	-
Preferred stock dividends	**(100)**	(100)
Intercompany money pool	**(493)**	-
Advance from affiliate	**-**	(150,000)
Net cash used in financing activities	**(65,593)**	(150,100)
Net increase (decrease) in cash, cash equivalents	**8,785**	1,253
Cash, cash equivalents, beginning of year	**5,239**	3,986
Cash, cash equivalents, end of year	**$ 14,024**	$ 5,239
Supplemental disclosures:		
Interest paid, net	**$ (64,954)**	$ (63,836)
Income taxes (paid) refunded	**(1,501)**	1,874
Significant non-cash items:		
Capital-related accruals included in accounts payable	**8,983**	4,790

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

MASSACHUSETTS ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2019	March 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 14,024**	$ 5,239
Accounts receivable	**553,514**	544,466
Allowance for doubtful accounts	**(133,714)**	(122,827)
Accounts receivable from affiliates	**17,925**	40,566
Intercompany money pool	**-**	87,790
Unbilled revenues	**95,486**	88,345
Inventory	**119,473**	111,279
Regulatory assets	**140,708**	185,305
Prepaid taxes	**-**	1,038
Other	**2,692**	2,955
Total current assets	**810,108**	944,156
Property, plant and equipment, net	**3,497,330**	3,291,572
Other non-current assets:		
Regulatory assets	**738,673**	674,132
Goodwill	**1,008,244**	1,008,244
Other	**46,308**	14,750
Total other non-current assets	**1,793,225**	1,697,126
Total assets	**$ 6,100,663**	$ 5,932,854

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

MASSACHUSETTS ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2019	2018
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 304,292**	$ 359,614
Accounts payable to affiliates	**102,585**	108,739
Taxes accrued	**58,483**	34,447
Customer deposits	**23,501**	25,388
Interest accrued	**23,145**	20,635
Regulatory liabilities	**50,640**	16,389
Intercompany money pool	**18,811**	-
Renewable energy certificate obligations	**175,739**	140,842
Distributed generation study	**27,272**	15,502
Other	**44,724**	45,764
Total current liabilities	**829,192**	767,320
Other non-current liabilities:		
Regulatory liabilities	**675,361**	652,358
Asset retirement obligations	**2,037**	2,326
Deferred income tax liabilities, net	**415,527**	390,969
Postretirement benefits	**156,226**	167,147
Environmental remediation costs	**69,295**	63,301
Other	**35,161**	33,065
Total other non-current liabilities	**1,353,607**	1,309,166
Commitments and contingencies (Note 11)		
Capitalization:		
Shareholders' equity	**2,627,902**	2,566,850
Long-term debt	**1,289,962**	1,289,518
Total capitalization	**3,917,864**	3,856,368
Total liabilities and capitalization	**$ 6,100,663**	$ 5,932,854

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

MASSACHUSETTS ELECTRIC COMPANY
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2019	2018
Total shareholders' equity			**$ 2,627,902**	$ 2,566,850
Long-term debt:	Interest Rate	Maturity Date		
Senior Note	5.90%	November 15, 2039	**800,000**	800,000
Senior Note	4.00%	August 15, 2046	**500,000**	500,000
Total debt			**1,300,000**	1,300,000
Unamortized debt discount			**(1,838)**	(1,927)
Unamortized debt issuance costs			**(8,200)**	(8,555)
Long-term debt			**1,289,962**	1,289,518
Total capitalization			**$ 3,917,864**	$ 3,856,368

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

MASSACHUSETTS ELECTRIC COMPANY
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Available-For-Sale Securities	Accumulated Other Comprehensive Income (Loss): Pension and Other Postretirement Benefits	Accumulated Other Comprehensive Income (Loss): Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2017	**$ 59,953**	**$ 2,259**	**$ 1,853,349**	**$ 973**	**$ 4,195**	**$ 5,168**	**$ 538,248**	**$ 2,458,977**
Net income	-	-	-	-	-	-	107,374	107,374
Other comprehensive income:								
Unrealized gains on securities, net of $55 tax expense	-	-	-	35	-	35	-	35
Change in pension and other postretirement obligations, net of $219 tax expense	-	-	-	-	564	564		564
Total comprehensive income								107,973
Preferred stock dividends	-	-	-	-	-	-	(100)	(100)
Balance as of March 31, 2018	**$ 59,953**	**$ 2,259**	**$ 1,853,349**	**$ 1,008**	**$ 4,759**	**$ 5,767**	**$ 645,522**	**$ 2,566,850**
Net income	-	-	-	-	-	-	126,168	126,168
Other comprehensive loss:								
Unrealized losses on securities, net of $6 tax benefit	-	-	-	(16)	-	(16)		(16)
Total comprehensive income								126,152
Common stock dividends to Parent	-	-	-	-	-	-	(65,000)	(65,000)
Preferred stock dividends	-	-	-	-	-	-	(100)	(100)
Impact of adoption of the Recognition and Measurement of Financial Assets and Liabilities standard	-	-	-	(961)	-	(961)	961	-
Balance as of March 31, 2019	**$ 59,953**	**$ 2,259**	**$ 1,853,349**	**$ 31**	**$ 4,759**	**$ 4,790**	**$ 707,551**	**$ 2,627,902**

The Company had 2,398,111 shares of common stock authorized, issued and outstanding, with a par value of $25 per share and 22,585 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2019 and 2018.

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

MASSACHUSETTS ELECTRIC COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Massachusetts Electric Company ("the Company") is an electric retail distribution company providing electric service to approximately 1.3 million customers in 171 cities and towns in Massachusetts. The properties of the Company consist principally of substations and distribution lines interconnected with transmission and other facilities of New England Power Company ("NEP"), an affiliated entity.

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.

Pursuant to a settlement agreement associated with NGUSA's purchase of the Nantucket Electric Company ("Nantucket Electric") in 1996 approved by the Massachusetts Department of Public Utilities ("DPU"), the Company is considered, along with its affiliate Nantucket Electric as one regulated entity for the purpose of recovering its costs and establishing its rates assessed to its customers, with the exception of the recovery of Nantucket Electric's investment in two undersea electric cables. In the recovery of certain regulatory assets, funding of the recovery is from the customers of both companies. However, the mechanism by which recovery is ultimately achieved is through a single regulatory asset recorded on the balance sheet of the Company. Nantucket Electric's share of these costs and recoveries are reflected through a return on equity mechanism between the Company and Nantucket Electric, as discussed in Note 12, "Related Party Transactions."

The accompanying 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 financial statements reflect the ratemaking practices of the applicable regulatory authorities.

The Company has evaluated subsequent events and transactions through July 25, 2019, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2019.

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. Actual results could differ from those estimates.

Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC") and the DPU regulates the rates the Company charges its customers. In certain cases, the rate actions of the FERC and DPU 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 Accounting Standards Codification ("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 energy service 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 accounting 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 electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues).

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 benefits 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 those subsidiaries 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 $51.9 million and $42.7 million for the years ended March 31, 2019 and 2018, respectively, within operations and maintenance in the statements of income.

Inventory

Inventory is comprised of materials and supplies, and purchased Renewable Energy Certificates ("RECs"). Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized as used. Purchased RECs are stated at cost. There were no significant write-offs of obsolete inventory for the years ended March 31, 2019 and 2018.

The Company had materials and supplies of $21.7 million and $26.5 million and purchased RECs of $97.8 million and $84.8 million as of March 31, 2019 and 2018, respectively.

Renewable Energy Standard Obligation

RECs are stated at cost and are used to measure compliance with state renewable energy standards. RECs support new renewable generation resources, and are held primarily to be utilized in fulfillment of the Company's compliance obligations. As of March 31, 2019 and 2018 the Company recorded a renewable energy standard obligation of $97.8 million and $84.8 million, respectively, within inventory and a compliance liability based on retail electricity sales of $175.7 million and $140.8 million, respectively.

Power Purchase Agreements

The Company enters into power purchase agreements to procure electricity to serve its customers. The Company evaluates whether such agreements are leases, derivative instruments, or executory contracts, and performs an assessment under the guidance for Variable Interest Entities ("VIE"), included in Topic 810, "Consolidations." Power purchase agreements that do not qualify as leases or derivative instruments are accounted for as executory contracts and are, therefore, recognized as the electricity is purchased. In making its determination of the accounting for power purchase agreements, the Company considers many factors, including: the source of the electricity; the level of output from any specified facility that the Company is taking under the contract; the involvement, if any, that the Company has in operating the specified facility; and the pricing mechanisms in the contract.

Fair Value Measurements

The Company measures available-for-sale securities, and pension and postretirement benefits 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;
- 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 FERC and DPU. The average composite rates for the years ended March 31, 2019 and 2018 are as follows:

	Years Ended March 31,	
	2019	2018
Composite rates	**3.4%**	3.2%

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. 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 $281.9 million and $266.5 million as of March 31, 2019 and 2018, 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 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 $7.8 million and $7.1 million, reflecting adjustments to plant balances for the years ended March 31, 2019 and 2018. The Company recorded AFUDC related to debt of $3.4 million and $3.6 million for the years ended March 31, 2019 and 2018, respectively. The average AFUDC rates for the years ended March 31, 2019 and 2018 were 7.8% and 7.8%, 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. 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 years ended March 31, 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 one-step approach 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.

Historically, the fair value of the Company was calculated for the annual goodwill impairment test utilizing both the income and market-based approaches. For the year ended 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 analyses, the Company determined that no adjustment to the goodwill carrying value was required as of March 31, 2019 or 2018.

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 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 Adopted

Pension and Postretirement Benefits

In March 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which changes certain presentation and disclosure requirements for employers that sponsor defined benefit pension and other postretirement benefit plans. The ASU requires the service cost component of the net benefit cost to be classified within the same line item as other compensation in operating income in an entity's statements of income and the other components of net benefit cost to be classified outside of operating income on a retrospective basis. In addition, as prescribed by the ASU, only the service cost component will be eligible for capitalization when applicable, on a prospective basis.

The Company adopted this new guidance on April 1, 2018. The adoption of this ASU did not have a material effect on the Company's results of operations, cash flows and financial position. See Note 7, "Employee Benefits," for additional details.

Statement of Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which provides guidance about the classification of certain cash receipts and payments within the statement of cash flows, including debt prepayment or extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and policies, and distributions received from equity method investments. The Company adopted the new guidance in the current fiscal year and applied it retrospectively for each prior period presented. The application of the new guidance did not have a material impact on the Company's presentation of its statements of cash flows.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The FASB further amended ASC 606 through various updates issued thereafter. The underlying principle of this ASU is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to, in exchange for those goods or services. The Company adopted the new guidance on April 1, 2018, using the modified retrospective method applied to contracts that were not completed as of April 1, 2018, and the Company did not recognize an adjustment to retained earnings for the cumulative effect of adopting the standard.

The adoption of ASC 606 did not have a material impact on the presentation of the Company's results of operations, cash flows, or financial position. The Company has added additional disclosures as required under ASC 606. See Note 3, "Revenue," for additional details.

Financial Instruments – Classification and Measurement

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments–Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The new guidance eliminates the available-for-sale and cost method classification for equity securities and requires that all equity investments, other than those accounted for using the equity method of accounting, be measured and recorded at fair value with any changes in fair value recognized through net income. However, for equity investments that do not have a readily determinable fair value an entity may choose to measure equity investments at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments. If any entity elects to use the measurement alternative for equity investments without readily determinable fair values, those investments must be qualitatively assessed for impairment at each reporting period and if impairment exists the investment is required to be measured at fair value. The guidance does not impact the classification or measurement of investments in debt securities. The guidance also amended certain disclosure requirements related to financial instruments. The Company adopted the guidance on April 1, 2018 using a modified retrospective transition approach with a cumulative effect adjustment to retained earnings which was reclassified from accumulated other comprehensive income for $1.0 million related to equity investments that were previously classified as available-for-sale.

Accounting Guidance Not Yet Adopted

Leases

In February 2016, the FASB issued ASU No. 2016-02 "Leases" (Topic 842) related to lease accounting. For the Company, the new standard is effective for the fiscal year ending March 31, 2020, and interim periods within. 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 identified assets for a period of time in exchange for consideration. Under the requirements of the new standard, lessees will need to recognize leases on the balance sheet as a right-of-use asset and a related lease liability, which will be equal to the present value of the estimated future lease payments. The right-of-use asset at inception will be based on the liability, subject to certain adjustments, such as initial direct costs. The new standard requires leases to be classified as either operating or financing which will impact the amount and classification of lease related expenses on the statements of income. Under the new standard, lessor accounting is largely unchanged. The new standard also has additional disclosure requirements.

The new standard provides the Company with transition practical expedients including a package of three expedients that must be taken together and allows the Company to: not reassess whether existing contracts contain leases, carry forward the existing classification of any leases, and not reassess initial direct costs associated with existing leases. The Company has exercised its option to elect the package of practical expedients. The Company will make the election under the new standard to not reflect a right-of-use asset or related liability for leases with a term of 12 months or less. The Company has also elected the practical expedient to not reevaluate land easements existing at adoption if they were not previously accounted for as leases. The Company will not make the election to combine the lease components and the associated non-lease components of an arrangement and account for this as a single lease component and will also not elect the expedient to use hindsight in determining the lease term for existing leases at the time of adoption.

The Company will recognize and measure the cumulative effect of the new standard at the beginning of the earliest period presented using the modified retrospective approach. The Company determined the impact the ASU will have on its financial statements by reviewing its lease population and identifying lease data needed for the disclosure requirements. The Company has various operating leases relating to office space and fleet vehicles. The Company will implement a new lease accounting system in fiscal year 2020 to ensure ongoing compliance with the ASU's requirements. The Company recognized approximately $49.7 million of operating lease liabilities as right-of-use assets on the balance sheet upon transition at April 1, 2019. The implementation of the new guidance will not materially impact the Company's results of operations or cash flows, as the Company does not expect significant changes to its pattern of expense recognition as a result of the new standard. The Company's operating leases are further discussed in Note 11, "Commitments and Contingencies."

Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13 "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements," which 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 FASB further amended Topic 326 through additional updates issued thereafter. 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. For the Company, the requirements of the new standard will be effective for the fiscal year ending March 31, 2022, and interim periods within, with early adoption permitted from the fiscal year ending March 31, 2020 and interim periods within. The Company is currently assessing the impact of this standard

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform the prior years' data to the current year's presentation. These reclassifications had no effect on reported income, total assets, or shareholders' equity as previously reported.

3. REVENUE

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

	Year Ended March 31, 2019	
	(in thousands of dollars)	
Revenue from Contracts with Customers:		
Electric Distribution	$	1,916,632
Electric Transmission		511,034
Other Revenue from Contracts with Customers		22,026
Total Revenue from Contracts with Customers		2,449,692
Revenue from Regulatory Mechanisms		(50,626)
Other		10,456
Total Operating Revenues	$	2,409,522

Electric Distribution: The Company owns and maintains an electric distribution network serving areas in Massachusetts. Distribution revenues are primarily from the sale of electricity, and related services to retail customers. Distribution sales are regulated by the DPU, which is responsible for determining the prices and other terms of services as part of the ratemaking 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. Electric distribution revenues are derived from the regulated sale and distribution of electricity 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 the products and services provided, along with a return on investment.
The performance obligation related to distribution sales is to provide electricity to the customers on demand. The electricity supplied under the 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 electricity as the Company provides this service. 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 electricity 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 electricity from other suppliers. In those circumstances revenue is only recognized for providing delivery of the commodity to the customer.

Electric Transmission: The Company owns an electric transmission system in Massachusetts. The Company's transmission services are regulated by both the Regional Transmission Operator (i.e. Independent System Operator of New England ("ISO-NE") and by the FERC. Additionally, the Company makes available its transmission facilities to NEP for operation and control pursuant to an integrated facilities agreement, Service Agreement No. 23 (Integrated Facilities Agreement or "IFA"). Under the terms of NEP's Tariff No.1, Schedule III-B, NEP pays the Company an integrated facility charge. This arrangement between the Company and NEP is implemented through the IFA. Electric transmission revenues arise under tariff/rate agreements. The Company bills its transmission services on a monthly basis, in the month after service has been provided. The Company recognizes the revenue as the amounts are billed, as these amounts represent the actual consideration for the services provided to customers.

Other Revenue from Contracts with Customers: Other Revenue from Contracts with Customers consists of capital related operations and maintenance billings and pole rentals.

Revenue from Regulatory Mechanisms: The Company records revenues in accordance with accounting principles for rate-regulated operations that are 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, storm deferral, and programs that 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 electric 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 ratemaking mechanisms. The Company recognizes ARPs 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 rent of Company facilities to affiliated entities.

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 balance sheet:

	March 31, 2019	March 31, 2018
	(in thousands of dollars)	
Regulatory assets		
Current:		
Energy efficiency	**$ -**	$ 2,684
Rate adjustment mechanisms	**19,185**	50,893
Renewable energy certificates	**77,946**	56,006
Revenue decoupling mechanism	**37,481**	67,468
Transmission service	**-**	5,808
Other	**6,096**	2,446
Total	**140,708**	185,305
Non-current:		
Environmental response costs	**73,878**	71,644
Postretirement benefits	**262,260**	273,443
Storm costs	**168,048**	149,468
Net metering deferral	**157,444**	108,122
Rate adjustment mechanisms	**45,065**	28,425
Other	**31,978**	43,030
Total	**738,673**	674,132
Regulatory liabilities		
Current:		
Residential assistance adjustment factor	**-**	6,873
Rate adjustment mechanisms	**7,034**	6,576
Solar generation program	**-**	2,940
Transmission service	**43,606**	-
Total	**50,640**	16,389
Non-current:		
Cost of removal	**281,947**	266,522
Environmental response costs	**22,320**	25,042
Rate adjustment mechanisms	**-**	10,881
Regulatory tax liability, net	**342,681**	322,302
Other	**28,413**	27,611
Total	**675,361**	652,358
Net regulatory asset	**$ 153,380**	$ 190,690

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.

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 state authorities.

Environmental response costs: The regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at sites with which it may be associated. The Company's rate plans provide for specific rate allowances for these costs, with variances deferred for future recovery from, or return to, customers. 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 costs.

Net metering deferral: Net metering deferral reflects the recovery mechanism for costs associated with customer installed on-site generation facilities, including the costs of renewable generation credits. This surcharge provides the Company with a mechanism to recover such amounts.

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

Rate adjustment mechanisms: 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 being recovered or differences between actual revenues and targeted amounts as approved by the DPU. These amounts will be refunded to, or recovered from, customers over the next year.

Regulatory tax liability, net: Represents over-recovered federal 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").

Renewable energy certificates: Represents deferred costs associated with the Company's compliance obligation with the Massachusetts's Renewable Portfolio Standard ("RPS"). The RPS is legislation established to foster the development of new renewable energy sources. The regulatory asset will be recovered over the next year.

Residential assistance adjustment factor: The Company is allowed recovery of the incremental costs associated with the operation of the Company's Arrearage Management Program ("AMP") offered to qualifying customers, and the discount provided to customers receiving retail delivery service under Residential Low Income Rate R-2. Discounts provided to eligible customers is based on 25% of the Customer's total bill for service.

Revenue decoupling mechanism*:* As approved by the DPU, the Company has an electric RDM, which 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.

Solar generation program: The Solar Generation program reflects reconciliation of the recovery against investment and ongoing maintenance costs of Solar Generation Facilities constructed, owned and operated by the Company, as well as any credits for net proceeds associated with energy sales to the ISO-NE.

Storm costs: The Company is allowed to recover storm costs from all retail delivery service customers. This balance reflects costs yet to be recovered. See Note 5, "Rate Matters," for additional information regarding the recovery of storm costs.

Transmission service: The Company arranges transmission service on behalf of its customers and bills the costs of those services to customers pursuant to the Company's Transmission Service Cost Adjustment Provision. Any over or under recoveries of these costs are passed on to customers receiving transmission service over the subsequent year.

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. Carrying charges are not recorded on items for which expenditures have not yet been made.

5. RATE MATTERS

General Rate Case

In November 2015, the Company, together with its affiliate, Nantucket Electric, filed an application for new base distribution rates that become effective October 1, 2016. The DPU approved an overall increase in base distribution revenue of approximately $169.7 million based upon a 9.9% return on equity and an overall capital structure of 50.69% equity, 49.22% long-term debt and 0.09% preferred stock. This increase in revenue includes capital and solar assets placed in service after the last rate case test year of December 2008 and previously recovered through separate factors. The order also allows recovery over five years of the aggregate test-year balance of protected customer accounts receivable outstanding for more than 360 days of $40.6 million. As a result of the order the Company has recorded revenue of approximately $8.1 million for the year ended March 31, 2019 in relation to the recovery of protected accounts; the remaining $ 20.3 million of the protected receivables will be collected through 2021.

Storm recovery allowed in base rates increased from $4.3 million to $10.5 million per year. Deferred storm costs incurred through September 30, 2016 remain subject to carrying charges at the Weighted Average Cost of Capital. However, deferred storm costs incurred after October 1, 2016 will accrue carrying charges at the prime rate. Additionally, the DPU approved the extension of the recovery factor through August 2019 for costs associated with 16 storm events that took place between February 2010 and March 2013.

The order also allows for an increase in the annual capital costs for plant investment placed into service as part of the Company's Capital Investment Recovery Mechanism ("CIRM") from $170 million to $249 million and also allows for the inclusion of property taxes related to these incremental capital additions. The CIRM is a continuation of the Company's capital investment recovery mechanism initially part of its RDM, with an annual cap on capital investment of $249 million, which is a three-year calendar year historical average.

On November 15, 2018, the Company and Nantucket Electric filed an application for new base distribution rates to become effective October 1, 2019. The requested net increase is $55.2 million based on a 10.5% return on equity, with 53.49% equity, 46.43% long-term debt and 0.08% preferred stock. The Company is requesting implementation of a five-year performance-based ratemaking ("PBR") plan, which would adjust base distribution revenue annually based on a pre-determined formula. If the PBR plan is approved, the Company will agree not to file a rate case for five-years and the CIRM will be discontinued after a transition period.

The Company also requested an increase in annual funding of the storm fund from $10.5 million to $19.3 million per year, and an extension of the storm fund replenishment factor through November 2023. Evidentiary hearings were held in April and May 2019 and an order is expected in September 2019. The Company cannot predict the outcome of this request.

Recovery of Transmission Costs

The Company's transmission facilities are operated in combination with the transmission facilities of its New England affiliates, The Narragansett Electric Company ("NECO") and NEP, as a single integrated system with NEP designated as the combined operator. NEP collects the costs of the combined transmission asset pool including a return on those facilities under NEP's Tariff No. 1 from the ISO. The ISO allocates these costs among transmission customers in New England, in accordance with the ISO Open Access Transmission Tariff ("ISO-NE OATT").

According to the FERC order, the Company is compensated for its actual monthly transmission costs, with its authorized maximum ROE of 11.74% on its transmission assets. The amounts remitted by NEP to the Company for the years ended March 31, 2019 and 2018 were $19.7 million and $19.5 million, respectively, which are eliminated as operating revenues and operations and maintenance expenses within the accompanying statements of income (See Note 12 "Related Party Transactions" for additional details). On October 16, 2014, the FERC issued an order, Opinion No. 531-A, resetting the base ROE applicable to transmission assets under the ISO-NE OATT from 11.14% to 10.57% effective as of October 16, 2014 and establishing a maximum ROE of 11.74%. On March 3, 2015, the FERC issued an Order on Rehearing, Opinion No. 531-B, affirming the 10.57% base ROE and clarifying that the 11.74% maximum ROE applies to all individual transmission projects with ROE incentives previously granted by the FERC. On April 14, 2017, the U.S. Court of Appeals for the D.C. Circuit (Court of Appeals) vacated and remanded FERC's Opinion No. 531 (and successor orders), through which the FERC had lowered the New England Transmission Owners ("NETO") return on equity from 11.14% to 10.57% and capped the total incentives at 11.74%.

On October 16, 2018, the FERC issued an order on all four complaints describing how it intends to address the issues that were remanded by the Court. The FERC proposed a new framework to determine whether an existing ROE is unjust and unreasonable and, if so, how to calculate a replacement ROE. The FERC stated that these calculations are merely preliminary.

Tax Act

On March 15, 2018, the FERC initiated multiple proceedings intended to adjust FERC-jurisdictional rates to reflect the corporate tax changes as a result of the passage of the Tax Act. Of the proceedings initiated relevant to the Company is the Notice of Inquiry ("NOI") seeking comments on the effects of the Tax Act on all FERC-jurisdiction rates and a Notice of Proposed Rulemaking ("NOPR") issued as a result of the NOI. In response to the FERC NOI, the Company made recommendations designed to mitigate the cash flow impacts of the expected refunds including providing flexibility regarding the methods used to refund accumulated deferred income tax ("ADIT") to customers and providing flexibility regarding the time period of the flow back. In the NOPR, FERC proposed to give the flexibility the company proposed. Comments on the NOPR were due on January 22, 2019. The Company is awaiting a final rule from FERC.

In February 2018, the DPU opened an investigation to examine the effect of the Tax Act on the rates of the investor-owned utilities in Massachusetts as of January 1, 2018 and directed the utilities to account for any revenues associated with the difference between the previous and current corporate income tax rates, and establish a regulatory liability for excess recovery in rates of ADIT. On May 1, 2018, the Company submitted its proposal for reducing electric rates prospectively, and for addressing ADIT. On June 29, 2018, the DPU approved the Company's proposal for reducing rates prospectively, and directed the Company to reduce rates effective July 1, 2018 and reduce its annual target revenue in its Revenue Decoupling Mechanism by $28 million, subsequently corrected to $26 million. On December 21, 2018, the DPU issued an order requiring all utilities to begin crediting in rates the amortization of excess deferred federal income taxes, to the extent such amortization was not already included in base distribution rates, through the combination of factors associated with certain reconciling mechanisms and a separate factor for the amortization of the remaining amounts. The Department approved the Company's compliance filing and proposed tariff allowing for the credit to customers of the amortization of the remaining amounts on January 28, 2019, and noted it would investigate the proposed refund of excess ADIT associated with the tax credit provision in D.P.U. 19-05, the Company's annual retail rate filing proceeding, and the excess ADIT associated with reconciling mechanisms in the individual dockets for those mechanisms. The Department further noted it would investigate in the pending general rate case (D.P.U. 18-150), the Company's proposal to remove excess ADIT associated with any reconciling mechanism and the applicable amortization from those mechanisms and credit the remaining amounts through base distribution rates effective October 1, 2019.

In February 2019, the DPU issued an order finding that the Massachusetts utilities were not required to refund tax savings previously accrued from January 1, 2018 through June 30, 2018, as a result of the federal income tax rate reduction. The Company previously estimated that the total amount that would be subject to refund was approximately $13.8 million for the Company and Nantucket Electric. On March 7, 2019, the Attorney General's Office filed a motion for clarification and reconsideration, requesting that the DPU provide additional clarity regarding its February 2019 ruling, and to reconsider its determination to allow utilities to keep the federal tax savings accrued from January 1, 2018 through June 30, 2018. The Motion for Clarification and Reconsideration is still pending.

Grid Modernization Plan

On August 19, 2015, the Company, together with its affiliate, Nantucket Electric, filed its proposed grid modernization plan with the DPU, with four different proposed investment scenarios. On May 10, 2018, the DPU issued an Order in this proceeding. The Order approves $82 million in grid-facing investments over three years in: (1) Conservation Voltage

Reduction and Volt VAR Optimization; (2) advanced distribution automation; (3) feeder monitors; (4) communications and information/operational technologies; and (5) advanced distribution management/distribution supervisory control and data acquisition. The DPU allowed recovery of both operation and maintenance expense and capital costs through a reconciling mechanism, and in the future will consider grid modernization plans in separate dockets (i.e., not through rate cases). The DPU did not approve any customer-facing (i.e., advanced metering infrastructure) investments; the DPU will address these in a further investigation to see if there are ways to achieve cost-effective deployment of advanced metering functionality ("AMF"). The DPU found there needs to be widespread adoption of dynamic pricing in order for AMF to be successful, and it needs to address how to facilitate this first. The DPU also refined its grid modernization objectives to place additional focus on improved access to the distribution system planning process.

6. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2019	2018
	(in thousands of dollars)	
Plant and machinery	**$ 4,596,995**	$ 4,369,508
Land and buildings	**218,872**	212,109
Assets in construction	**226,713**	198,945
Total property, plant and equipment	**5,042,580**	4,780,562
Accumulated depreciation and amortization	**(1,545,250)**	(1,488,990)
Property, plant and equipment, net	**$ 3,497,330**	$ 3,291,572

7. EMPLOYEE BENEFITS

The Company participates with other NGUSA subsidiaries in qualified and non-qualified non-contributory defined benefit plans (the "Pension Plans") and PBOP plans (together with the Pension Plan (the "Plans")), covering substantially all 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 the projected benefit obligations. 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 electric operations. Any differences between actual 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 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 Plan is a defined benefit plan which provides most union employees, as well as non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. During the years ended March 31, 2019 and 2018, the Company made contributions of approximately $19.2 million and $18.8 million, respectively, to the Qualified

Pension Plans. The Company expects to contribute approximately $16.7 million to the Qualified Pension Plans during the year ending March 31, 2020.

Benefit payments to Pension Plan participants for the years ended March 31, 2019 and 2018 were approximately $30.5 million and $36.4 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, 2019 and 2018, the Company made contributions of approximately zero and $6.1 million, respectively, to the PBOP Plans. The Company does not expect to contribute to the PBOP Plans during the year ending March 31, 2020.

Benefit payments to PBOP plan participants for the years ended March 31, 2019 and 2018 were approximately $11.6 million and $13.1 million, respectively.

ASU No. 2017-07, "Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost"

In March 2017, the FASB issued guidance that required the service costs of net periodic benefit costs be disaggregated from the other components of net periodic benefit costs, with the remaining components presented outside of operating (loss) income and no longer subject to capitalization.

The Company adopted ASU No. 2017-07, "Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," for its fiscal year beginning April 1, 2018 for both regulatory filing and U.S. GAAP reporting purposes. As a result of the retrospective adoption of this standard, relating to the income statement presentation of the non-service costs components, the Company reclassified $13.7 million from operations and maintenance expense to other deductions, net for the year ended March 31, 2018. This standard does not impact the Company's recovery of costs incurred from a ratemaking perspective.

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2019 and 2018, the Company recognized an expense in the accompanying statements of income of $4.4 million and $4.1 million, respectively, for matching contributions.

Net Periodic Benefit Costs

The Company's net periodic benefit pension costs for the years ended March 31, 2019 and 2018 were $15.7 million and $16.5 million, respectively.

The Company's net periodic benefit PBOP costs for the years ended March 31, 2019 and 2018 were $4.8 million and $5.6 million, respectively.

Amounts Recognized in OCI and Regulatory Assets

The following tables summarize the Company's changes in actuarial gains/losses and prior service costs recognized primarily in regulatory assets as well as other comprehensive income for the years ended March 31, 2019 and 2018:

	Pension Plans	
	Years Ended March 31,	
	2019	2018
	(in thousands of dollars)	
Net actuarial loss (gain)	**$ 13,866**	$ 4,454
Amortization of net actuarial loss	**(13,573)**	(13,810)
Amortization of prior service cost, net	**(84)**	(84)
Total	**$ 209**	$ (9,440)
Recognized in regulatory assets	**$ 209**	$ (8,657)
Recognized in AOCI	**-**	(783)
Total	**$ 209**	$ (9,440)

	PBOP Plans	
	Years Ended March 31,	
	2019	2018
	(in thousands of dollars)	
Net actuarial gain	**$ (9,881)**	$ (1,510)
Amortization of net actuarial loss	**(2,090)**	(2,443)
Amortization of prior service cost, net	**-**	54
Total	**$ (11,971)**	$ (3,899)
Recognized in regulatory assets	**$ (11,971)**	$ (3,899)
Total	**$ (11,971)**	$ (3,899)

Amounts Recognized in AOCI and Regulatory Assets – not yet recognized as components of net actuarial loss

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

	Pension Plans			
	Years Ended March 31,			
	2019		2018	
	(in thousands of dollars)			
Net actuarial loss	**$**	**199,926**	$	199,633
Prior service cost		**100**		184
Total	**$**	**200,026**	$	199,817
Recognized in regulatory assets	**$**	**200,026**	$	199,817
Recognized in AOCI		**-**		-
Total	**$**	**200,026**	$	199,817

	PBOP Plans			
	Years Ended March 31,			
	2019		2018	
	(in thousands of dollars)			
Net actuarial loss	**$**	**52,329**	$	64,300
Prior service credit		**-**		-
Total	**$**	**52,329**	$	64,300
Recognized in regulatory assets	**$**	**52,329**	$	64,300
Total	**$**	**52,329**	$	64,300

The amount of net actuarial loss to be amortized from regulatory assets during the year ending March 31, 2020 for the Pension and OPEB Plans is $12.4 million and $1.5 million, respectively.

Amounts Recognized on the Balance Sheet

The following table summarizes the portion of the funded status that is recognized on the Company's balance sheet as of March 31, 2019 and 2018:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2019	2018	**2019**	2018
	(in thousands of dollars)			
Projected benefit obligation	**$ (734,726)**	$ (718,793)	**$ (351,005)**	$ (361,095)
Fair value of plan assets	**665,169**	645,951	**263,809**	266,357
Total	**$ (69,557)**	$ (72,842)	**$ (87,196)**	$ (94,738)
Current liabilities	**$ (107)**	$ (34)	**$ (420)**	$ (398)
Other non-current liabilities	**(69,450)**	(72,808)	**(86,776)**	(94,340)
Total	**$ (69,557)**	$ (72,842)	**$ (87,196)**	$ (94,738)

Expected Benefit Payments

Based on current assumptions, the following benefit payments are expected subsequent to March 31, 2019 in respect of the Company:

(in thousands of dollars) Years Ended March 31,	Pension Plans	PBOP Plans
2020	$ 35,654	$ 14,237
2021	36,846	14,946
2022	38,070	15,740
2023	39,427	16,648
2024	40,913	17,498
2025-2029	224,024	98,204
Total	$ 414,934	$ 177,273

Assumptions Used for Employee Benefits Accounting

	Pension Plans	
	Years Ended March 31,	
	2019	2018
Benefit Obligations:		
Discount rate	**4.10%**	4.10%
Rate of compensation increase	**3.50%**	3.50%
Expected return on plan assets	**6.50%**	6.25%
Net Periodic Benefit Costs:		
Discount rate	**4.10%**	4.30%
Rate of compensation increase	**3.50%**	3.50%
Expected return on plan assets	**6.25%**	6.50%

	PBOP Plans	
	Years Ended March 31,	
	2019	2018
Benefit Obligations:		
Discount rate	**4.10%**	4.10%
Rate of compensation increase	**n/a**	n/a
Expected return on plan assets	**6.50%-6.75%**	6.25%-6.75%
Net Periodic Benefit Costs:		
Discount rate	**4.10%**	4.30%
Rate of compensation increase	**n/a**	n/a
Expected return on plan assets	**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

	March 31,	
	2019	2018
Health care cost trend rate assumed for next year		
Pre 65	**7.25%**	7.50%
Post 65	**5.75%**	5.75%
Prescription	**9.75%**	10.25%
Rate to which the cost trend is assumed to decline (ultimate)	**4.50%**	4.50%
Year that rate reaches ultimate trend		
Pre 65	**2028**	2028
Post 65	**2026**	2026
Prescription	**2027**	2027

Plan Assets

NGUSA, as the Plans' sponsor, manages the benefit plan investments to minimize the long-term cost of operating the Plans, with a reasonable level of risk. Risk tolerance is determined as a result of a periodic study which analyzes the Plans' liabilities and funded status and results in the determination of the allocation of assets across equity and fixed income securities. Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across market segments. Small investments are also approved for private equity, real estate, and infrastructure, with the objective of enhancing long-term returns while improving portfolio diversification. For the PBOP Plans, since the earnings on a portion of the assets are taxable, those investments are managed to maximize after tax returns consistent with the broad asset class parameters established by the study. Investment risk and return are reviewed by NGUSA's Investment Committee on a quarterly basis.

The Pension Plan is a trusteed 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 NGUSA. Life insurance and medical benefits are provided for eligible retirees, dependents, and surviving spouses of NGUSA.

The target asset allocations for the benefit plans as of March 31, 2019 and 2018 are as follows:

	Pension Plans		PBOP Union		PBOP Non-Union	
	March 31,		March 31,		March 31,	
	2019	2018	**2019**	2018	**2019**	2018
			(in thousands of dollars)			
US Equities	**20%**	20%	**34%**	34%	**45%**	45%
Global equities (including US)	**7%**	7%	**12%**	12%	**0%**	0%
Global tactical asset allocation	**10%**	10%	**17%**	17%	**0%**	0%
Non-US equities	**10%**	10%	**17%**	17%	**25%**	25%
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%
Total	**100%**	100%	**100%**	100%	**100%**	100%

Fair Value Measurements

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

	March 31, 2019				
	Level 1	Level 2	Level 3	Not Categorized	Total
	(in thousands of dollars)				
Pension Assets:					
Cash and cash equivalents	$ -	$ 1,954	$ -	$ 27,308	$ 29,262
Accounts receivable	50,966	-	-	-	50,966
Accounts payable	(105,196)	-	-	-	(105,196)
Convertible or exchangeable securities	-	188	-	-	188
Equity	189,522	-	-	667,776	857,298
Fixed income securities	-	621,152	-	339,857	961,009
Futures contracts	692	-	-	-	692
Preferred securities	-	6,426	-	-	6,426
Private equity	-	-	-	155,902	155,902
Real estate	-	-	-	116,409	116,409
Other	68,624	-	-	198,167	266,791
Total	**$ 204,608**	**$ 629,720**	**$ -**	**$ 1,505,419**	**$ 2,339,747**
PBOP Assets:					
Cash and cash equivalents	$ 8,632	$ 101	$ -	$ 869	$ 9,602
Accounts receivable	2,295	-	-	-	2,295
Accounts payable	(333)	-	-	-	(333)
Equity	161,077	-	-	274,993	436,070
Fixed income securities	-	156,161	-	-	156,161
Futures contracts	(107)	-	-	-	(107)
Other	39,056	-	-	79,657	118,713
Total	**$ 210,620**	**$ 156,262**	**$ -**	**$ 355,519**	**$ 722,401**

	March 31, 2018				
	Level 1	Level 2	Level 3	Not Categorized	Total
			(in thousands of dollars)		
Pension Assets:					
Cash and cash equivalents	$ 575	$ 15,518	$ -	$ 28,149	$ 44,242
Accounts receivable	88,162	-	-	-	88,162
Accounts payable	(133,593)	-	-	-	(133,593)
Equity	303,037	(16)	-	651,355	954,376
Fixed income securities	-	553,463	-	338,944	892,407
Preferred securities	-	5,972	-	-	5,972
Private equity	-	-	-	133,785	133,785
Real estate	-	-	-	110,551	110,551
Other	1,329	-	-	178,235	179,564
Total	**$ 259,510**	**$ 574,937**	**$ -**	**$ 1,441,019**	**$ 2,275,466**
PBOP Assets:					
Cash and cash equivalents	$ 9,111	$ 16	$ -	$ 598	$ 9,725
Accounts receivable	1,998	-	-	-	1,998
Accounts payable	(183)	-	-	-	(183)
Equity	189,026	-	-	281,678	470,704
Fixed income securities	-	165,705	-	-	165,705
Other	14,030	-	-	78,622	92,652
Total	**$ 213,982**	**$ 165,721**	**$ -**	**$ 360,898**	**$ 740,601**

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

Cash and cash equivalents: Cash and cash equivalents that can be priced daily are classified as Level 1. Active reserve funds, reserve deposits, commercial paper, repurchase agreements, and commingled cash equivalents are classified as Level 2. Cash and cash equivalents invested in commingled money market investment funds which have NAV used as a practical expedient pricing per fund share are excluded from the fair value hierarchy.

Accounts receivable and accounts payable: Accounts receivable and accounts payable are classified as Level 1. Such amounts are short-term and settle within a few days of the measurement date.

Equity and preferred securities: Common stocks, preferred stocks, and real estate investment trusts are valued using the official close of the primary market on which the individual securities are traded. Equity securities are primarily comprised of securities issued by public companies in domestic and foreign markets plus investments in commingled funds, which are valued on a daily basis. If the Company can exchange shares of the publicly traded securities and the fair values are primarily sourced from the closing prices on stock exchanges where there is active trading, the securities are classified as Level 1 investments. If there is less active trading, then the publicly traded securities would typically be priced using observable data, such as bid and ask prices, and these measurements are classified as Level 2 investments. Mutual funds with publicly quoted prices and active trading are classified as Level 1 investments. For investments in commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV used as a practical expedient per fund share, derived from the underlying securities' quoted prices in active markets. These investments are excluded from the fair value hierarchy.

Fixed income securities: Fixed income securities (which include corporate debt securities, municipal fixed income securities, U.S. Government and Government agency securities including government mortgage-backed securities, index linked government bonds, and state and local bonds), convertible securities, and investments in securities lending collateral (which include repurchase agreements, asset-backed securities, floating rate notes, and time deposits) are valued with an institutional bid valuation. A bid valuation is an estimated price a dealer would pay for a security (typically in an institutional round lot). Oftentimes, these evaluations are based on proprietary models, which pricing vendors establish for these purposes. In some cases, there may be manual sources when primary vendors do not supply prices. Fixed income investments are primarily comprised of fixed income securities and fixed income commingled funds. The prices for direct investments in fixed income securities are generated on a daily basis. Prices generated from less active trading with wider bid ask prices are classified as Level 2 investments. Mutual funds with publicly quoted prices and active trading are classified as Level 1 investments. For commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV used as a practical expedient per fund share. These investments are excluded from the fair value hierarchy.

Private equity and real estate: Commingled equity funds, commingled special equity funds, limited partnerships, real estate, venture capital, and other investments are valued using evaluations (NAV used as a practical expedient, per fund share) based on proprietary models or based on the NAV used as a practical expedient. Investments in private equity and real estate funds are primarily invested in privately held real estate investment properties, trusts, and partnerships as well as equity and debt issued by public or private companies. The Company's interest in a fund or partnership is estimated based on the NAV used as a practical expedient. The Company's interest in these funds cannot be readily redeemed due to the inherent lack of liquidity and the primarily long-term nature of the underlying assets. Distribution is made through the liquidation of the underlying assets. The Company views these investments as part of a long-term investment strategy. These investments are valued by each investment manager based on the underlying assets. The funds utilize valuation techniques consistent with the market, income, and cost approaches to measure the fair value of certain real estate investments. The majority of the underlying assets are valued using significant unobservable inputs and often require significant management judgment or estimation based on the best available information. Market data includes observations of the trading multiples of public companies considered comparable to the private companies being valued. Investments in limited partnerships with redemption restrictions and that use NAV used as a practical expedient are excluded from the fair value hierarchy.

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

8. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to March 31, 2019 are as follows:

(in thousands of dollars) Fiscal Years Ending March 31,	
2020	$ -
2021	-
2022	-
2023	-
2024	-
Thereafter	1,300,000
Total	$ 1,300,000

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 and financial covenants such as restrictions on the level of indebtedness. 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. During the years ended March 31, 2019 and 2018, the Company was in compliance with all such covenants.

Debt Authorizations

Since January 12, 2018, the Company had regulatory approval from the FERC to issue up to $750 million of short-term debt. The authorization is for a period of two years that expires on January 11, 2020. The Company had no external short-term debt outstanding as of March 31, 2019 and March 31, 2018. Refer to Note 12, "Related Party Transactions" under "Intercompany Money Pool" for short-term debt outstanding to associated companies.

On April 13, 2016, the DPU granted multi-year authority to issue up to $784 million in new long-term debt securities through the period ending March 31, 2018, which has since expired. On August 2, 2016, the Company issued $500 million of unsecured senior long-term debt at 4.0% with a maturity date of August 15, 2046. Prior to the issuance, it had $800 million of unsecured long-term debt at 5.9% with a maturity date of November 15, 2039.

Dividend Restrictions

Pursuant to the non participating preferred stock arrangement, as long as any preferred stock is outstanding, certain restrictions on payment of common stock dividends would come into effect if the common stock equity was, or by reason of payment of such dividends became, less than 25% of total capitalization. The Company was in compliance with this covenant and accordingly, the Company was not restricted as to the payment of common stock dividends under the foregoing provisions as of March 31, 2019 or 2018**.**

On December 27, 2018, the Company paid a dividend of $65 million.

Cumulative Preferred Stock

The Company has certain issues of non-participating cumulative preferred stock outstanding where the security is guaranteed by National Grid plc and can be redeemed at the option of the Company. There are no mandatory redemption provisions on the Company's cumulative preferred stock. A summary of cumulative preferred stock is as follows:

	Shares Outstanding		**Amount**		
	March 31,		**March 31,**		**Call**
Series	**2019**	2018	**2019**	2018	**Price**
	(in thousands of dollars, except per share and number of shares data)				
$100 par value - 4.44% Series	**22,585**	22,585	**$ 2,259**	$ 2,259	$ 104.068

The Company did not redeem any preferred stock during the years ended March 31, 2019 and 2018. The annual dividend requirement for cumulative preferred stock was $0.1 million for each of the years ended March 31, 2019 and 2018.

9. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2019	2018
	(in thousands of dollars)	
Current tax expense (benefit):		
Federal	**$ (16,055)**	$ 26,646
State	**13,957**	9,324
Total current tax expense (benefit)	**(2,098)**	35,970
Deferred tax expense:		
Federal	**45,192**	15,841
State	**88**	3,866
Total deferred tax expense	**45,280**	19,707
Amortized investment tax credits [1]	**(336)**	(450)
Total deferred tax expense	**44,944**	19,257
Total income tax expense	**$ 42,846**	$ 55,227

(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, 2019 and 2018 are 25.4% and 34.0%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 21.0% and 31.6%, respectively, to the actual tax expense:

	Years Ended March 31,	
	2019	2018
	(in thousands of dollars)	
Computed tax	**$ 35,493**	$ 51,301
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**11,096**	9,028
Allowance for equity funds used during construction	**(1,353)**	(1,927)
Investment tax credit	**(336)**	(450)
Other items - net	**(2,054)**	(2,725)
Total Changes	**7,353**	3,926
Total income tax expense	**$ 42,846**	$ 55,227

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

On December 22, 2017, the Tax Act was signed into law. The Tax Act includes significant changes to various federal tax provisions applicable to the Company, including provisions specific to regulated public utilities. The most significant changes include the reduction in the corporate federal income tax rate from 35.0% to 21.0% effective January 1, 2018, the elimination of bonus depreciation for certain property acquired or placed in service after September 27, 2017 and the extension of the normalization requirements for ratemaking treatment of excess deferred taxes.

On August 3, 2018, the Internal Revenue Service (“IRS”) and the U.S. Department of Treasury released proposed regulations associated with the bonus depreciation rules enacted as part of the Tax Act. The proposed regulations would enable utilities to claim additional bonus depreciation on property acquired and placed in service between September 28, 2017 and March 31, 2018. The Company adopted the guidance in the proposed regulations and claimed the additional six months of bonus depreciation on its fiscal year 2018 federal income tax return.

In accordance with ASC 740, "Income Taxes," the effects of changes in tax law are required to be recognized in the period of enactment, which for the Company is the period ended March 31, 2018. Since the Company's fiscal year end is March 31, the statutory rate applicable for the Company's fiscal year ended March 31, 2018, was a blended tax rate of 31.6%. For the fiscal year ended March 31, 2019 and future periods, the federal income tax rate is 21.0%. In addition, ASC 740 requires deferred income tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. As a result, the Company remeasured its federal deferred income tax assets and liabilities using the newly enacted tax rate of 21.0%.

On December 22, 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") 118, which provides guidance on accounting for the effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date to complete the accounting under ASC 740, “Income Taxes”. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete, a company can determine a reasonable estimate for those effects and record a provisional estimate in the financial statements. As of March 31, 2019, any and all provisional amounts previously recorded in accordance with SAB 118 have been adjusted to reflect their final amounts.

As of March 31, 2018, the remeasurement amounted to a decrease in the net deferred income tax liability of $244.3 million, of which $0.9 million was recorded to deferred income tax expense and $245.2 million recorded as a regulatory liability for the refund of excess accumulated deferred income taxes to the ratepayers “excess ADIT”. During the current period, the Company adjusted the remeasurement of the net deferred income tax liability by $18.5 million, which was recorded as an increase to a regulatory liability for excess ADIT. As of March 31, 2019, the regulatory liability for excess ADIT on a pre-tax basis prior to amortization amounted to $362.8 million ($263.7 million post-tax).

Deferred Tax Components

	March 31,	
	2019	2018
	(in thousands of dollars)	
Deferred tax assets:		
Allowance for uncollectible accounts	**$ 38,777**	$ 35,620
Environmental remediation costs	**22,416**	21,648
Future federal benefit on state taxes	**19,848**	20,045
Net operating losses	**52,510**	61,386
Postretirement benefits and other employee benefits	**53,731**	56,749
Regulatory liabilities - taxes	**106,488**	99,111
Regulatory liabilities - other	**35,190**	14,576
Renewable energy certificate obligations	**50,964**	40,844
Other items	**29,501**	25,048
Total deferred tax assets	**409,425**	375,027
Deferred tax liabilities:		
Property related differences	**532,949**	500,066
Regulatory assets - other	**129,061**	118,629
Regulatory assets - postretirement benefits	**75,667**	77,959
Regulatory assets - storm costs	**55,430**	43,346
Other items	**9,506**	10,407
Total deferred tax liabilities	**802,613**	750,407
Net deferred income tax liabilities	**393,188**	375,380
Deferred investment tax credits	**22,339**	15,589
Deferred income tax liabilities, net	**$ 415,527**	$ 390,969

Net Operating Losses

The amounts and expiration dates of the Company's net operating loss carryforwards as of March 31, 2019 are as follows:

Expiration of net operating losses:	Carryforward Amount	Expiration Period
	(in thousands of dollars)	
Federal	$ 372,185	2033-2038
State	$ 31,517	2035-2036

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.

The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income, net, in the accompanying statements of income. As of March 31, 2019 and 2018, the Company has accrued for interest related to unrecognized tax benefits of $3.4 million and $1.7 million, respectively. During the years ended March 31, 2019 and 2018, the Company recorded interest expense of $1.8 million and $0.4 million, respectively. No tax penalties were recognized during the years ended March 31, 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.

During the year ended March 31, 2019, the Company reached a settlement with the IRS for the tax years ended March 31, 2008 and March 31, 2009. The outcome of the settlement did not have a material impact to the Company's results of operations, financial position, or cash flows. The IRS continues its examination of the next audit cycle which includes the income tax returns for the years ended March 31, 2010 through March 31, 2012. 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 financial position. As a result of both settlements with the IRS a payment of $7.7 million is expected to be made within the next 12 months. The income tax returns for the years ended March 31, 2013 through March 31, 2019 remain subject to examination by the IRS.

The state of Massachusetts is in the process of examining the Company's income tax returns for the years ended March 31, 2010 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 Massachusetts.

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

Jurisdiction	**Tax Year**
Federal	March 31, 2010
Massachusetts	March 31, 2010

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 United States Environmental Protection Agency ("EPA") and the Massachusetts Department of Environmental Protection ("DEP"), as well as private entities, have alleged that the Company is a potentially responsible party under state or federal law for the remediation of numerous sites. The Company's most significant liabilities relate to former Manufactured Gas Plant ("MGP") facilities. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA and DEP. Expenditures incurred for the years ended March 31, 2019 and 2018 were $4.7 million and $12.4 million, respectively.

As of March 31, 2019 and 2018, the Company had total reserves for environmental remediation costs of $76.7 million and $70.4 million, respectively, which include reserves established in connection with the Company's hazardous waste fund referred to below. These costs are expected to be incurred over the next 34 years. However, remediation costs for each site may be materially higher than estimated, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The 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.

The DPU has approved a settlement agreement that provides for rate recovery of remediation costs of former MGP sites and certain other hazardous waste sites located in Massachusetts. Under that agreement, qualified costs related to these sites are paid out of a special fund established as a regulatory liability in the accompanying balance sheets. Rate-recoverable contributions of approximately $4.3 million are made along with interest, lease payments, and any recoveries from insurance carriers and other third-parties. Accordingly, as of March 31, 2019 and March 31, 2018, the Company has recorded environmental regulatory assets of $73.9 million and $71.6 million, respectively, and environmental regulatory liabilities of $22.3 million and $25.0 million, 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

Operating Lease Obligations

The Company has various operating leases relating to office space and fleet vehicles. Total rental expense for operating leases included in operations and maintenance expense in the accompanying statements of income was $0.8 million and $0.2 million for the years ended March 31, 2019 and 2018, respectively.

The future minimum lease payments for the years subsequent to March 31, 2019 are as follows:

(in thousands of dollars)

Years Ending March 31,		
2020	$	13,052
2021		10,950
2022		9,252
2023		7,682
2024		4,883
Thereafter		8,479
Total	$	54,298

Purchase Commitments

The Company has several long-term contracts for the purchase of electric power. Substantially all of these contracts require power to be delivered before the Company is obligated to make payment.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2019 are summarized in the table below:

(in thousands of dollars)

Years Ending March 31,	Energy Purchases	
2020	$	412,888
2021		16,459
2022		-
2023		-
2024		-
Thereafter		-
Total	$	429,347

The Company purchases additional energy to meet load requirements from independent power producers, other utilities, energy merchants or the ISO-NE at market prices.

Power Purchase Agreements for Renewable Energy Projects

Three-State Procurement: Section 83A

On June 15, 2018, the DPU approved ten long-term (20 year) contracts for the purchase of the electricity and renewable energy credits from ten separate generating facilities. The Company, along with its affiliate Nantucket Electric (collectively "the Massachusetts Electric Companies") will purchase the actual output generated by the individual facilities, which in aggregate represents approximately 91 megawatts ("MW") of nameplate capacity. The Company entered into agreements after a three-state solicitation for renewable energy generation, pursuant to Section 83A of the Green Communities Act. The approval by the DPU allows for the Massachusetts's Electric Companies to recover the costs incurred under the agreement and found that the Company may collect 2.75% remuneration on the annual payments made under the proposed contracts.

Offshore Wind Energy Procurement: Section 83C

On July 31, 2018, the Massachusetts Electric Companies entered into two separate 20-year power purchase agreements ("PPA") with Vineyard Wind LLC ("Vineyard Wind") for the purchase of 46.16% of the electricity and renewable energy credits generated by two offshore windfarms proposed by Vineyard Wind, with each individual windfarm having a capacity of up to 400 MW. The contracts with Vineyard were entered into pursuant to Section 83C of the Green Communities Act. The anticipated commercial operations date for the first wind farm is in January 2022 with the second wind farm anticipated in January 2023, based on the terms of the contracts. On April 12, 2019 the DPU approved the contracts and the Massachusetts Electric Companies will be able to recover the costs incurred under the agreements.

Clean Energy Procurement: Section 83D

On June 13, 2018, the Massachusetts Electric Companies entered into two separate agreements for the transportation, and purchase of electricity and the related environmental attributes from hydroelectric facilities located in the Canadian Province of Québec. The two agreements were entered into pursuant to Section 83D of the Green Communities Act. The first agreement is a 20-year PPA with H.Q. Energy Services Inc., ("H.Q. Energy"). for the purchase of approximately 498 megawatt-hours of electricity, and related environmental attributes from a portfolio of hydroelectric facilities owned and operated by affiliates of H.Q Energy. The second agreement is a 20-year transmission service agreement ("TSA") with Central Maine Power Company ("CMP"). The TSA agreement provides for the transmission of the electricity supplied by H.Q. Energy, on a proposed new transmission line, that will run from the United States boarder to Lewiston Maine, where it will interconnect with ISO-NE. Both the TSA with CMP and the PPA with H.Q. Energy Services are contingent on the successful development and construction of the underlying transmission line by CMP. The anticipated commercial operations date of the transmission line is in December 2022, based on the contractual terms. The Section 83D contracts were approved by the DPU on June 25, 2019, and the Massachusetts Electric Companies will be able to recover the costs incurred under the agreements.

Financial Guarantees

The Company unconditionally guarantees the full and prompt payment of the principal, premium, if any, and interest on certain tax-exempt bonds issued by the Massachusetts Development Finance Agency in connection with Nantucket Electric's financing of its first and second underground and submarine cable projects. The Company would be required to make any principal, interest or premium payments if Nantucket Electric failed to pay. The carrying value of the debt guaranteed is approximately $51.3 million at March 31, 2019 and has maturities extending through 2042. This guarantee is absolute and unconditional. As of the date of this report, the Company has not had a claim made against it for this guarantee and has no reason to believe that Nantucket will default on its obligations.

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, 2019 and 2018, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR") of $5.4 million and $5.5 million, respectively. IBNR reserves have been established for claims and/or events that have transpired but have not yet been reported to the Company for payment.

12. 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,	
	2019	2018	**2019**	2018
	(in thousands of dollars)			
Nantucket Electric	**$ 3,201**	$ 19,460	**$ 48**	$ -
National Grid USA Parent	**-**	3,337	**2,273**	3,813
New England Power Company	**3,951**	3,827	**53,586**	3,535
National Grid Generation, LLC	**3,371**	-	**-**	-
NGUSA Service Company	**6,689**	10,548	**45,991**	91,018
Niagara Mohawk Power Corporation	**5**	-	**9**	8,255
The Narragansett Electric Company	**120**	2,988	**117**	1,761
Other	**588**	406	**561**	357
Total	**$ 17,925**	$ 40,566	**$ 102,585**	$ 108,739

As discussed in Note 5 "Rate Matters," NEP operates the pooled transmission facilities of MECO, the Company, and NEP as a single integrated system ("NEPOOL") under NEP's Tariff No. 1. These transmission services are regulated by both ISO-NE and by the FERC. NEP charges ISO-NE for these transmission services. As NEP is the sole operator of NEPOOL assets, ISO-NE revenues are remitted from NEP to the Company representing the substantial portion of the affiliated accounts receivable due from NEP.

In turn, ISO-NE charges the Company for regional network services ("RNS") with some of those charges being associated with the Company-owned transmission assets in the NEPOOL. As of March 31, 2019, $45.2 million of the unpaid charges from ISO-

NE to the Company have been presented as an affiliated payable to NEP related to these Company-owned transmission assets. Additionally, NEP also charges the Company local network service ("LNS") rates. Amounts paid to NEP for LNS and RNS for the years ended March 31, 2019 and 2018 were $317.1 million and $316.9 million, respectively. These amounts are presented within operations and maintenance expense within the accompanying statements of income.

Advance from Affiliate

The Company has an agreement with NGUSA whereby the Company can borrow up to $600 million from time to time for working capital needs. The advance is non-interest bearing. As of March 31, 2019 and 2018, the Company had no outstanding advance from affiliates.

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 and can both borrow and invest funds. Borrowings from and investments in the Regulated Money Pool bear interest in accordance with the terms of the Regulated Money Pool Agreement. As the Company fully participates in the Regulated Money Pool 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 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 Money Pool is funded by operating funds from participants. NGUSA has the ability to borrow up to $3.0 billion from National Grid plc for working capital needs including funding of the Regulated Money Pool, if necessary. The Company had short-term intercompany money pool borrowings of $18.8 million and investments of $87.8 million as of March 31, 2019 and 2018, respectively. The average interest rates for the intercompany money pool were 2.4% and 1.6% for the years ended March 31, 2019 and 2018, respectively.

Related Party Reimbursement

In accordance with the Credit and Operating Support Agreement dated March 26, 1996, the Company will reimburse Nantucket Electric an amount equal to the difference between Nantucket Electric's actual net income for the year and the net income necessary for Nantucket Electric to earn its DPU approved ROE for the fiscal year, which is currently 9.9%. This reimbursement shall constitute additional revenue to Nantucket Electric and expense to the Company. To the extent Nantucket Electric's actual ROE for the year exceeds its allowed ROE, there will be no reimbursement. For the years ended March 31, 2019 and 2018, the Company reimbursed Nantucket Electric $1.2 million and $5.7 million, 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 which for the years ended March 31, 2019 and 2018 were $324.0 million and $330.0 million, respectively.