nationalgrid

New England Power Company

Financial Statements

For the years ended March 31, 2018, 2017 and 2016

NEW ENGLAND POWER COMPANY

FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED

March 31, 2018

I hereby certify that I am Vice-President, US Controller of New England Power Company and that the enclosed financial statements for the twelve months ended March 31, 2018 have been prepared in accordance with generally accepted accounting principles, and are, in my opinion, materially correct.

Kate Sturgess, Vice-President, US Controller

8/28/18

Date

NEW ENGLAND POWER COMPANY

TABLE OF CONTENTS

Deloitte & Touche LLP
30 Rockefeller Plaza
New York, NY 10112
USA

Tel: +1 212 492 4000
Fax: +1 212 489 1687
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
New England Power Company

We have audited the accompanying financial statements of New England Power Company (the "Company"), which comprise the balance sheet and statement of capitalization as of March 31, 2018, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year 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 audit. We conducted our audit 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 New England Power Company as of March 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Predecessor Auditors' Opinion on 2017 and 2016 Financial Statements

The financial statements of the Company as of and for each of the two years ended March 31, 2017 were audited by other auditors whose report, dated August 23, 2017, expressed an unmodified opinion on those statements.

Deloitte & Touche LLP

August 27, 2018

NEW ENGLAND POWER COMPANY
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2018	2017	2016
Operating revenues	**$ 443,119**	$ 437,166	$ 425,127
Operating expenses:			
Purchased electricity	**19,711**	37,516	58,859
Operations and maintenance	**116,240**	110,034	117,114
Depreciation	**59,904**	55,384	50,453
Other taxes	**49,604**	46,471	44,689
Total operating expenses	**245,459**	249,405	271,115
Operating income	**197,660**	187,761	154,012
Other income and (deductions):			
Interest on long-term debt	**(9,857)**	(4,098)	(2,520)
Other interest, including affiliate interest	**(13,511)**	(10,654)	(10,602)
Other income (deductions), net	**1,011**	2,214	(939)
Total other deductions, net	**(22,357)**	(12,538)	(14,061)
Income before income taxes	**175,303**	175,223	139,951
Income tax expense	**63,711**	69,495	56,243
Net income	**$ 111,592**	$ 105,728	$ 83,708

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

NEW ENGLAND POWER COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2018	2017	2016
Net income	**$ 111,592**	$ 105,728	$ 83,708
Other comprehensive income, net of taxes:			
Unrealized gains (losses) on securities	**48**	189	(108)
Total other comprehensive income (loss)	**48**	189	(108)
Comprehensive income	**$ 111,640**	$ 105,917	$ 83,600
Related tax (expense) benefit:			
Unrealized (gains) losses on securities	**$ (73)**	$ (124)	$ 71
Total tax (expense) benefit	**$ (73)**	$ (124)	$ 71

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

NEW ENGLAND POWER COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2018	2017	2016
Operating activities:			
Net income	**$ 111,592**	$ 105,728	$ 83,708
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**59,904**	55,384	50,453
Provision for deferred income taxes	**28,536**	52,196	61,565
Bad debt expense	**(17)**	(206)	163
Income from equity investments, net of dividends received	**(22)**	(135)	(93)
Allowance for equity funds used during construction	**(1,502)**	88	235
Net postretirement benefits contributions	**(1,940)**	(4,754)	(1,993)
Changes in operating assets and liabilities:			
Accounts receivable and other receivable, net, and unbilled revenues	**537**	(5,588)	2,799
Inventory	**1,560**	1,161	(1,904)
Regulatory assets and liabilities, net	**12,230**	31,108	(61,469)
Prepaid and accrued taxes	**25,936**	12,792	(42,404)
Accounts payable and other liabilities	**2,710**	7,468	18,683
Accrued Yankee nuclear plant costs	**(3,254)**	(18,891)	2,315
Other, net	**(2,570)**	(4,082)	(5,378)
Net cash provided by operating activities	**233,700**	232,269	106,680
Investing activities:			
Capital expenditures	**(200,580)**	(194,769)	(193,326)
Intercompany money pool and affiliated receivables/payables, net	**(176,285)**	-	-
Cost of removal	**(10,015)**	(19,689)	(12,431)
Other	**(655)**	(1,479)	(287)
Net cash used in investing activities	**(387,535)**	(215,937)	(206,044)
Financing activities:			
Common stock dividends to Parent	**-**	(110,000)	(180,000)
Preferred stock dividends	**(50)**	(83)	(67)
Payments on long-term debt	**(79,250)**	-	(38,500)
Proceeds from long-term debt	**400,000**	-	-
Payment of debt issuance costs	**(3,645)**	-	-
Intercompany money pool and affiliated receivables/payables, net	**(670,983)**	96,513	277,868
Equity infusion from Parent	**505,000**	-	20,000
Parent tax loss allocation	**-**	-	18,523
Net cash provided by (used in) financing activities	**151,072**	(13,570)	97,824
Net (decrease) increase in cash and cash equivalents	**(2,763)**	2,762	(1,540)
Cash and cash equivalents, beginning of year	**2,763**	1	1,541
Cash and cash equivalents, end of year	**$ -**	$ 2,763	$ 1
Supplemental disclosures:			
Interest paid	**$ (10,417)**	$ (9,334)	$ (1,649)
Income taxes (paid) refunded	**(8,769)**	320	(17,956)
Significant non-cash items:			
Capital-related accruals	**4,382**	11,258	24,838
Parent Tax Loss Allocation – previously recorded in financing	**4,120**	-	-

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

NEW ENGLAND POWER COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ -	$ 2,763
Accounts receivable	**69,972**	70,492
Accounts receivable from affiliates	**12,262**	9,806
Intercompany money pool	**208,819**	-
Inventory	**1,729**	3,289
Other	**1,567**	1,572
Total current assets	**294,349**	87,922
Equity investments	**3,065**	3,043
Property, plant and equipment, net	**2,395,588**	2,252,234
Other non-current assets:		
Regulatory assets	**80,042**	101,920
Goodwill	**337,614**	337,614
Postretirement benefits asset	**11,214**	4,910
Financial investments	**11,432**	10,659
Other	**8,503**	11,000
Total other non-current assets	**448,805**	466,103
Total assets	**$ 3,141,807**	$ 2,809,302

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

NEW ENGLAND POWER COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2018	March 31, 2017
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	$ 15,964	$ 24,830
Accounts payable to affiliates	44,796	19,102
Current portion of long-term debt	-	79,250
Taxes accrued	35,295	13,211
Intercompany money pool	-	661,687
Other	37,529	31,912
Total current liabilities	133,584	829,992
Other non-current liabilities:		
Regulatory liabilities	321,425	45,651
Accrued Yankee nuclear plant costs	7,248	10,581
Deferred income tax liabilities, net	321,848	574,525
Environmental remediation costs	2,851	7,555
Other	13,103	13,882
Total other non-current liabilities	666,475	652,194
Capitalization:		
Shareholders' equity	1,655,920	1,035,210
Long-term debt	685,828	291,906
Total capitalization	2,341,748	1,327,116
Total liabilities and capitalization	$ 3,141,807	$ 2,809,302

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

NEW ENGLAND POWER COMPANY
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

	Interest Rate	Maturity Date	March 31, 2018	2017
Total shareholders' equity			**$ 1,655,920**	$ 1,035,210
Long-term debt:	Interest Rate	Maturity Date		
Pollution Control Revenue Bonds:				
Massachusetts Development Finance Agency 1	Variable	March 1, 2018	**-**	79,250
Business Finance Authority of the State of New Hampshire	Variable	November 1, 2020	**135,850**	135,850
Business Finance Authority of the State of New Hampshire	Variable	November 1, 2020	**50,600**	50,600
Massachusetts Development Finance Agency 2	Variable	October 1, 2022	**106,150**	106,150
Senior Notes	3.80%	December 5, 2047	**400,000**	-
Total debt			**692,600**	371,850
Unamortized debt discount			**(2,668)**	-
Unamortized debt issuance costs			**(4,104)**	(694)
Current portion of long-term debt			**-**	79,250
Long-term debt			**685,828**	291,906
Total capitalization			**$ 2,341,748**	$ 1,327,116

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

NEW ENGLAND POWER 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): Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2015	**$ 72,398**	**$ 1,112**	**$ 763,987**	**$ 1,051**	**$ 1,051**	**$ 258,772**	**$ 1,097,320**
Net income	-	-	-	-	-	83,708	83,708
Other comprehensive income (loss):							
Unrealized losses on securities, net of $71 tax benefit	-	-	-	(108)	(108)	-	(108)
Total comprehensive income							83,600
Equity infusion from Parent	-	-	20,000	-	-	-	20,000
Parent tax loss allocation	-	-	18,523	-	-	-	18,523
Common stock dividends to Parent	-	-	-	-	-	(180,000)	(180,000)
Preferred stock dividends	-	-	-	-	-	(67)	(67)
Balance as of March 31, 2016	**$ 72,398**	**$ 1,112**	**$ 802,510**	**$ 943**	**$ 943**	**$ 162,413**	**$ 1,039,376**
Net income	-	-	-	-	-	105,728	105,728
Other comprehensive loss:							
Unrealized gains on securities, net of $124 tax expense	-	-	-	189	189	-	189
Total comprehensive income							105,917
Equity infusion from Parent	-	-	-	-	-	-	-
Parent tax loss allocation	-	-	-	-	-	-	-
Common stock dividends to Parent	-	-	-	-	-	(110,000)	(110,000)
Preferred stock dividends	-	-	-	-	-	(83)	(83)
Balance as of March 31, 2017	**$ 72,398**	**$ 1,112**	**$ 802,510**	**$ 1,132**	**1,132**	**$ 158,058**	**$ 1,035,210**
Net income	-	-	-	-	-	111,592	111,592
Other comprehensive loss:							
Unrealized gains on securities, net of $73 tax expense	-	-	-	48	48	-	48
Total comprehensive income							111,640
Equity infusion from Parent	-	-	505,000	-	-	-	505,000
Parent tax loss allocation	-	-	4,120	-	-	-	4,120
Common stock dividends to Parent	-	-	-	-	-	-	-
Preferred stock dividends	-	-	-	-	-	(50)	(50)
Balance as of March 31, 2018	**$ 72,398**	**$ 1,112**	**$ 1,311,630**	**$ 1,180**	**$ 1,180**	**$ 269,600**	**$ 1,655,920**

The Company had 3,619,896 shares of common stock authorized, issued and outstanding, with a par value of $20 per share and 11,117 shares of preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2018, 2017, and 2016.

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

NEW ENGLAND POWER COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

New England Power Company ("the Company") operates electric transmission facilities in Massachusetts, New Hampshire, Rhode Island, Maine, and Vermont. 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.

The Company also owns non-controlling interests in three companies (the "Yankees") which own nuclear generating facilities that are permanently retired and are being decommissioned (refer to Note 6, "Equity Investments", and the "Decommissioning Nuclear Units" section in Note 13, "Commitments and Contingencies"). In addition, the Company has a 3.3% equity share in New England Hydro-Transmission Electric Company, Inc. and a 3.3% equity share in New England Hydro-Transmission Corporation, which are two of its affiliates.

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 August 27, 2018, 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, 2018.

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) has jurisdiction over the rates the Company charges its customers and certain activities, including (i) regulating certain transactions among our affiliates; (ii) governing the issuance acquisition and disposition of securities and assets by certain of our public utility subsidiaries; and (iii) approving certain utility mergers and acquisitions. The Company is subject to the jurisdiction of the regulatory Commissions of Massachusetts, New Hampshire, Rhode Island, Maine, Vermont and the Nuclear Regulatory Commission (NRC). 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. Regulatory assets and liabilities are reflected on the balance sheet consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

The Company has two primary sources of revenue: transmission and stranded cost recovery. Transmission revenues are based on a formula rate that recovers the Company's actual costs plus a return on investment, which are recovered through regional network service (RNS) rates or local network service (LNS) rates. The Company has received authorization from the FERC to recover through contract termination charges (CTC's), substantially all of the costs associated with the divestiture of its electricity generation investments (nuclear and nonnuclear) and related contractual commitments that were not recovered through the sale of those investments (stranded costs). Stranded costs are recovered from the former wholesale customers of the Company (affiliated companies Massachusetts Electric Company ("MECO") and The Narragansett Electric Company ("NECO"), Liberty Utilities, and the Towns of Merrimac, Groveland, and Littleton). See Note 4, "Rate Matters", and Note 13, "Commitments and Contingencies", for an explanation of stranded costs.

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).

The Company's policy is to accrue for property taxes on a calendar year basis, taking into account the assessment period. The Company had accrued for property taxes of $1.0 million and $1.1 million at March 31, 2018 and 2017, respectively.

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 records a valuation allowance to the extent. 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 benefits-for-loss allocation pursuant to a tax sharing agreement between NGNA and its subsidiaries. The benefit of consolidated tax losses and credits are allocated to the NGNA subsidiaries giving rise to such benefits in determining each subsidiary's tax expense in the year that the loss or credit arises. 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 ($17.1) thousand, ($0.2) million and $0.2 million for the years ended March 31, 2018, 2017 and 2016, respectfully, within operations and maintenance in the statements of income.

Inventory

Inventory is primarily composed of materials and supplies. Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2018, 2017 and 2016.

The Company had materials and supplies of $1.7 million and $3.3 million at March 31, 2018 and 2017, respectively.

Fair Value Measurements

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data;
- Level 3: unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs; and
- Not categorized: certain investments are not categorized within the fair value hierarchy. These investments are measured based on the fair value of the underlying investments but may not be readily redeemable at that fair value.

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 state regulatory bodies. The average composite rate for each of the years ended March 31, 2018, 2017 and 2016 was 2.3%. The average service life for the year ended March 31, 2018 was 50 years.

Depreciation expense includes a component for estimated future 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 asset. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory asset. The Company had cumulative costs recovered in excess of costs incurred of $10.8 million and $8.8 million at March 31, 2018 and 2017, respectively.

Allowance for Funds Used During Construction

The Company records Allowance for Funds Used During Construction ("AFUDC"), which represents the debt and equity costs of financing the construction of new utility plant. AFUDC equity is reported in the statements of income as non-cash income and AFUDC debt is reported as non-cash offset to interest expense. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $1.5 million and AFUDC related to debt of $1.1 million for the year ended March 31, 2018. The average AFUDC rates for the year ended March 31, 2018 was 3%.

Impairment of Long-Lived Assets

The Company tests the impairment of long-lived assets annually or 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 future 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, 2018, 2017 and 2016, 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 ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," issued by the FASB which eliminates step two from the two-step goodwill impairment test. 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 considered not 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 allocated amount of goodwill.

The fair value of the Company was calculated in the annual goodwill impairment test for the year ended March 31, 2018 utilizing both income and market approaches. The Company uses a 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment of the goodwill carrying value was required at March 31, 2018 or 2017.

Available-For-Sale Securities

The Company provides certain executives with nonqualified retirement and deferred compensation benefits which have been partially secured through separate fund arrangements. As a result, the Company holds available-for-sale securities that include equities, municipal bonds, and corporate bonds. These investments are recorded at fair value and are included in financial investments on the balance sheet. Changes in the fair value of these assets are recorded within other comprehensive income.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant and equipment, primarily associated with the Company's transmission facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations, are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period, the asset retirement obligation is accreted to its present value. The Company applies regulatory accounting guidance and both the depreciation and accretion costs associated with asset retirement obligations are recorded as increases to regulatory assets on the balance sheet. These regulatory assets represent timing differences between the recognition of costs in accordance with U.S. GAAP and costs recovered through the rate-making process.

The following table represents the changes in the Company's asset retirement obligations:

	Years Ended March 31,	
	2018	2017
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 99**	$ 95
Accretion expense	**4**	4
Liabilities settled	**(6)**	-
Balance as of the end of the year	**$ 97**	$ 99

Employee Benefits

The Company participates with other 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.

Going Concern

Current U.S. GAAP guidance requires management to evaluate whether there is substantial doubt surrounding an entity's ability to continue as a going concern. If management concludes that substantial doubt exists additional disclosures relating to management's evaluation and conclusion are required. Management is not aware of any indicators giving rise to substantial doubt about the Company's ability to continue to operate and to meet its obligations as they fall due.

New and Recent Accounting Guidance

Accounting Guidance Recently Adopted

Measurement of Inventory

In July 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-11, "Simplifying the Measurement of Inventory." The new guidance requires that inventory be measured at the lower of cost and net realizable value (other than inventory measured using "last-in, first out" and the "retail inventory method"). The application of this guidance did not have a material impact on the results of operations, cash flows, or financial position of the Company since the Company's inventory was stated at cost upon adoption and the cost represents the net realizable value. Materials and supplies are measured at cost. The adoption of the guidance did not change the Company's methodology of measuring inventory.

Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting (Topic 718)," which simplifies several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. Most notably, entities are required to recognize all excess tax benefits and shortfalls as income tax expense or benefit in the income statement within the reporting period in which they occur. The application of this guidance did not have a material impact on the results of operations, cash flows, or financial position of the Company.

Goodwill

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which eliminates Step 2 from the goodwill impairment test. For the Company, the requirements of the new standard will be effective for the fiscal year ended March 31, 2022, with early adoption permitted. The Company early adopted the ASU in the year ended March 31, 2018 for its FY18 annual goodwill impairment testing.

Accounting Guidance Not Yet Adopted

Pension and Postretirement Benefits

In March 2017, the 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 in the same line item as other compensation in operating income and the other components of net benefit cost to be presented outside of operating income on a retrospective basis. For the Company, the requirements of the new standard will be effective for the fiscal year ended March 31, 2019, and interim periods within the reporting period, with early adoption permitted. The implementation of the ASU will not have a material impact on the net income of the Company since the Company defines the difference between actual pension costs and the amounts used to establish rates (See Note 8, "Employee Benefits" for additional details). In addition, only the service cost component will be eligible for capitalization when applicable, on a prospective basis.

Statement of Cash Flows

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)," which requires entities to show the changes in the total of cash and cash equivalents, in the statement of cash flows.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments (Topic 230)," 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.

For the Company, the requirements of the new standards will be effective for the fiscal year ended March 31, 2019, and interim periods thereafter, with early adoption permitted. The application of this guidance is not expected to have a material impact on the results of operations, cash flows, or financial position of the Company.

Income Taxes

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," which eliminates the exception for all intra-entity sales of assets other than inventory. As a result, a reporting entity would recognize the tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. For the Company, the requirements of the new standard will be effective for the fiscal year ended March 31, 2019, and interim periods thereafter, with early adoption permitted. The application of this guidance is not expected to have a material impact on the results of operations, cash flows, or financial position of the Company.

Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendment replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For the Company, the requirements of the new standard will be effective for the fiscal year ended March 31, 2022, and interim periods within, with early adoption permitted from the fiscal year ended March 31, 2020 and interim periods within. The Company is currently evaluating the impact of the new guidance on the presentation, results of its operations, cash flows, and financial position.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." 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. For the Company, the new guidance is effective for the fiscal year ended March 31, 2019, and will be adopted using a modified retrospective approach.

The FASB has issued a number of additional recent ASUs related to revenue recognition, whose effective date and transition requirements are the same as those for ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," which provides guidance in the new revenue standard on identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (ASC 606) Narrow-Scope Improvements and Practical Expedients," providing additional clarity on various aspects of Topic 606, including a) Assessing the Collectability Criterion and Accounting for Contracts That Do Not Meet the Criteria for Step 1, b) Presentation of Sales Taxes and Other Similar Taxes Collected from Customers, c) Noncash Consideration, d) Contract Modifications at Transition, e) Completed Contracts at Transition, and f) Technical Correction. Lastly, in December 2016, the FASB issued ASU No. 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers." The amendments in this update cover a variety of corrections and improvements to the Codification related to the new revenue recognition standard (ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)").

The Company has undertaken detailed reviews of its revenue arrangements and is in the process of finalizing its assessment of the impact of the new standard. Based on work to date, the Company does not believe that the standard will have a material impact on the presentation of the results of its operations, cash flows, or financial position. However, the Company will be required to make significant additional qualitative and quantitative financial statement disclosures under Accounting Standards Codification ("ASC") 606, "Revenue from Contracts with Customers," pertaining to its revenue earning mechanisms.

Leases

In February 2016, the FASB issued a new lease accounting standard, ASU No. 2016-02, "Leases (Topic 842)." The key objective of the new standard is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, a dual model has been retained, with leases to be designated as operating leases or finance leases. Expenses will be recognized on a straight-line basis for operating leases, and a front-loaded basis for finance leases. For the Company, the new standard is effective for the fiscal year ended March 31, 2020, and interim periods thereafter, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. The Company is currently evaluating the impact of the new guidance on the results of its operations, cash flows, and financial position.

Financial Instruments – Classification and Measurement

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The new guidance principally affects the accounting for equity investments and financial liabilities where the fair value option has been elected, as well as the disclosure requirements for financial instruments. For the Company, the new guidance is effective for the fiscal year ended March 31, 2019, and interim periods therein, with early adoption permitted for fiscal years or interim periods that have not yet been issued. The application of this guidance will impact how available for sale securities will be presented in the financial statements and is not expected to have a material impact on the presentation, results of its operations, cash flows, and financial position.

Stock Compensation

In May 2017, the FASB issued ASU No. 2017-09, "Stock Compensation (Topic 718): Scope of Modification Accounting," which provides clarity on the application of modification accounting upon a change to the terms or conditions of a share-based payment award. For the Company, the requirements of the new standard will be effective for the fiscal year ended March 31, 2019, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on the presentation, results of its operations, cash flows, and financial position.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform the prior year's data to the current year's presentation. These reclassifications had no effect on the Company's results of operations or cash flows.

3. 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,	
	2018	2017
	(in thousands of dollars)	
Regulatory assets		
Non-current:		
Cost of removal	**$ 10,752**	$ 8,788
Environmental response costs	**2,977**	6,155
Postretirement benefits	**58,875**	64,680
Regulatory tax asset, net	**-**	11,604
Yankee nuclear decomissioning costs	**7,366**	10,621
Other	**72**	72
Total	**80,042**	101,920
Regulatory liabilities		
Non-current:		
CTC charges	**46,912**	38,737
Postretirement benefits	**1,685**	3,221
Regulatory tax liability, net	**269,613**	-
Other	**3,215**	3,693
Total	**321,425**	45,651
Net regulatory liability	**$ (241,383)**	$ 56,269

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

Cost of removal: Represents the difference between the cumulative amounts collected versus the cumulative amounts spent to dispose of property, plant and equipment. The liability is discharged as removal costs are incurred. During the year ended March 31, 2018, the balance changed from cumulative costs recovered in excess of costs incurred to cumulative costs incurred in excess of costs recovered.

CTC charges: Stranded cost recovery revenues are collected through a CTC, which is billed to former wholesale customers of the Company in connection with the Company's divestiture of its electricity generation investments. CTC-related liabilities consist of obligations to customers that resulted from the sale of certain stranded assets or amounts collected from third parties that will be refunded to customers. These amounts are being refunded to customers as determined per rate filings.

Environmental response costs: This regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at sites with which it may be associated. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Postretirement benefits: The regulatory asset represents the Company's deferral related to the underfunded status of its pension and PBOP plans.

As a result of the fiscal year 2000 merger of the Company with NGUSA and a fiscal year 2001 acquisition, the Company revalued its pension and other postretirement benefit plans and recognized previously unrecognized net gains in these benefit plans. These gains were deferred as a regulatory liability which is being returned to customers over a 20-year period thru March 2020.

Regulatory tax liability, net: Represents over-recovered federal and state deferred taxes of the Company primarily as a result of regulatory flow through accounting treatment and state income tax rate changes and excess federal deferred taxes as a result of the recently enacted Tax Cuts and Jobs Act ("Tax Act"). The income tax benefits or charges for certain plant related timing differences, such as equity AFUDC, are immediately flowed through to, or collected from, customers. The amortization of the related regulatory tax asset, for these items, follows the book life of the underlying plant asset.

Yankee nuclear decommissioning costs: The Yankees operated nuclear generating units which have been permanently decommissioned. Spent nuclear fuel remains on each site, awaiting fulfillment by the U.S. Department of Energy ("DOE") of its statutory obligation to remove it. In addition, groundwater monitoring is ongoing at each site. The Company has recorded a regulatory asset reflecting the estimated future decommissioning billings and the remaining asset retirement obligation from the Yankees.

4. RATE MATTERS

Stranded Cost Recovery

Under the settlement agreements approved by state commissions and the FERC, the Company is permitted to recover stranded costs (those costs associated with its former generating investments (nuclear and non-nuclear) and related contractual commitments that were not recovered through the sale of those investments). The Company earns a return on equity ("ROE") related to stranded cost recovery consisting of nuclear-related investments, through March 31, 2018. In Massachusetts, prior to 2014, the Company earned a rate of return (ROE) of approximately 10.65%. Due to state and federal tax rate changes in 2014 and 2018, respectively, the current ROE is 9.2%. In Rhode Island, prior to 2014, the Company earned an ROE of 12.16%. Due to state and federal tax rate changes in 2014 and 2018, respectively, the current ROE is 10.46%. The Company will recover its remaining non-nuclear stranded costs through 2020. See the "Decommissioning Nuclear Units" section in Note 13, "Commitments and Contingencies", for a discussion of on-going costs associated with decommissioned nuclear units.

Transmission Return on Equity

Transmission revenues are based on a formula rate that recovers the Company's actual costs plus a return on investment. Approximately 74% of the Company's transmission facilities are included under RNS rates. The Company earns an additional 1% ROE incentive adder on RNS-related transmission facilities approved under the RTO's Regional System Plan and placed in service on or before December 31, 2008. It also earns a 1.25% ROE incentive on its portion of New England East-West Solution ("NEEWS") as described below.

The Company's transmission rates applicable to transmission service through October 15, 2014 reflected a base ROE of 11.14% applicable to the Company's transmission facilities, plus an additional 0.5% Regional Transmission Organization ("RTO") participation adder applicable to transmission facilities included under the Regional Network Service ("RNS") rate. Starting on October 16, 2014, the FERC issued a series of orders as the result of three ROE complaint cases (see the "FERC ROE Complaints" section in Note 13, "Commitments and Contingencies"), reducing the Company's base ROE to 10.57%. The FERC also established a maximum ROE such that any incentives, taken together, may not exceed a cap of 11.74%. On April 14, 2017, the U.S. Court of Appeals for the D.C. Circuit ("Court of Appeals") vacated the FERC's orders which had reduced the Company's base ROE to 10.57% and maximum ROE to 11.74% and remanded the issue back to the FERC. On June 5, 2017, the New England Transmission Owners ("NETOS"), including the Company, submitted a filing to the FERC to document the reinstatement of their transmission rates that had been in effect through October 15, 2014. FERC denied this filing and stated that until further notice, the base ROE in New England must remain at the filed rate of 10.57%.

Recovery of Transmission Costs

In conformance with the terms of the Company's Tariff No. 1, on November 17, 2014, the Company submitted a filing to the FERC under Section 205 of the Federal Power Act ("FPA") proposing to reduce the ROE under its Tariff No. 1 formula rates so that they were consistent with those applied under the Independent System Operator New England ("ISO-NE") Open Access Transmission Tariff pursuant to the FERC's Opinion Nos. 531 and 531-A. Under the integrated facilities provisions of Tariff No. 1, the Company supports the cost of transmission facilities owned by its distribution affiliates, MECO and NECO, and makes these facilities available for open access transmission service on an integrated basis. The FERC rejected the Company's filing on April 16, 2015, finding that it was inconsistent with the FERC's clarifications issued in its Order on Rehearing in Opinion No. 531-B (see the "FERC ROE Complaints" section in Note 13, "Commitments and Contingencies"). On January 21, 2016, the Company re-filed proposed amendments to its Tariff No. 1 formula rates for integrated facilities to be consistent with Opinion No. 531-B among other proposed changes. On March 8, 2016, the FERC accepted the filing approving an effective date of October 16, 2014 for the ROE components. The Company has reduced its compensation to its distribution affiliates in accordance with the Order. As mentioned previously, though, on April 14, 2017, the Court of Appeals vacated the FERC's Opinion Nos. 531, 531-A, and 531-B, and remanded the issue back to the FERC.

Tax Cuts and Jobs Act

On March 15, 2018 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 signed into law on December 22, 2017. 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. This NOI will be used by FERC to build a record on the tax issues affecting FERC-jurisdictional rates and will be used to determine whether additional action is needed.

New England East-West Solution

In September 2008, the Company, its affiliate NECO, and Northeast Utilities jointly filed an application with the FERC to recover financial incentives for the NEEWS project, pursuant to the FERC's Transmission Pricing Policy Order No. 679. NEEWS consists of a series of inter-related transmission upgrades identified in the New England Regional System Plan and is being undertaken to address a number of reliability problems in Connecticut, Massachusetts, and Rhode Island. Effective November 18, 2008, the FERC granted (1) an incentive ROE of 12.89% (125 basis points above the approved base ROE of 11.64% including the RTO participation adder), (2) 100% construction work in progress in rate base, and (3) recovery of plant abandoned for reasons beyond the companies' control. As discussed in a preceding section, effective October 16, 2014, the FERC issued a series of orders establishing a maximum ROE of 11.74% that effectively caps the NEEWS incentive ROE at that level.

5. PROPERTY, PLANT AND EQUIPMENT

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

	March 31, 2018	March 31, 2017
	(in thousands of dollars)	
Plant and machinery	**$ 2,641,502**	$ 2,447,366
Assets in construction	**150,689**	161,004
Land and buildings	**105,759**	103,683
Motor vehicles and equipment	**64**	3,639
Software and other intangibles	**2,548**	2,548
Total property, plant and equipment	**2,900,562**	2,718,240
Accumulated depreciation and amortization	**(504,974)**	(466,006)
Property, plant and equipment, net	**$ 2,395,588**	$ 2,252,234

6. EQUITY INVESTMENTS

Yankee Nuclear Power Companies

The Company has non-controlling interests in Yankee Atomic (34.5%), Connecticut Yankee (19.5%), and Maine Yankee (24%) (the "Yankees"), which own nuclear generating units that have been permanently decommissioned. Spent nuclear fuel remains on each site, awaiting fulfillment by the DOE of its statutory obligation to remove it. In addition, groundwater monitoring is ongoing at each site. Summarized statement of income and balance sheet data for the Yankees are as follows:

	As of and for the Years Ended March 31, 2018	2017	2016
	(in thousands of dollars)		
Operating revenue	**$ 700**	$ 2,036	$ 1,555
Operating expenses	**467**	1,475	1,495
Other income (deductions), net	**(69)**	(270)	110
Total expenses	**536**	1,745	1,385
Net income	**$ 164**	$ 291	$ 170
Assets			
Current assets	**$ 15,913**	$ 12,322	
Property, plant and equipment	**882**	882	
Other non-current assets	**705,391**	718,484	
Total assets	**$722,186**	$731,688	
Liabilities and equity			
Current liabilities	**$ 4,049**	$ 2,658	
Other non-current liabilities	**712,411**	723,467	
Equity	**5,726**	5,563	
Total liabilities and equity	**$722,186**	$731,688	

7. FAIR VALUE MEASUREMENTS

The following tables present available-for-sale securities measured and recorded at fair value on the balance sheet on a recurring basis and their level within the fair value hierarchy as of March 31, 2018 and 2017:

	March 31, 2018		
	Level 1	Level 2	Total
	(in thousands of dollars)		
Assets:			
Available-for-sale securities	$ 4,798	$ 6,592	$ 11,390

	March 31, 2017		
	Level 1	Level 2	Total
	(in thousands of dollars)		
Assets:			
Available-for-sale securities	$ 4,588	$ 6,030	$ 10,618

Available-for-sale securities are included in financial investments on the balance sheet and primarily include equity and debt investments based on quoted market prices (Level 1) and municipal and corporate bonds based on quoted prices of similar traded assets in open markets (Level 2).

Other Fair Value Measurements

The Company's balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2018 was $677.5 million; the fair of this debt at March 31, 2017 approximates the carrying value given the short tenure of the debt which is remarketed every 1 to 270 days.

All other financial instruments on the balance sheet, such as accounts receivable, accounts payable, and the intercompany money pool, are stated at cost, which approximates fair value.

8. EMPLOYEE BENEFITS

The Company participates with other NGUSA subsidiaries in a qualified and non-qualified non-contributory defined benefit plan (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 the Company's proportionate share of the Plan's projected benefit obligation. The Plan's costs are first directly charged to the Company based on the Company's employees that participate in the Plan. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. Pension and PBOP expense are included within operations and maintenance expense 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 Pension Plan is a defined benefit plan which provides 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, 2018, 2017, and

2016, the Company made contributions of approximately $0.8 million, $1.7 million, and $3.6 million, respectively, to the qualified pension plans. The Company expects to contribute approximately $0.5 million to the qualified pension plan during the year ending March 31, 2019.

Benefit payments to Pension Plan participants for the years ended March 31, 2018, 2017, and 2016 were approximately $10.6 million, $7.0 million, and $12.5 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, 2018, 2017, and 2016, the Company made contributions of approximately $0, $0.7 million, and $0.8 million, respectively, to the PBOP Plans. The Company does not expect to contribute to the PBOP Plans during the year ending March 31, 2019.

Benefit payments to PBOP plan participants for the years ended March 31, 2018, 2017, and 2016 were approximately $3.4 million, $3.3 million, and $3.6 million, respectively.

Net Periodic Benefit Costs

The Company’s net periodic benefit pension cost for the years ended March 31, 2018, 2017, and 2016 was $1.3 million, $2.2 million, and $3.4 million, respectively.

The Company’s net periodic benefit PBOP cost for the years ended March 31, 2018, 2017, and 2016 was ($0.4) million, $0.3 million, and $0.5 million, respectively.

Amounts Recognized in Regulatory Assets

The following tables summarize the Company’s changes in actuarial gains/losses and prior service costs recognized in regulatory assets as well as accumulated other comprehensive income for the years ended March 31, 2018, 2017, and 2016:

	Pension Plans					
	Years Ended March 31,					
	2018		2017		2016	
			(in thousands of dollars)			
Net actuarial (gain) loss	**$**	**(234)**	$	(4,426)	$	1,320
Amortization of net actuarial loss		**(3,206)**		(3,897)		(4,617)
Total	**$**	**(3,440)**	$	(8,323)	$	(3,297)
Recognized in regulatory assets	**$**	**(3,440)**	$	(8,323)	$	(3,297)
Total	**$**	**(3,440)**	$	(8,323)	$	(3,297)

	PBOP Plans					
	Years Ended March 31,					
	2018		2017		2016	
			(in thousands of dollars)			
Net actuarial (gain) loss	**$**	**(1,753)**	$	(7,721)	$	443
Amortization of net actuarial loss		**(601)**		(1,050)		(1,173)
Amortization of prior service cost, net		**(11)**		(11)		(11)
Total	**$**	**(2,365)**	$	(8,782)	$	(741)
Recognized in regulatory assets	**$**	**(2,365)**	$	(8,782)	$	(741)
Total	**$**	**(2,365)**	$	(8,782)	$	(741)

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

The following tables summarize the Company's amounts in regulatory assets on the balance sheet that have not yet been recognized as components of net actuarial loss at March 31, 2018, 2017, and 2016:

	Pension Plans		
	March 31,		
	2018	2017	2016
	(in thousands of dollars)		
Net actuarial loss	**$ 45,614**	$ 49,054	$ 57,377
Total	**$ 45,614**	$ 49,054	$ 57,377
Recognized in regulatory assets	**$ 45,614**	$ 49,054	$ 57,377
Total	**$ 45,614**	$ 49,054	$ 57,377

	PBOP Plans		
	March 31,		
	2018	2017	2016
	(in thousands of dollars)		
Net actuarial loss	**$ 13,137**	$ 15,491	$ 24,262
Prior service cost	**124**	135	146
Total	**$ 13,261**	$ 15,626	$ 24,408
Recognized in regulatory assets	**$ 13,261**	$ 15,626	$ 24,408
Total	**$ 13,261**	$ 15,626	$ 24,408

The amount of net actuarial loss and prior service cost to be amortized from regulatory assets during the year ending March 31, 2019 for the Pension Plans is $3.2 million and $0, respectively, and net actuarial loss and prior service benefit to be amortized from regulatory assets during the year ending March 31, 2019 for the PBOP Plans is $0.5 million and $0, 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 at March 31, 2018 and 2017:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2018	2017	**2018**	2017
	(in thousands of dollars)			
Projected benefit obligation	**$ (163,188)**	$ (161,715)	**$ (41,605)**	$ (43,675)
Fair value of plan assets	**172,626**	167,787	**42,881**	42,108
Total	**$ 9,438**	$ 6,072	**$ 1,276**	$ (1,567)
Other non-current assets	**$ 9,851**	$ 6,384	**$ 1,363**	$ (1,474)
Current liabilities	**(413)**	(312)	**(87)**	(93)
Total	**$ 9,438**	$ 6,072	**$ 1,276**	$ (1,567)

Expected Benefit Payments

Based on current assumptions, the following benefit payments are expected subsequent to March 31, 2018 in respect of the Company:

(in thousands of dollars) Years Ended March 31,	Pension Plans	PBOP Plans
2019	$ 12,387	$ 3,289
2020	12,794	3,315
2021	13,206	3,339
2022	13,650	3,288
2023	14,151	3,260
2024-2028	77,805	14,976
Total	$ 143,993	$ 31,467

Assumptions Used for Employee Benefits Accounting

	Pension Plans		
	Years Ended March 31,		
	2018	2017	2016
Benefit Obligations:			
Discount rate	**4.10%**	4.30%	4.25%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.25%**	6.50%	6.50%
Net Periodic Benefit Costs:			
Discount rate	**4.30%**	4.25%	4.10%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.50%**	6.50%	6.25%

	PBOP Plans		
	Years Ended March 31,		
	2018	2017	2016
Benefit Obligations:			
Discount rate	**4.10%**	4.30%	4.25%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.25%-6.75%**	6.50%-6.75%	6.50%-6.75%
Net Periodic Benefit Costs:			
Discount rate	**4.30%**	4.25%	4.10%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.50%-6.75%**	6.50%-6.75%	6.25%-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,	
	2018	2017
Health care cost trend rate assumed for next year		
Pre 65	**7.50%**	7.00%
Post 65	**5.75%**	6.00%
Prescription	**10.25%**	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**	2025
Post 65	**2026**	2024
Prescription	**2027**	2025

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 asset/liability 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 asset allocation study. Investment risk and return are reviewed by NGUSA's investment committee on a quarterly basis.

The Pension Plan is a trusted non-contributory defined benefit plan covering all eligible represented employees of the Company and eligible non-represented employees of the participating National Grid companies. The PBOP Plans are both a contributory and non-contributory, trusteed, employee life insurance and medical benefit plan sponsored by 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, 2018 and 2017 are as follows:

	Pension Plans		PBOP Union		PBOP Non-Union	
	March 31,		March 31,		March 31,	
	2018	2017	**2018**	2017	**2018**	2017
			(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 measurements amounts for the pension and PBOP assets at the Plan level:

	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**

	March 31, 2017				
	Level 1	Level 2	Level 3	Not Categorized	Total
	(in thousands of dollars)				
Pension assets					
Cash and cash equivalents	$ 1,319	$ 559	$ -	$ 32,822	$ 34,700
Accounts receivable	21,974	-	-	-	21,974
Accounts payable	(22,054)	-	-	-	(22,054)
Equity	317,258	-	-	594,349	911,607
Fixed income securities	-	599,858	-	205,392	805,250
Preferred securities	-	3,756	-	-	3,756
Private equity	-	-	-	131,865	131,865
Real estate	-	-	-	117,692	117,692
Other	350	-	-	102,857	103,207
Total	$ 318,847	$ 604,173	$ -	$ 1,184,977	$ 2,107,997
PBOP Assets					
Cash and cash equivalents	$ 11,203	$ -	$ -	$ 651	$ 11,854
Accounts receivable	1,526	-	-	-	1,526
Accounts payable	(3,483)	-	-	-	(3,483)
Equity	164,420	-	-	268,140	432,560
Fixed income securities	234	145,904	-	-	146,138
Other	13,177	-	-	74,922	88,099
Total	$ 187,077	$ 145,904	$ -	$ 343,713	$ 676,694

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 Net Asset Value “NAV” 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. The Company can exchange shares of the publicly traded securities and the fair values are primarily sourced from the closing prices on stock exchanges where there is active trading, in which case they are classified as Level 1 investments. If there is less active trading, then the publicly traded securities would typically be priced using observable data, such as bid and ask prices, and these measurements are classified as Level 2 investments. 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 per fund share, derived from the underlying securities’ quoted prices in active markets, and they are excluded from the fair value hierarchy. Investments in commingled funds with redemption restrictions and that use NAV 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 at which a dealer would pay for a security (typically in an institutional round lot). Oftentimes, these evaluations are based on proprietary models which pricing vendors establish for these purposes. In some cases there may be manual sources when primary vendors do not supply prices. Fixed income investments are primarily comprised of fixed income securities and fixed income commingled funds. The prices for direct investments in fixed income securities are generated on a daily basis. Prices generated from less active trading with wider bid ask prices are classified as Level 2 investments. 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 per fund share, and are excluded from the fair value hierarchy. Investments in commingled funds with redemption restrictions and that use NAV 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 per fund share) based on proprietary models, or based on the NAV. Investments in private equity and real estate funds are primarily invested in privately held real estate investment properties, trusts, and partnerships as well as equity and debt issued by public or private companies. The Company's interest in the fund or partnership is estimated based on the NAV. The Company's interest in these funds cannot be readily redeemed due to the inherent lack of liquidity and the primarily long-term nature of the underlying assets. Distribution is made through the liquidation of the underlying assets. The Company views these investments as part of a long-term investment strategy. These investments are valued by each investment manager based on the underlying assets. The funds utilize valuation techniques consistent with the market, income, and cost approaches to measure the fair value of certain real estate investments. The majority of the underlying assets are valued using significant unobservable inputs and often require significant management judgment or estimation based on the best available information. Market data includes observations of the trading multiples of public companies considered comparable to the private companies being valued. Investments in limited partnerships with redemption restrictions and that use NAV 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 as a practical expedient could result in a different fair value measurement at the reporting date.

Other Benefits

At March 31, 2018 and 2017, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR") of $0.8 million and $1.2 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.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table represents the changes in the Company's AOCI for the years ended March 31, 2018 and 2017:

		Unrealized Gain (Loss) on Available-For-Sale Securities
		(in thousands of dollars)
Balance as of March 31, 2016	**$**	**943**
Other comprehensive income before reclassifications:		
Gain on investment (net of $297 tax expense)		452
Amounts reclassified from other comprehensive income:		
Gain on investment (net of $173 tax benefit) (1)		(263)
Net current period other comprehensive loss		189
Balance as of March 31, 2017	**$**	**1,132**
Other comprehensive income before reclassifications:		
Gain on investment (net of $199 tax expense)		232
Amounts reclassified from other comprehensive income:		
Gain on investment (net of $126 tax benefit) (1)		(184)
Net current period other comprehensive loss		48
Balance as of March 31, 2018	**$**	**1,180**

(1) Amounts are reported as other income, net in the accompanying statements of income.

10. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to March 31, 2018 are as follows:

(in thousands of dollars) Years Ending March 31,	
2019	$ -
2020	-
2021	186,450
2022	-
2023	106,150
Thereafter	400,000
Total	$ 692,600

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, 2018, 2017, and 2016, the Company was in compliance with all such covenants.

Debt Authorizations

Since January 12, 2015, the Company had regulatory approval from the FERC to issue up to $750 million of short-term debt, including the intercompany money pool. On October 7, 2016, the Company received approval to increase the short-term debt limit to $1.5 billion. The additional authorization is effective beginning October 15, 2016 for a period of two years and expires on October 14, 2018. The Company had no short-term debt outstanding to third-parties as of March 31, 2018 or 2017.

On May 23, 2017, the Company had received all required approvals from the Massachusetts Department of Public Utilities, New Hampshire Public Utilities Commission and Vermont Public Service Board authorizing the Company to issue up to $800 million of long term debt in one or more transactions through May 23, 2020. On November 30, 2017, the Company issued $400 million of unsecured senior long-term debt at 3.8% for $397.3 million ($2.7 million discount) with a maturity date of December 5, 2047.

Pollution Control Revenue Bonds

At March 31, 2018, the Company had $292.6 million outstanding of Pollution Control Revenue Bonds in tax-exempt commercial paper mode with maturity dates ranging from November 2020 to October 2022. The debt is remarketed at periods of 1-270 days, and had variable interest rates ranging from 0.40% to 1.13% for the year ended March 31, 2017, and 0.78% to 1.80% for the year ended March 31, 2018.

The Company has a Standby Bond Purchase Agreement ("SBPA") of $292.6 million, which was renewed in November 2014 and expires on November 20, 2019. This agreement is available to provide liquidity support for $292.6 million of the Company's Pollution Control Revenue Bonds. The Company has classified this debt as long-term due to its intent and ability to refinance the debt on a long-term basis if it is not able to remarket it. At March 31, 2018 and 2017, there were no bond purchases made by the banks participating in this agreement.

Dividend Restrictions

Pursuant to provisions in connection with prior mergers, payment of dividends on common stock are not permitted if, after giving effect to such payment of dividends, common equity becomes less than 30% of total capitalization. At March 31, 2018 and 2017, common equity was 70.7% and 77.9% of total capitalization, respectively. Under these provisions, none of the Company's retained earnings at March 31, 2018 and 2017 were restricted as to common dividends.

Cumulative Preferred Stock

The Company has certain issues of non-participating cumulative preferred stock outstanding which 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:

	March 31,		**March 31,**		**Call**
Series	**2018**	2017	**2018**	2017	**Price**
	(in thousands of dollars, except per share and number of shares data)				
$100 par value - 6.00% Series	**11,117**	11,117	**$ 1,112**	$ 1,112	Non-callable

The Company did not redeem any preferred stock during the years ended March 31, 2018, 2017, and 2016. The annual dividend requirement for cumulative preferred stock was $70 thousand for each of the years ended March 31, 2018, 2017, and 2016.

The Company received a capital contribution of $505 million on December 28, 2017.

11. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2018	2017	2016
	(in thousands of dollars)		
Current tax expense (benefit):			
Federal	**$ 29,140**	$ 12,320	$ (5,053)
State	**6,035**	4,979	(269)
Total current tax expense (benefit)	**35,175**	17,299	(5,322)
Deferred tax expense:			
Federal	**22,932**	45,492	52,764
State	**5,916**	7,066	9,173
Total deferred tax expense	**28,848**	52,558	61,937
Amortized investment tax credits [1]	**(312)**	(362)	(372)
Total deferred tax expense	**28,536**	52,196	61,565
Total income tax expense	**$ 63,711**	$ 69,495	$ 56,243

[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, 2018, 2017, and 2016 are 36.3%, 39.7%, and 40.2%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 31.55%, 35%, and 35%, respectively, to the actual tax expense:

	Years Ended March 31,		
	2018	2017	2016
	(in thousands of dollars)		
Computed tax	**$ 55,308**	$ 61,328	$ 48,983
Change in computed taxes resulting from:			
Investment tax credits	**(312)**	(362)	(372)
State income tax, net of federal benefit	**8,168**	7,829	5,788
Other items, net	**547**	700	1,844
Total changes	**8,403**	8,167	7,260
Total income tax expense	**$ 63,711**	$ 69,495	$ 56,243

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% to 21% effective January 1, 2018 and the limitation of the net operating loss deduction for net operating losses generated in tax years starting after December 31, 2017 to 80% of taxable income with an indefinite carryforward period. The Tax Act provisions related to regulated public utilities eliminate bonus depreciation for certain property acquired or placed in service after September 27, 2017 and extended the normalization requirements for ratemaking treatment of excess deferred taxes.

On August 3, 2018, the Internal Revenue Service and the US Department of Treasury released proposed regulations associated with the expanded depreciation rules under Section 168(k) enacted as part of the Tax Act. The Company is evaluating the potential impact of the proposed regulations and will include a potential adjustment to its financial statements in the next fiscal year when final regulations are issued

In accordance with Accounting Standards Codification ("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, is a blended tax rate of 31.55%. In subsequent periods, the federal income tax rate will be 21%. 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%.

The Company recognized a decrease in its net deferred income tax liability in the amount of $206.5 million with $0.4 million of the remeasurement recorded to deferred income tax expense and $206.9 million recorded as a regulatory liability for the refund of excess deferred income taxes to the ratepayers.

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. The FASB staff subsequently issued guidance stating that private companies may apply SAB 118 to the financial statements. 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. 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. If a company cannot determine a provisional amount, the company should continue to apply existing accounting guidance for income taxes based on provisions of the tax laws that were in effect immediately prior to the enactment of the Tax Act.

The Company has made a reasonable estimate for the measurement and accounting of the effects of the Tax Act which has been reflected in the March 31, 2018 financial statements based on management's interpretation of the Tax Act and information available. The items reflected as provisional amounts are related to accelerated depreciation for tax purposes of certain property placed in service after September 27, 2017, the allocation of excess deferred taxes between customers and shareholders, and certain property related temporary differences. The final impact may differ from the recorded amounts to the extent refinements are made as a result of changes in management's interpretations and assumptions, additional guidance or technical corrections that may be issued.

Deferred Tax Components

	March 31, 2018	March 31, 2017
	(in thousands of dollars)	
Deferred tax assets:		
Future federal benefit on state taxes	**$ 13,083**	$ 26,510
Net operating losses	**15,325**	25,191
Regulatory liabilities - taxes	**75,972**	-
Regulatory liabilities - other	**14,001**	21,533
Reserve - nuclear and decommissioning	**2,058**	4,453
Other items	**1,701**	7,386
Total deferred tax assets	**122,140**	85,073
Deferred tax liabilities:		
Property related differences	**413,230**	604,783
Regulatory assets - postretirement benefits	**15,973**	25,770
Regulatory assets - other	**2,909**	14,385
Other items	**9,481**	11,952
Total deferred tax liabilities	**441,593**	656,890
Net deferred income tax liabilities	**319,453**	571,817
Deferred investment tax credits	**2,395**	2,708
Deferred income tax liabilities, net	**$ 321,848**	$ 574,525

Net Operating Losses

The amounts and expiration dates of the Company's net operating losses carryforward as of March 31, 2018 are as follows:

	Carryfoward Amount *(in thousands of dollars)*	Expiration Period
Federal	**$ 72,607**	**2033-2036**
Massachusetts	**18,280**	**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 deductions, net, in the accompanying statements of income. As of March 31, 2018, 2017, and 2016, the Company has accrued for interest related to unrecognized tax benefits of $2 million, $1.3 million, and $1 million, respectively. During years ended March 31, 2018, 2017, and 2016, the Company recorded interest expense of $0.7 million, $0.3 million, and $0.3 million, respectively. No tax penalties were recognized during the years ended March 31, 2018, 2017, or 2016.

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.

The Company is included in NGNA and subsidiaries' administrative appeal with the Internal Revenue Service ("IRS") related to the issues disputed in the examination cycles for the years ended March 31, 2008 and March 31, 2009. The Company is expecting to reach a settlement with the IRS in the next fiscal year. The Company does not believe that the outcome of the settlement will have a material impact to its results of operations, financial position, or cash flows. The IRS continues its examination of the next cycle which includes income tax returns for the years ended March 31, 2010 through March 31, 2012. The examination is not expected to conclude in the next fiscal year. The income tax returns for the years ended March 31, 2013 through March 31, 2018 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, 2018 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

12. ENVIRONMENTAL MATTERS

The normal ongoing operations and historic activities of the Company are subject to various federal, state, and local environmental laws and regulations. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without regard to fault, even if the activities were lawful when they occurred. The Company is currently investigating and remediating, as necessary, those Manufactured Gas Plant sites and certain other properties under agreements with the Environmental Protection Agency. Expenditures incurred for the years ended March 31, 2018, 2017, and 2016 were $2.8 million, $0.2 million, and $0.2 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $2.9 million and $7.6 million at March 31, 2018 and 2017, respectively. In 2018, the Company reduced the obligation, primarily due to new information on the Salem Harbor site. These costs are expected to be incurred over approximately 33 years. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

As of March 31, 2018 and 2017, the Company has recorded environmental regulatory assets of $3.0 million and $6.2 million, respectively.

The Company is currently conducting a program to investigate and remediate, as necessary to meet current environmental standards, certain properties which the Company has learned may be contaminated with industrial waste as to which it may be determined that the Company has contributed. The Company has also been advised that various federal, state, or local agencies believe certain properties require investigation and has prioritized the sites based on available information in order to enhance the management of investigation and remediation, if necessary.

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.

13. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

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

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.

FERC ROE Complaints

On October 16, 2014, in response to a complaint initially filed on September 30, 2011 by several state and municipal parties in New England ("Complainants") against the base ROE earned by certain New England Transmission Owners ("NETOs") including the Company, the FERC issued a final order in Opinion No. 531-A lowering the base ROE from 11.14% to 10.57% for the NETOs effective as of October 16, 2014, and capped the ROE, including incentives, at 11.74%. The FERC also directed that refunds be issued to transmission customers taking service during the 15-month refund period from October 1, 2011 through December 31, 2012 to reflect these reductions. 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 July 18, 2015, the FERC approved an amended tariff compliance filing submitted by the NETOs in response to Opinion No. 531-B. This order constitutes final FERC action on the first ROE complaint. By December 31, 2015, the Company's total refund obligation of approximately $9.2 million for the periods October 1, 2011 through December 31, 2012, and October 16, 2014 through December 31, 2014, was returned to customers, followed by refund compliance reports being submitted to the FERC. The NETOs, including the Company, have appealed certain aspects of the FERC's orders in the first ROE complaint to the Court of Appeals.

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 FERC had lowered NETO return on equity from 11.14% to 10.57% and capped the total incentives at 11.74%. The Court of Appeals rejected Opinion No. 531 for two principle reasons. First, under section 206, FERC is required to make a showing that the existing rate is unjust and unreasonable. The Court of Appeals found that while FERC had performed a discounted cash flow ("DCF") analysis in determining a new zone of reasonableness and new ROE, they used the results of that analysis and ROE to find the existing ROE to be unjust and unreasonable. Without a showing that an existing rate is unlawful, FERC has no authority to impose a new rate. Second, the court found that FERC failed to explain adequately its decision to set the new ROE at the midpoint of the DCF zone's upper half. While the court did not find fault with FERC's reliance on a DCF analysis, including the use of alternative benchmarks, they did find that FERC had failed to adequately explain how it relied on this methodology to reach the specific determinations. Subsequent to the Court's findings vacating the previously approved orders on New England ROE Complaint 1, the NETOs proposed to revert to the previously approved ROE 60-days after FERC had a quorum again. In October 2017, FERC rejected our proposed filing to revert to the previous allowed base ROE of 11.14%. In that order, FERC stated that its rejection of this filing will not make the NETOs "any worse off" because FERC has broad remedial authority to re-set the ROE for all relevant periods when it issues its order on remand from the Court of Appeals. In order to preserve our rights for future appeals, National Grid and the other NETOs filed a motion for rehearing regarding the FERC's finding prohibiting the NETOs from returning to the 11.14% base ROE prior to a remand order. To date, FERC has not issued an order on remand from the Court's decision.

On October 5, 2017, the NETOs filed an Omnibus Motion that included three requests; first a request for dismissal of the four complaints because the complainants had not met their burden for such a complaint as clarified by the Court of Appeals, second if the FERC did not dismiss the four complaints, then we requested consolidation of the four complaints, and lastly a motion for stay of the hearing then scheduled for ROE Complaint 4, currently before a FERC Administrative Law Judge, pending FERC's order on remand regarding the Court's finding on Opinion 531. FERC has not yet acted on the Omnibus Motion.

The FERC Administrative Law Judge held a hearing on ROE Complaint 4 in December 2017. After considering briefs submitted by all parties in January and February, the Administrative Law Judge issued an initial decision on ROE Complaint 4 in late March 2018, finding that the current base NE ROE of 10.57% is not unjust and unreasonable. This initial decision has no impact on rates until FERC issues an order responding to the initial decision, likely no earlier than early 2019.

In October 2016, National Grid and the other NETOs filed a request for rehearing of FERC's decision to set ROE Complaint 4 for hearing. On January 18, 2018, FERC rejected that rehearing request and a similar rehearing request filed by Edison Electric Institute ("EEI"). FERC rejected arguments that allowing pancaked ROE complaints to go to hearing violates the 15 month refund limit for such complaints under federal law.

On December 27, 2012, a second ROE complaint was filed against the NETOs by a coalition of consumers seeking to lower the base ROE for New England transmission rates to 8.7% effective as of December 27, 2012. On June 19, 2014, the FERC issued an order setting the complaint for investigation and a trial-type, evidentiary hearing. The FERC stated that it expected parties to present evidence and any discounted cash flow analyses, as guided by the rulings found in the FERC's June 19 order on the first complaint. The FERC's order also established a 15-month refund period for the second complaint beginning on December 27, 2012.

On July 31, 2014, a third ROE complaint was filed against the NETOs by complainants seeking to lower the base ROE for New England transmission rates to 8.84% effective as of July 31, 2014. On November 24, 2014, the FERC issued an order consolidating this complaint with the second ROE complaint discussed above, setting both matters for investigation and a trial-type, evidentiary hearing on a consolidated basis. The FERC's order established a 15-month refund period for the third ROE complaint beginning on July 31, 2014 and determined that it would be appropriate for the parties to litigate a separate ROE for the two separate refund periods established by each of the complaints. Hearings in this proceeding were held in February 2016.

On March 25, 2016, an Administrative Law Judge ("ALJ") released his decision on the second and third ROE complaints. The ALJ found that the NETOs' base ROE should be reduced to 9.59% for the first period at issue (December 27, 2012 through March 26, 2014); accordingly, the Company recorded a liability of $27.3 million for this refund in other current liabilities. The ALJ also noted that the ROE should be increased to 10.90% for the second period (July 31, 2014 through October 30, 2015, and prospectively after the FERC issues an order on this decision); accordingly, the Company recorded a liability for this refund in Miscellaneous Current and Accrued Liabilities (account 242). The new ROEs resulting from the second and third ROE complaints will not go into effect until the FERC issues an order addressing the ALJ's decision.

FERC 206 Proceeding on Rate Transparency

On December 28, 2015, the FERC initiated a proceeding under Section 206 of the FPA. The FERC found that the ISO-NE Transmission, Markets, and Services Tariff is unjust, unreasonable, and unduly discriminatory or preferential. The FERC found that ISO-NE's Tariff lacks adequate transparency and challenge procedures with regard to the formula rates for ISO-NE Participating Transmission Owners ("PTOs"). In addition, the FERC found that the ISO-NE PTOs', including the Company's, current RNS and Local Network Service ("LNS") formula rates appear to be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful. The FERC explained that the formula rates appear to lack sufficient detail in order to determine how certain costs are derived and recovered in the formula rates. Accordingly, the FERC established hearing and settlement judge procedures to develop just and reasonable formula rate protocols to be included in the ISO-NE Tariff and to examine the justness and reasonableness of the RNS and LNS rates. The matter is currently in settlement procedures. At this time, the Company is unable to predict and estimate any impact to earnings.

Decommissioning Nuclear Units

The Company is a minority equity owner of, and former purchaser of electricity from, the Yankees. The Yankees have been permanently shut down and physically decommissioned. Spent nuclear fuel remains on each site awaiting fulfillment by the DOE of its statutory and contractual obligation to remove it. Future estimated billings, which are included in accrued

Yankee nuclear plant costs and other current liabilities and exactly offset by a component of regulatory assets - deferred in the accompanying balance sheets, are as follows:

(in thousands of dollars)	The Company's Investment as of March 31, 2018			Future Estimated Billings to the Company
Unit	%	Amount	Date Retired	Amount
Yankee Atomic	34.5	$ 515	Feb 1992	$ -
Connecticut Yankee	19.5	370	Dec 1996	4,358
Maine Yankee	24.0	562	Aug 1997	3,009

The Yankees are periodically required to file rate cases for FERC review, which present the Yankees' estimated future decommissioning costs. The Yankees collect the approved costs from their purchasers, including the Company. Future estimated billings from the Yankees are based on cost estimates. These estimates include the projections of groundwater monitoring, security, liability and property insurance, and other costs. They also include costs for interim spent fuel storage facilities which the Yankees have constructed while they await removal of the fuel by the DOE as required by the Nuclear Waste Policy Act of 1982 and contracts between the DOE and each of the Yankees. The Company has recorded a current liability of $119 thousand and $40 thousand (included within other current liabilities) as of March 31, 2018 and 2017, respectively, which represents the current portion of accrued Yankee nuclear plant costs. As of March 31, 2018 and 2017, the Company has recorded a deferred liability of $7.2 million and $10.6 million (included within accrued Yankee nuclear plant costs), respectively. The sum of the current and deferred liabilities is offset by a regulatory asset of $7.4 million and $10.6 million (included within regulatory assets - deferred) as of March 31, 2018 and 2017, respectively, reflecting the estimated future decommissioning billings from the Yankees.

In 2013, the FERC accepted settlements establishing rate mechanisms by which each of the Yankees maintains funding for operations and decommissioning, and credits to its purchasers, including the Company, any net proceeds in excess of funding costs received as part of the DOE litigation proceedings discussed below.

Each of the Yankees brought litigation against the DOE for failure to remove their respective nuclear fuel stores as required by the Nuclear Waste Policy Act and contracts. Following a trial at the U.S. Court of Claims ("Claims Court") to determine the level of damages, on October 4, 2006, the Claims Court awarded the three companies an aggregate of $143 million for spent fuel storage costs that had been incurred through 2001 and 2002 (the "Phase I Litigation"). The Yankees had requested $176.3 million. The DOE appealed to the U.S. Court of Appeals for the Federal Circuit, which rendered an opinion generally supporting the Claims Court's decision and remanded the matter to it for further proceedings. In September 2010, the Claims Court again awarded the companies an aggregate of approximately $143 million. The DOE again appealed and the Yankees cross-appealed. On May 18, 2012, the U.S. Court of Appeals for the Federal Circuit again ruled in favor of the Yankees, awarding them an aggregate of approximately $160 million. The DOE sought reconsideration, but, on September 5, 2012, the U.S. Court of Appeals for the Federal Circuit denied the petition for rehearing. The DOE elected not to file a petition for writ of certiorari seeking review by the U.S. Supreme Court and in January 2013 the awards were paid to the Yankees.

As of March 31, 2018, total Phase I net proceeds of $25.6 million have been refunded to the Company by Connecticut Yankee and Maine Yankee. Yankee Atomic did not provide a refund, but reduced monthly billing effective June 1, 2013. The Company refunds its share to its customers through the contract termination charges ("CTCs").

On December 14, 2007, the Yankees brought further litigation in the Claims Court to recover subsequent damages incurred through 2008 (the "Phase II Litigation"). A Claims Court trial took place in October 2011. On November 1, 2013, the judge awarded the Yankees an aggregate of $235.4 million in damages for the Phase II Litigation. The DOE elected not to seek appellate review, and the awards were paid to the Yankees. In March 2014, Maine Yankee and Yankee Atomic received 100% of the DOE Phase II proceeds expected ($35.8 million and $73.3 million, respectively). Connecticut Yankee received a partial payment of $90 million of the expected $126.3 million. The balance was received in April 2014.

On April 29, 2014, the Yankees submitted informational filings to the FERC in order to flow through the DOE Phase II Litigation proceeds to their Sponsor companies, including the Company, in accordance with financial analyses that were performed earlier that year and supported by stakeholders from Connecticut, Massachusetts, and Maine. The filings allowed for the flow through of the proceeds to the Sponsors, including the Company, with a rate effective date of June 1, 2014. As of March 31, 2018, total Phase II net proceeds of $57.8 million have been refunded to the Company by the Yankees. The Company refunds its share of the net proceeds to its customers through the CTCs.

On August 15, 2013, the Yankees brought further litigation (the "Phase III Litigation") in the Claims Court to recover damages incurred from 2009 through 2012. On March 25, 2016, the judge awarded the Yankees an aggregate of $76.8 million in damages for the Phase III Litigation, which is about 98.6% of the damages sought. The judgment is final and payment to the Yankees has been completed. As of March 31, 2018, total Phase III net proceeds of $4.5 million have been refunded to the Company by Connecticut Yankee and Maine Yankee. The Company refunds its share to its customers through the CTCs.

On May 22, 2017, the Yankees brought further litigation (the "Phase IV Litigation") in the Claims Court to recover damages totaling approximately $100 million incurred from 2013 through 2016. Discovery is continuing. Trial is scheduled for January 29 and 30, 2019.

The U.S. Congress and the DOE have effectively terminated budgetary support for the proposed long-term spent fuel storage facility at Yucca Mountain in Nevada, and in 2010 the DOE took actions designed to prevent its construction. However, on August 12, 2013, the U.S. Court of Appeals for the DC Circuit ("DC Circuit Court") directed the Nuclear Regulatory Commission ("NRC") to resume the Yucca Mountain licensing process despite insufficient funding to complete it. On October 28, 2013, the DC Circuit Court denied the NRC's petition for rehearing. On November 18, 2013, the NRC ordered its staff to resume work on its Yucca Mountain safety report. However, scarce funding has precluded progress in the licensing process. A proposal to provide funding for the resumption of pursuit of NRC licensing of the Yucca Mountain facility is pending Congress. A Blue Ribbon Commission ("BRC") charged with advising the DOE regarding alternatives to disposal at Yucca Mountain issued its final report on January 26, 2012. In the report, the BRC recommended that priority be given to removal of spent fuel from shutdown reactor sites. Private entities have initiated proposals, and submitted license applications to the NRC, to site consolidated interim storage facilities at two locations in the southwestern United States. It is impossible to predict when the DOE will fulfill its obligation to take possession of the Yankees' spent fuel. The decommissioning costs that are actually incurred by the Yankees may substantially exceed the estimated amounts.

14. 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 net 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,	
	2018	2017	2018	2017
	(in thousands of dollars)			
NGUSA	**$ 392**	$ 2,245	**$ 245**	$ -
NGUSA Service Company	**-**	-	**11,831**	12,904
Massachusetts Electric Company	**3,530**	5,054	**4,183**	-
National Grid Glenwood Energy Center	**2,116**	2,116	**-**	-
The Narragansett Electric Company	**5,413**	-	**27,666**	5,796
Other	**811**	391	**871**	402
TOTAL	**$ 12,262**	$ 9,806	**$ 44,796**	$ 19,102

For the years ended March 31, 2018 and 2017, approximately 77% and 83% of the Company's local transmission service, respectively, was provided to Massachusetts Electric Company ("MECO") and The Narragansett Electric Company ("NECO"). The Company's intercompany payable is primarily due to charges made by MECO and NECO for the use of their transmission facilities as per the Integrated Facilities Agreement.

Advance from Affiliate

In December 2008, the Company entered into an agreement with NGUSA whereby the Company can borrow up to $400 million from time to time for working capital needs. The advance is non-interest bearing. At March 31, 2018 and 2017, the Company had no outstanding advance from affiliate.

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 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, and accounts receivable from affiliates and accounts payable to affiliates balances, are reflected as investing or financing activities in the accompanying statements of cash flows. In addition, 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. Collectively, NGUSA and its subsidiary, KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs, including funding of the Regulated Money Pool, if necessary. The Company had short-term intercompany money pool investments of $208.8 million and $0 at March 31, 2018 and 2017, respectively; and money pool borrowings of $0 and $661.7 million at March 31, 2018 and 2017, respectively. The average interest rates for the intercompany money pool were 1.6%, 1.1%, and 0.7% for the years ended March 31, 2018, 2017, and 2016, 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, including but not limited to non-power goods and services, to the Company for the years ended March 31, 2018, 2017, and 2016 were $101.4 million, $115.1 million, and $111.4 million, respectively.