

Boston Gas Company
d/b/a National Grid

Financial Statements

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

BOSTON GAS COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Boston Gas Company

We have audited the accompanying financial statements of Boston Gas 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 shareholder's 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 Boston Gas 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 July 21, 2017, expressed an unmodified opinion on those statements.

Deloitte + Touche LLP

August 27, 2018

BOSTON GAS COMPANY
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2018	2017	2016
Operating revenues	\$ 1,251,739	\$ 1,066,378	\$ 985,466
Operating expenses:			
Purchased gas	484,267	349,144	310,165
Operations and maintenance	394,504	371,801	346,721
Depreciation	160,312	148,941	139,400
Other taxes	59,970	55,210	53,454
Total operating expenses	1,099,053	925,096	849,740
Operating income	152,686	141,282	135,726
Other income and (deductions):			
Interest on long-term debt	(41,587)	(31,479)	(32,657)
Other interest, including affiliate interest	(1,067)	5,407	6,235
Other income (deductions), net	6,798	(6,609)	(1,658)
Total other deductions, net	(35,856)	(32,681)	(28,080)
Income before income taxes	116,830	108,601	107,646
Income tax expense	42,896	43,998	43,899
Net income	\$ 73,934	\$ 64,603	\$ 63,747

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

BOSTON GAS COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2018	2017	2016
Net income	\$ 73,934	\$ 64,603	\$ 63,747
Other comprehensive (loss) income, net of taxes:			
Unrealized (losses) gains on securities	(3)	5	(14)
Total other comprehensive (loss) income	(3)	5	(14)
Comprehensive income	\$ 73,931	\$ 64,608	\$ 63,733
Related tax (expense) benefit:			
Unrealized gains or losses on securities	\$ 1	\$ (3)	\$ 9
Total tax benefit (expense)	\$ 1	\$ (3)	\$ 9

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

BOSTON GAS COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2018	2017	2016
Operating activities:			
Net income	\$ 73,934	\$ 64,603	\$ 63,747
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	160,312	148,941	139,400
Provision for deferred income taxes	48,436	36,815	41,683
Bad debt expense	17,750	20,564	20,933
Net postretirement benefits expense	3,742	3,234	2,318
Environmental remediation payments	(1,688)	(6,268)	(4,824)
Changes in operating assets and liabilities:			
Accounts receivable and other receivable, net, and unbilled revenues	(103,719)	(81,804)	116,019
Inventory	(1,377)	9,926	(6,904)
Regulatory assets and liabilities, net	(7,119)	14,314	(47,288)
Derivative instruments	(5,340)	(2,772)	(9,097)
Prepaid and accrued taxes	2,290	(8,350)	(18,764)
Accounts payable and other liabilities	17,116	15,599	(22,673)
Other, net	(4,699)	(1,571)	841
Net cash provided by operating activities	<u>199,638</u>	<u>213,231</u>	<u>275,391</u>
Investing activities:			
Capital expenditures	(495,594)	(424,457)	(321,163)
Cost of removal	(36,784)	(31,950)	(22,325)
Net cash used in investing activities	<u>(532,378)</u>	<u>(456,407)</u>	<u>(343,488)</u>
Financing activities:			
Payments on long-term debt	(8,000)	(10,000)	(10,000)
Proceeds from long-term debt	499,561	-	-
Payment of debt issuance costs	(2,000)	-	-
Intercompany money pool and affiliated receivables/payables, net	(429,167)	253,733	67,721
Equity infusion from Parent	270,000	-	-
Parent tax loss allocation	-	-	12,774
Net cash provided by financing activities	<u>330,394</u>	<u>243,733</u>	<u>70,495</u>
Net (decrease) increase in cash and cash equivalents	(2,346)	557	2,398
Cash and cash equivalents, beginning of year	5,455	4,898	2,500
Cash and cash equivalents, end of year	<u>\$ 3,109</u>	<u>\$ 5,455</u>	<u>\$ 4,898</u>
Supplemental disclosures:			
Interest paid	(43,120)	(31,558)	(32,721)
Income taxes refunded (paid)	11,427	202	(6,381)
Significant non-cash items:			
Capital-related accruals	19,064	26,253	22,984

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

BOSTON GAS COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,109	\$ 5,455
Accounts receivable	329,062	248,102
Allowance for doubtful accounts	(47,159)	(47,092)
Accounts receivable from affiliates	8,928	9,013
Unbilled revenues	82,405	77,329
Inventory	49,017	47,640
Regulatory assets	125,443	110,211
Derivative instruments	9,606	3,425
Other	6,853	7,532
Total current assets	567,264	461,615
Property, plant and equipment, net	3,493,316	3,088,771
Other non-current assets:		
Regulatory assets	114,236	138,707
Accounts receivable from affiliates - deferred	-	2,605
Goodwill	396,322	396,322
Derivative instruments	33	-
Postretirement benefits asset	35,136	-
Other	579	664
Total other non-current assets	546,306	538,298
Total assets	\$ 4,606,886	\$ 4,088,684

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

BOSTON GAS COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2018	2017
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	\$ 62,755	\$ 58,705
Accounts payable to affiliates	28,889	34,116
Current portion of long-term debt	20,000	8,000
Taxes accrued	1,235	897
Customer deposits	1,393	1,833
Interest accrued	9,597	7,304
Regulatory liabilities	47,950	37,221
Intercompany money pool	167,469	591,494
Derivative instruments	1,683	1,183
Payroll and benefits accruals	15,578	13,295
Other	6,740	5,132
Total current liabilities	363,289	759,180
Other non-current liabilities:		
Regulatory liabilities	906,414	611,181
Asset retirement obligations	14,949	15,012
Deferred income tax liabilities, net	307,966	528,493
Postretirement benefits	69,616	51,611
Environmental remediation costs	39,089	40,371
Derivative instruments	4,182	3,808
Other	47,120	46,397
Total other non-current liabilities	1,389,336	1,296,873
Commitments and contingencies (Note 12)		
Capitalization:		
Shareholder's equity	1,777,888	1,433,957
Long-term debt	1,076,373	598,674
Total capitalization	2,854,261	2,032,631
Total liabilities and capitalization	\$ 4,606,886	\$ 4,088,684

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

BOSTON GAS COMPANY
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2018	2017
Total shareholder's equity			\$ 1,777,888	\$ 1,433,957
Long-term debt:	Interest Rate	Maturity Date		
<i>Unsecured notes:</i>				
Senior Note	4.49%	February 15, 2042	500,000	500,000
Senior Note	3.15%	August 1, 2027	500,000	-
<i>Medium Term Notes ("MTN")</i>				
MTN Series 1992 A	8.33%	July 10, 2017	-	8,000
MTN Series 1992 A	8.33%	July 10, 2018	10,000	10,000
MTN Series 1994 B	6.93%	January 15, 2019	10,000	10,000
MTN Series 1989 A	8.97%	December 15, 2019	7,000	7,000
MTN Series 1990 A	9.75%	December 1, 2020	5,000	5,000
MTN Series 1990 A	9.05%	September 1, 2021	15,000	15,000
MTN Series 1992 A	8.33%	July 5, 2022	10,000	10,000
MTN Series 1995 C	6.95%	December 1, 2023	10,000	10,000
MTN Series 1994 B	6.98%	January 15, 2024	6,000	6,000
MTN Series 1995 C	6.95%	December 1, 2024	5,000	5,000
MTN Series 1995 C	7.25%	October 1, 2025	20,000	20,000
MTN Series 1995 C	7.25%	October 1, 2025	5,000	5,000
Total debt			1,103,000	611,000
Unamortized debt discount			(439)	-
Unamortized debt issuance costs			(6,188)	(4,326)
Current portion of long-term debt			(20,000)	(8,000)
Long-term debt			1,076,373	598,674
Total capitalization			\$ 2,854,261	\$ 2,032,631

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

BOSTON GAS COMPANY
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
(in thousands of dollars)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)		Retained Earnings	Total
			Unrealized Gain (Loss) on Available- For-Sale Securities	Total Accumulated Other Comprehensive Income (Loss)		
Balance as of March 31, 2015	\$ 51,418	\$ 962,670	\$ 81	\$ 81	\$ 278,673	\$ 1,292,842
Net income	-	-	-	-	63,747	63,747
Other comprehensive loss:						
Unrealized losses on securities, net of \$9 tax benefit	-	-	(14)	(14)	-	(14)
Parent tax loss allocation	-	12,774	-	-	-	12,774
Balance as of March 31, 2016	\$ 51,418	\$ 975,444	\$ 67	\$ 67	\$ 342,420	\$ 1,369,349
Net income	-	-	-	-	64,603	64,603
Other comprehensive income:						
Unrealized gains on securities, net of \$3 tax expense	-	-	5	5	-	5
Balance as of March 31, 2017	\$ 51,418	\$ 975,444	\$ 72	\$ 72	\$ 407,023	\$ 1,433,957
Net income	-	-	-	-	73,934	73,934
Other comprehensive loss:						
Unrealized losses on securities, net of \$1 tax benefit	-	-	(3)	(3)	-	(3)
Equity infusion from Parent	-	270,000	-	-	-	270,000
Balance as of March 31, 2018	\$ 51,418	\$ 1,245,444	\$ 69	\$ 69	\$ 480,957	\$ 1,777,888

The Company had 514,184 shares of common stock authorized, issued and outstanding, with a par value of \$100 per share at March 31, 2018 and 2017.

BOSTON GAS COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Boston Gas Company d/b/a National Grid (“the Company”) is a gas distribution company engaged in the transportation and sale of natural gas to approximately 697,000 residential, commercial and industrial customers in the City of Boston, Essex County, and other communities in eastern and central Massachusetts.

At March 31, 2018, the Company was a wholly-owned subsidiary of KeySpan Corporation (“KeySpan” or the “Parent”), which was a wholly-owned subsidiary of National Grid USA (“NGUSA”), 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. Effective April 30, 2018 KeySpan merged into NGUSA and from that point forward the Company is a wholly-owned subsidiary of NGUSA. Since the merger occurred post fiscal year-end, the intercompany relationships between the Company and KeySpan were still in effect at March 31, 2018. As such, the disclosures in these financial statements and footnotes reflect those relationships that existed at March 31, 2018. NGUSA management is currently reviewing the relationships between KeySpan and all NGUSA subsidiaries and will make the appropriate adjustments to these relationships during the next fiscal year.

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.

For the year ended March 31, 2016, parent tax loss allocations in the amount of \$12.8 million was reported under financing activities in the accompanying statements of cash flows.

As of December 31, 2017 and 2016, the accounts payable to affiliates was netted against intercompany money pool in order to reflect the settlement of outstanding pension-related intercompany balances through the money pool.

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 Massachusetts Department of Public Utilities (“DPU”) regulates the rates the Company charges its customers. In certain cases, the rate actions of the DPU can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. Regulatory assets and liabilities are reflected in the balance sheet consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

Revenues are recognized for gas distribution services provided on a monthly billing cycle basis. The Company records unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the accounting period.

With respect to base distribution rates, the DPU has approved a Revenue Decoupling Mechanism ("RDM"), which requires the Company to adjust its base rates semi-annually to reflect the over or under recovery of the Company's allowed revenues per customer from the prior peak (November – April) and off-peak (May – October) seasons.

The Company's tariff includes a cost of gas adjustment factor ("CGAF") which requires the Company to adjust firm gas sales rates semi-annually or monthly, in order to track changes in the cost of gas and other operating expenses. The CGAF includes a prior period reconciliation for the over or under recovery of actual costs and collections incurred during the prior peak and off peak seasons.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues).

Income Taxes

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

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

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

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. The collectability of receivables is continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible. The Company recorded bad debt expense of \$17.8 million, \$20.6 million and \$20.9 million for the years ended March 31, 2018, 2017 and 2016, respectfully, within operations and maintenance in the statements of income.

Inventory

Inventory is comprised of materials and supplies as well as gas in storage. Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized as used. 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 or 2016.

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

The Company had materials and supplies of \$15.8 million and \$16.7 million and gas in storage of \$33.2 million and \$30.9 million at March 31, 2018 and 2017, respectively.

Derivative Instruments

The Company uses derivative instruments to manage commodity price risk. All derivative instruments are recorded on the balance sheet at their fair value. All commodity costs, including the impact of derivative instruments, are passed on to customers through the Company's gas cost adjustment mechanisms. Therefore, gains or losses on the settlement of these contracts are initially deferred and then refunded to, or collected from, customers consistent with regulatory requirements.

The Company's accounting policy is to not offset fair value amounts recognized for derivative instruments and related cash collateral receivable or payable with the same counterparty under a master netting agreement, but rather to record and present the fair value of the derivative instrument on a gross basis, with related cash collateral recorded within restricted cash and special deposits on the balance sheet. There was no related cash collateral as of March 31, 2018 or 2017.

Natural Gas Long-Term Arrangements

The Company enters into long-term gas contracts to procure commodity to serve its gas customers. Those contracts include Asset Management Agreements, Baseload, and Peaking gas contracts. The Company evaluates whether such agreements are derivative instruments or executory contracts. Gas arrangements that do not qualify as derivatives are accounted as executory contracts and are, therefore, recognized as the gas is purchased.

Fair Value Measurements

The Company measures derivative instruments and 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; and
- Level 3: unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs.
- Not categorized: certain investments are not categorized within the fair value hierarchy. These investments are 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 DPU. The average composite rates for the years ended March 31, 2018, 2017 and 2016 are as follows:

	<u>Years Ended March 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Composite rates	4.4%	3.9%	4.2%

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 liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of \$644.8 million and \$608.2 million at March 31, 2018 and 2017, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the statements of income as non-cash income in other deductions, net, and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of \$3.1 million for the year ended March 31, 2018 and had no AFUDC related to equity for each of the years ended March 31, 2017 and 2016. The Company recorded \$2.9 million, \$1.0 million and \$0.5 million of AFUDC related to debt for the years ended March 31, 2018, 2017 and 2016, respectively. The average AFUDC rates for the years ended March 31, 2018, 2017 and 2016 were 3.1%, 1.0% and 0.7%, respectively.

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 issued “Intangibles—Goodwill and Other (Topic 350)” which eliminates step two from the two-step goodwill impairment test required under the current standard. The one-step approach requires a recoverability test performed based on the comparison of the Company’s estimated fair value with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is 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.

Historically the fair value of the Company was calculated for the annual goodwill impairment test utilizing both the income and market based approaches. For the year ended March 31, 2018, the fair value of the Company was calculated utilizing solely the income approach. The Company believes that due to the recent rate case filing currently in process with its regulator, this approach provides the most reliable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment to 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 other non-current assets 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 gas distribution 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 obligation are recorded as increases to regulatory assets on the balance sheets. 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
	<i>(in thousands of dollars)</i>	
Balance as of the beginning of the year	\$ 15,012	\$ 14,311
Accretion expense	1,024	929
Liabilities settled	<u>(224)</u>	<u>(228)</u>
Balance as of the end of the year	<u>\$ 15,812</u>	<u>\$ 15,012</u>

The Company had a current portion of asset retirement obligations of \$0.9 million included in other current liabilities on the balance sheets at both March 31, 2018 and March 31, 2017.

Employee Benefits

The Company participates with other KeySpan 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.

Supplemental Executive Retirement Plans

The Company has corporate assets included in other non-current assets on the balance sheet representing funds designated for Supplemental Executive Retirement Plans. These funds are invested in corporate owned life insurance policies and available-for-sale securities primarily consisting of equity investments and investments in municipal and corporate bonds. The corporate owned life insurance investments are measured at cash surrender value with increases and decreases in the value of these assets recorded in the accompanying statements of income.

Going Concern

Current US 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 Adopted in Fiscal Year 2018

Measurement of Inventory

In July 2015, the 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. 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, 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 annual goodwill impairment testing. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment to the goodwill carrying value was required at March 31, 2018 or 2017.

Derivatives and Hedging

In March 2016, the FASB issued ASU No. 2016-05, "Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships." This update clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under Accounting Standards Codification ("ASC") 815, "Derivatives and Hedging," does not require dedesignation of that hedging relationship provided that all other hedge accounting criteria in accordance with ASC 815-20-35 through ASC 815-35-18 continue to be met. The application of this guidance did not have a material impact on the results of operations, cash flows, or financial position of the Company.

Accounting Guidance Not Yet Adopted

Derivatives and Hedging

In August 2017, the FASB issued ASU No. 2017-12, "Targeted Improvements to Accounting for Hedging Activities," which will be effective for the fiscal year ended March 31, 2020, with early adoption permitted. The amendments in this update expand and refine hedge accounting for both financial and nonfinancial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. This update also includes changes to certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The Company is currently evaluating the impact of the new guidance on the results of its operations, cash flows, and financial position.

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. In addition, only the service cost component will be eligible for capitalization when applicable, on a prospective 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 defers the difference between actual pension costs and the amounts used to establish rates (See Note 8, "Employee Benefits" for additional details).

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, cash equivalents, restricted cash, and restricted 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 therein, 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, including interim periods therein, 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 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 thereafter, with early adoption permitted for fiscal years or interim periods that have not yet been issued. The application of this guidance 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
<i>(in thousands of dollars)</i>		
Regulatory assets		
Current:		
Gas costs adjustment	\$ 106,256	\$ 97,551
Local distribution adjustment clause	4,668	10,114
Rate adjustment mechanisms	12,568	-
Other	1,951	2,546
Total	<u>125,443</u>	<u>110,211</u>
Non-current:		
Asset retirement obligation	10,885	9,938
Capital tracker	22,181	14,725
Environmental response costs	58,842	59,536
Postretirement benefits	21,561	39,829
Regulatory deferred tax asset, net	-	14,522
Other	767	157
Total	<u>114,236</u>	<u>138,707</u>
Regulatory liabilities		
Current:		
Derivative instruments	\$ 3,774	\$ -
Profit sharing	21,672	36,638
Revenue decoupling mechanism	22,504	-
Other	-	583
Total	<u>47,950</u>	<u>37,221</u>
Non-current:		
Cost of removal	644,789	608,231
Regulatory deferred tax liability, net	255,847	-
Other	5,778	2,950
Total	<u>906,414</u>	<u>611,181</u>
Net regulatory liabilities	<u>\$ 714,685</u>	<u>\$ 399,484</u>

Asset retirement obligation: Represents accretion expense deferred as part of the Company's asset retirement obligation and is recovered through rates as part of depreciation expense.

Capital tracker: The Company has in place a Gas Savings Enhancement Plan ("GSEP"), which was approved by the DPU on April 30, 2015 and is designed to provide concurrent recovery of the revenue requirement associated with the Company's capital costs for the replacement of eligible leak prone pipe and ancillary equipment pursuant to the 2014 Gas Leaks Act passed in Massachusetts. This new program will run concurrently with Targeted Infrastructure Replacement ("TIR") Program.

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

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

Environmental response costs: The regulatory assets represent deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at former manufactured gas plant ("MGP") sites and related facilities. The Company's rate plans provide for the recovery of previously-incurred costs over a seven year recovery period. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

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

Rate adjustment mechanisms: Active Hardship Protected Accounts Receivable is a mechanism, which through rates allows the Company to recover the hardship protected accounts with balances over 360 days. The balance in this account represents the deferral of the Company's hardship balance at March 31, 2018.

Local distribution adjustment clause ("LDAC"): A mechanism by which the Company is required to adjust its rates semi-annually to recover or refund sundry costs, including energy efficiency expenditures, pension and PBOP costs, residential assistance costs, service quality penalties, and miscellaneous other amounts due to or from customers through rates.

Postretirement benefits: Primarily represents the excess costs of the Company's pension and PBOP plans over amounts received in rates that are to be recovered in future periods, and the non-cash accrual of net actuarial gains and losses.

Profit sharing: Represents a portion of deferred margins from off-system sale transactions. Under current rate orders, the Company is required to return 90% of margins earned from such optimization transactions to firm customers. The amounts deferred on the balance sheet will be refunded to customers over the next year.

Regulatory deferred tax asset/liability, net: Represents over or under 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, more recently, excess federal deferred taxes as a result of the Tax Cuts and Jobs Act ("Tax Act").

Revenue decoupling mechanism: As approved by the DPU, the Company has a RDM which allows for seasonal (peak/off peak) adjustments to the Company's delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. Any difference between the allowed revenue per customer and the actual revenue per customer is recorded as a regulatory asset or regulatory liability.

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.

4. RATE MATTERS

General Rate Case

In November 2010, the DPU issued an order in the Company's 2010 rate case approving a revenue increase of \$41.5 million based upon a 9.75% rate of return on equity and a 50% equity ratio. In response, the Company filed a motion for recalculation of certain adjustments. The DPU awarded an increase of \$2.6 million of the additional \$4.9 million requested, effective November 1, 2011. The combined effect of the DPU's orders was a total revenue increase of \$44.1 million. Rates have remained in effect since this time.

On November 15, 2017, the Company and its affiliate, Colonial Gas Company ("Colonial"), filed a request for a combined net increase in revenue of \$87 million, of which \$68 million is for Boston Gas Company, to be in effect October 1, 2018 with a 10.5% rate of return on equity and a 53.04% equity ratio. The Company's filing is based on capital additions including cost of removal since the last rate case, and includes cost changes associated with operation and maintenance expenses and operating expenses related to capital projects. As part of the request, the Company proposed recovery for two new programs. The first is the gas, safety, and reliability program, which is a set of critical projects specifically aimed at meeting safety and reliability requirements and modernizing the gas system. The second is the gas business enablement program, which will consolidate and modernize the Company's systems and operating platforms to facilitate internal efficiencies and improve customer experience. On July 20, 2018, the Company submitted its final update to its request which reflected the Tax Cuts and Jobs Act and other all changes identified through the course of the rate case, which lowered the combined net increase in revenue to \$43 million. The DPU held evidentiary hearings on the Company's filing in May 2018 and an order is expected by September 30, 2018. The Company cannot predict the outcome of this proceeding.

Gas System Enhancement Plan

The Gas System Enhancement Plan ("GSEP") is a program designed to accelerate the replacement of the Company's existing leak prone infrastructure pursuant to the Massachusetts' 2014 Gas Leaks Act.

The DPU approved the Company's GSEP for calendar years 2015 through 2018, including the associated Gas System Enhancement Adjustment Factors ("GSEAFs"). The approved GSEAFs are designed to provide concurrent recovery of the revenue requirement associated with the Company's capital costs for the replacement of eligible leak prone pipe and ancillary equipment. The approved GSEAFs were designed to recover from all firm sales and transportation customers a revenue requirement of approximately \$58.2 million for 2018, \$42.9 million for 2017, \$25.0 million for 2016 and \$5.1 million for 2015.

On May 1, 2018, and updated on July 11, 2018, the Company filed its GSEP reconciliation ("GREC") filing for 2017, which reconciled the 2017 revenue requirement on 2017 actual GSEP capital investment with revenue billed through the GSEAFs, resulting in an under-collection of approximately \$14.2 million.

On October 31, 2017, the Company filed its GSEP for calendar year 2018, which entailed a revenue requirement of approximately \$73.9 million, recovery of funds to repair Grade 3 leaks, a proposal to extend the plan timeline from 20 to 25 years, and a request for a waiver of the 1.5% cap. On January 31, 2018, the Company filed an update to its GSEP due to the ongoing rate case, federal tax law changes, and other updates. As a result of the updated GSEP filing, the requested revenue requirement was reduced to approximately \$61.0 million, which still exceeded the 1.5% cap. The DPU approved the 2018 GSEP on April 30, 2018, including the extended timeframe to complete the plan, but denied recovery of Grade 3 leak repair funds and the waiver of the 1.5% cap. The Company will seek recovery of these amounts in a future filing.

Carrying Charge Adjustment

In August 2017, the DPU ordered the Company to provide compound interest on its PBOP carrying charges related to calendar years 2003 through 2006. The Company calculated the compound interest to be approximately \$1.2 million and was ordered to revise its pending 2017 Pension Adjustment Factor ("PAF") petition and include this amount in the revised filing. The Order is in conjunction with the DPU's annual investigation of the Company pension and PBOP rate reconciliation

mechanism and the Massachusetts Attorney General (“AG”) contention that the Company is obligated to provide compound interest on its PBOP carrying charges which the Company disputes. The Company complied with the Department’s order when it included the interest in its revised PAF filing submitted on October 24, 2017. The new PAF factor went into effect on November 1, 2017. The Company has also filed a motion for reconsideration of this matter to the DPU. The Company cannot predict the outcome of the matter at this time.

Tax Cuts and Jobs Act

The MA DPU issued an order opening an investigation docketed as DPU 18-15 to examine the effect of the Tax Act on the rates of the investor-owned utilities in Massachusetts. The DPU order explains that the statutory reduction in the federal corporate income tax rates pursuant to the Tax Act constitutes evidence that the rates being charged by each utility may no longer be just and reasonable as of January 1, 2018. To address this issue, the DPU has ordered each utility, as of January 1, 2018, to account for any revenues associated with the difference between the previous and current corporate income tax rates, and also establish a regulatory liability for excess recovery in rates of accumulated deferred income taxes resulting from the lower federal corporate income tax rate. The order requires utilities to file a plan for how it will refund these amounts by May 1, 2018, with an expectation that a rate reduction shall go into effect by July 1, 2018. To the extent that a utility seeks to implement any part of its rate adjustment, including the refund of excess deferred taxes, on a date later than July 1, 2018, that party must demonstrate that customers will not be harmed by the proposal and that the proposal is otherwise in the public interest. The filing was submitted to the DPU on May 1, 2018. In its June 29, 2018 order, the MA DPU allowed the Company to defer the effect of the tax reduction until new rates resulting from its pending rate case become effective on October 1, 2018. At that time the Company is ordered to refund the three month tax savings deferral to customers over one year. The DPU has begun its second phase of its investigation for determining the proper treatment of the impact of the change in the federal corporate income tax rate between January 1, 2018 and June 30, 2018, and excess deferred federal income taxes.

Service Quality Performance

Boston Gas reported a service quality penalty of approximately \$0.7 million for its calendar year 2016 performance on the service appointments met metric of the DPU’s service quality guidelines. On May 25, 2018, the MA DPU approved the Company's request for a waiver of the service quality guidelines, so no penalty will be incurred.

5. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2018	2017
	<i>(in thousands of dollars)</i>	
Plant and machinery	\$ 4,049,123	\$ 3,716,903
Land and buildings	78,203	76,512
Assets in construction	294,292	163,993
Software and other intangibles	72,417	75,723
Total property, plant and equipment	4,494,035	4,033,131
Accumulated depreciation and amortization	(1,000,719)	(944,360)
Property, plant and equipment, net	\$ 3,493,316	\$ 3,088,771

6. DERIVATIVE INSTRUMENTS

The Company utilizes derivative instruments to manage commodity price risk associated with its natural gas purchases. The Company's commodity risk management strategy is to reduce fluctuations in firm gas sales prices to its customers.

The Company's financial exposures are monitored and managed as an integral part of the Company's overall financial risk management policy. The Company engages in risk management activities only in commodities and financial markets where it has an exposure, and only in terms and volumes consistent with its core business.

Volumes

Volumes of outstanding commodity derivative instruments measured in dekatherms ("dths") are as follows:

	<u>March 31,</u>	
	<u>2018</u>	<u>2017</u>
	<i>(in thousands)</i>	
Gas purchase contracts	10,057	10,263
Gas swap contracts	21,860	17,910
Total	<u>31,917</u>	<u>28,173</u>

Amounts Recognized on the Balance Sheet

	<u>Asset Derivatives</u>			<u>Liability Derivatives</u>	
	<u>March 31,</u>			<u>March 31,</u>	
	<u>2018</u>	<u>2017</u>		<u>2018</u>	<u>2017</u>
	<i>(in thousands of dollars)</i>			<i>(in thousands of dollars)</i>	
<u>Current assets:</u>			<u>Current liabilities:</u>		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	\$ 9,265	\$ 32	Gas purchase contracts	\$ 991	\$ 1,167
Gas swap contracts	341	3,393	Gas swap contracts	692	16
	<u>9,606</u>	<u>3,425</u>		<u>1,683</u>	<u>1,183</u>
<u>Other non-current assets:</u>			<u>Other non-current liabilities:</u>		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas swap contracts	33	-	Gas swap contracts	882	839
Gas purchase contracts	-	-	Gas purchase contracts	3,300	2,969
	<u>33</u>	<u>-</u>		<u>4,182</u>	<u>3,808</u>
Total	<u>\$ 9,639</u>	<u>\$ 3,425</u>	Total	<u>\$ 5,865</u>	<u>\$ 4,991</u>

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying statements of income. All of the Company's derivative instruments are subject to rate recovery as of March 31, 2018 and 2017.

Credit and Collateral

The Company is exposed to credit risk related to transactions entered into for commodity price risk management. Credit risk represents the risk of loss due to counterparty non-performance. Credit risk is managed by assessing each counterparty's credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is managed and monitored by the Finance Committee to National Grid plc's Board of Directors ("Finance Committee"), which is responsible for approving risk management policies and objectives for risk assessment, control and valuation, and the monitoring and reporting of risk exposures. NGUSA's Energy Procurement Risk Management Committee ("EPRMC") is responsible for approving transaction strategies, annual supply plans, and counterparty credit approval, as well as all valuation and control procedures. The EPRMC is chaired by the Vice President of U.S. Treasury and reports to both the NGUSA Board of Directors and the Finance Committee.

The EPRMC monitors counterparty credit exposure and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduce its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support, and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties.

The Company's credit exposure for all commodity derivative instruments and applicable payables and receivables, net of collateral, and instruments that are subject to master netting agreements, was an asset of \$1.8 million and a liability \$1.0 million as of March 31, 2018 and 2017, respectively.

The aggregate fair value of the Company's commodity derivative instruments with credit-risk-related contingent features that were in a liability position at March 31, 2018 and 2017 was \$1.3 million and zero, respectively. The Company had no collateral posted for these instruments at March 31, 2018 or 2017. If the Company's credit rating were to be downgraded by one or two levels, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post \$1.6 million and \$0.1 million additional collateral to its counterparties at March 31, 2018 and 2017, respectively.

Offsetting Information for Derivative Instruments Subject to Master Netting Arrangements

March 31, 2018
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

	Gross amounts of recognized assets <i>A</i>	Gross amounts offset in the Balance Sheets <i>B</i>	Net amounts of assets presented in the Balance Sheets <i>C=A+B</i>	Financial Instruments <i>Da</i>	Cash collateral received <i>Db</i>	Net amount <i>E=C-D</i>
ASSETS:						
Derivative instruments						
Gas purchase contracts	\$ 9,265	\$ -	\$ 9,265	\$ -	\$ -	\$ 9,265
Gas swap contracts	374	-	374	-	-	374
Total	<u>\$ 9,639</u>	<u>\$ -</u>	<u>\$ 9,639</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,639</u>

	Gross amounts of recognized liabilities <i>A</i>	Gross amounts offset in the Balance Sheets <i>B</i>	Net amounts of liabilities presented in the Balance Sheets <i>C=A+B</i>	Financial Instruments <i>Da</i>	Cash collateral paid <i>Db</i>	Net amount <i>E=C-D</i>
LIABILITIES:						
Derivative instruments						
Gas purchase contracts	\$ 4,291	\$ -	\$ 4,291	\$ -	\$ -	\$ 4,291
Gas swap contracts	1,574	-	1,574	-	-	1,574
Total	<u>\$ 5,865</u>	<u>\$ -</u>	<u>\$ 5,865</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,865</u>

March 31, 2017
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

	Gross amounts of recognized assets <i>A</i>	Gross amounts offset in the Balance Sheets <i>B</i>	Net amounts of assets presented in the Balance Sheets <i>C=A+B</i>	Financial Instruments <i>Da</i>	Cash collateral received <i>Db</i>	Net amount <i>E=C-D</i>
ASSETS:						
Derivative instruments						
Gas purchase contracts	\$ 32	\$ -	\$ 32	\$ -	\$ -	\$ 32
Gas swap contracts	3,393	-	3,393	-	-	3,393
Total	<u>\$ 3,425</u>	<u>\$ -</u>	<u>\$ 3,425</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,425</u>

	Gross amounts of recognized liabilities <i>A</i>	Gross amounts offset in the Balance Sheets <i>B</i>	Net amounts of liabilities presented in the Balance Sheets <i>C=A+B</i>	Financial Instruments <i>Da</i>	Cash collateral paid <i>Db</i>	Net amount <i>E=C-D</i>
LIABILITIES:						
Derivative instruments						
Gas purchase contracts	\$ 4,136	\$ -	\$ 4,136	\$ -	\$ -	\$ 4,136
Gas swap contracts	855	-	855	-	-	855
Total	<u>\$ 4,991</u>	<u>\$ -</u>	<u>\$ 4,991</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,991</u>

7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities 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			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<i>(in thousands of dollars)</i>				
Assets:				
Derivative instruments				
Gas purchase contracts	\$ -	\$ 102	\$ 9,163	\$ 9,265
Gas swap contracts	-	374	-	374
Available-for-sale securities	335	366	-	701
Total	<u>335</u>	<u>842</u>	<u>9,163</u>	<u>10,340</u>
Liabilities:				
Derivative instruments				
Gas purchase contracts	-	4	4,287	4,291
Gas swap contracts	-	1,574	-	1,574
Total	<u>-</u>	<u>1,578</u>	<u>4,287</u>	<u>5,865</u>
Net assets (liabilities)	<u>\$ 335</u>	<u>\$ (736)</u>	<u>\$ 4,876</u>	<u>\$ 4,475</u>

	March 31, 2017			
	Level 1	Level 2	Level 3	Total
	<i>(in thousands of dollars)</i>			
Assets:				
Derivative instruments				
Gas purchase contracts	\$ -	\$ 32	\$ -	\$ 32
Gas swap contracts	-	3,393	-	3,393
Available-for-sale securities	327	370	-	697
Total	<u>327</u>	<u>3,795</u>	<u>-</u>	<u>4,122</u>
Liabilities:				
Derivative instruments				
Gas purchase contracts	-	4	4,132	4,136
Gas swap contracts	-	855	-	855
Total	<u>-</u>	<u>859</u>	<u>4,132</u>	<u>4,991</u>
Net assets (liabilities)	<u>\$ 327</u>	<u>\$ 2,936</u>	<u>\$ (4,132)</u>	<u>\$ (869)</u>

Derivative instruments: The Company's Level 2 fair value derivative instruments primarily consist of over-the-counter ("OTC") gas swap contracts and gas purchase contracts with pricing inputs obtained from the New York Mercantile Exchange and the Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative instruments. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 95% or higher.

The Company's Level 3 fair value derivative instruments consist of OTC gas option purchase contracts, which are valued based on internally-developed models. Industry-standard valuation techniques, such as the Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. A derivative is designated Level 3 when it is valued based on a forward curve that is internally developed, extrapolated, or derived from market observable curves with correlation coefficients less than 95%, where optionality is present, or if non-economic assumptions are made.

Available-for-sale securities: Available-for-sale securities are included in other non-current assets 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).

Changes in Level 3 Derivative Instruments

	Years Ended March 31,	
	2018	2017
	<i>(in thousands of dollars)</i>	
Balance as of the beginning of the year	\$ (4,132)	\$ 52
Total gains or losses included in regulatory assets and liabilities	10,378	(13,933)
Settlements	<u>(1,370)</u>	<u>9,749</u>
Balance as of the end of the year	<u>\$ 4,876</u>	<u>\$ (4,132)</u>

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3, during the years ended March 31, 2018 and 2017.

For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivative instruments valued using indicative price quotations whose contract tenor extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility, and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. The forward curves used for financial reporting are developed and verified by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative instruments categorized in Level 2 and Level 3.

Quantitative Information About Level 3 Fair Value Measurements

The following tables provide information about the Company's Level 3 valuations:

Commodity	Level 3 Position	Fair Value as of March 31, 2018			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		<i>(thousands of dollars)</i>					
Gas	Purchase contracts	9,163	(4,287)	4,876	Forward Curve	Unobservable Basis Points	\$3.96 - \$10.6784/dth
	Total	<u>\$ 9,163</u>	<u>\$ (4,287)</u>	<u>\$ 4,876</u>			

Commodity	Level 3 Position	Fair Value as of March 31, 2017			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		<i>(thousands of dollars)</i>					
Gas	Purchase contracts	-	(4,132)	(4,132)	Forward Curve	Unobservable Basis Points	\$9.8418 - \$10.8906/dth
	Total	<u>\$ -</u>	<u>\$ (4,132)</u>	<u>\$ (4,132)</u>			

The significant unobservable inputs listed above would have a direct impact on the fair values of the Level 3 instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of the Company's gas purchase derivative instruments are forward curve and unobservable basis points. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

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 and 2017 was \$1.1 billion and \$656.4 million, respectively.

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 KeySpan Corporation (“KeySpan”) subsidiaries in qualified and non-qualified non-contributory defined benefit plans (the “Pension Plans”) and PBOP plans (together with the Pension Plan (the “Plans”)), covering substantially all employees.

Plan assets are maintained for all of KeySpan and its subsidiaries in commingled trusts. In respect of cost determination, plan assets are allocated to the Company based on proportionate share of 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. The Company applies deferral accounting for pension and PBOP expenses associated with its regulated gas operations. Any differences between actual pension costs and amounts used to establish rates are deferred and collected from, or refunded to, customers in subsequent periods. Pension and PBOP 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 \$15.3 million, \$13.8 million and \$10.8 million, respectively, to the qualified pension plans. The Company expects to contribute approximately \$14.4 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 \$18.5 million, \$11.3 million and \$26.7 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 \$2.7 million, \$4.2 million and \$4.4 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 \$2.8 million, \$3.5 million and \$9.3 million, respectively.

Net Periodic Benefit Costs

The Company’s net periodic benefit pension cost for the years ended March 31, 2018, 2017 and 2016 were \$15.0 million, \$15.9 million and \$14.7 million, respectively.

The Company’s net periodic benefit PBOP cost for the years ended March 31, 2018, 2017 and 2016 were \$2.3 million, \$4.7 million and \$5.4 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 for the years ended March 31, 2018, 2017 and 2016:

	Pension Plans		
	Years Ended March 31,		
	2018	2017	2016
	<i>(in thousands of dollars)</i>		
Net actuarial loss (gain)	\$ 198	\$ (4,842)	\$ 5,680
Amortization of net actuarial loss	(10,680)	(11,359)	(10,042)
Amortization of prior service cost, net	(1,732)	(1,618)	(1,322)
Total	<u>\$ (12,214)</u>	<u>\$ (17,819)</u>	<u>\$ (5,684)</u>
Recognized in regulatory assets	<u>\$ (12,214)</u>	<u>\$ (17,819)</u>	<u>\$ (5,684)</u>
Total	<u>\$ (12,214)</u>	<u>\$ (17,819)</u>	<u>\$ (5,684)</u>

	PBOP Plans		
	Years Ended March 31,		
	2018	2017	2016
	<i>(in thousands of dollars)</i>		
Net actuarial loss (gain)	\$ 2,218	\$ (16,343)	\$ (3,732)
Amortization of net actuarial gain (loss)	60	58	(218)
Amortization of prior service cost, net	(54)	(76)	(78)
Total	<u>\$ 2,224</u>	<u>\$ (16,361)</u>	<u>\$ (4,028)</u>
Recognized in regulatory assets	<u>\$ 2,224</u>	<u>\$ (16,361)</u>	<u>\$ (4,028)</u>
Total	<u>\$ 2,224</u>	<u>\$ (16,361)</u>	<u>\$ (4,028)</u>

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
	<i>(in thousands of dollars)</i>		
Net actuarial loss	\$ 32,705	\$ 43,187	\$ 59,388
Prior service cost	9,495	11,227	12,845
Total	<u>\$ 42,200</u>	<u>\$ 54,414</u>	<u>\$ 72,233</u>
Recognized in regulatory assets	<u>\$ 42,200</u>	<u>\$ 54,414</u>	<u>\$ 72,233</u>
Total	<u>\$ 42,200</u>	<u>\$ 54,414</u>	<u>\$ 72,233</u>

	PBOP Plans		
	March 31,		
	2018	2017	2016
	<i>(in thousands of dollars)</i>		
Net actuarial loss (gain)	\$ 1,143	\$ (4,807)	\$ 11,478
Prior service cost	36	126	202
Total	<u>\$ 1,179</u>	<u>\$ (4,681)</u>	<u>\$ 11,680</u>
Recognized in regulatory assets	<u>\$ 1,179</u>	<u>\$ (4,681)</u>	<u>\$ 11,680</u>
Total	<u>\$ 1,179</u>	<u>\$ (4,681)</u>	<u>\$ 11,680</u>

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 \$8.5 million and \$1.7 million, 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 zero.

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
	<i>(in thousands of dollars)</i>			
Projected benefit obligation	\$ (370,763)	\$ (355,365)	\$ (110,681)	\$ (152,034)
Fair value of plan assets	405,899	372,311	41,065	84,237
Total	<u>\$ 35,136</u>	<u>\$ 21,395</u>	<u>\$ (69,616)</u>	<u>\$ (67,797)</u>
Other non-current assets	\$ 35,136	\$ -	\$ -	\$ -
Other non-current liabilities	-	21,395	(69,616)	(67,797)
Total	<u>\$ 35,136</u>	<u>\$ 21,395</u>	<u>\$ (69,616)</u>	<u>\$ (67,797)</u>

Expected Benefit Payments

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

<i>(in thousands of dollars)</i>	Pension	PBOP
Years Ended March 31,	Plans	Plans
2019	\$ 19,026	\$ 2,275
2020	19,585	2,392
2021	20,137	2,506
2022	20,598	2,631
2023	21,162	2,736
2024-2028	110,865	14,796
Total	<u>\$ 211,373</u>	<u>\$ 27,336</u>

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

KeySpan, 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, trustee, employee life insurance and medical benefit plan sponsored by KeySpan. Life insurance and medical benefits are provided for eligible retirees, dependents, and surviving spouses of KeySpan.

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
U.S. equities	20%	20%	34%	34%	45%	45%
Global equities (including U.S.)	7%	7%	12%	12%	0%	0%
Global tactical asset allocation	10%	10%	17%	17%	0%	0%
Non-U.S. equities	10%	10%	17%	17%	25%	25%
Fixed income	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
	<i>(in thousands of dollars)</i>				
Pension assets					
Cash and cash equivalents	\$ 1,331	\$ 20,844	\$ -	\$ 72,420	\$ 94,595
Accounts receivable	196,817	-	-	-	196,817
Accounts payable	(298,572)	-	-	-	(298,572)
Equity	582,386	-	-	1,238,311	1,820,697
Fixed income securities	149	1,093,506	-	637,665	1,731,320
Preferred securities	-	11,725	-	-	11,725
Private equity	-	-	-	260,209	260,209
Real estate	-	-	-	208,488	208,488
Other	2,370	-	-	303,504	305,874
Total	\$ 484,481	\$ 1,126,075	\$ -	\$ 2,720,597	\$ 4,331,153
PBOP Assets					
Cash and cash equivalents	\$ 15,390	\$ 6	\$ -	\$ 22	\$ 15,418
Accounts receivable	1,733	-	-	-	1,733
Accounts payable	(136)	-	-	-	(136)
Equity	241,131	-	-	536,938	778,069
Fixed income securities	6,428	236,732	-	192	243,352
Preferred securities	-	4	-	-	4
Private equity	-	-	-	4,310	4,310
Real estate	-	-	-	63	63
Other	35,738	-	-	229,677	265,415
Total	\$ 300,284	\$ 236,742	\$ -	\$ 771,202	\$ 1,308,228

March 31, 2017

	Level 1	Level 2	Level 3	Not Categorized	Total
<i>(in thousands of dollars)</i>					
Pension assets					
Cash and cash equivalents	\$ 1,947	\$ 2,908	\$ -	\$ 59,393	\$ 64,248
Accounts receivable	26,670	-	-	-	26,670
Accounts payable	(48,369)	-	-	-	(48,369)
Equity	592,975	(363)	-	1,149,127	1,741,739
Fixed income securities	149	1,213,534	-	352,004	1,565,687
Preferred securities	-	7,754	-	(71)	7,683
Private equity	-	-	-	238,651	238,651
Real estate	-	-	-	219,203	219,203
Other	746	(2)	-	192,433	193,177
Total	\$ 574,118	\$ 1,223,831	\$ -	\$ 2,210,740	\$ 4,008,689
PBOP Assets					
Cash and cash equivalents	\$ 22,045	\$ 1,011	\$ -	\$ 18	\$ 23,074
Accounts receivable	1,272	-	-	-	1,272
Accounts payable	(138)	-	-	-	(138)
Equity	218,445	-	-	501,700	720,145
Fixed income securities	4,162	205,102	-	132,744	342,008
Preferred securities	-	2	-	-	2
Private equity	-	-	-	5,308	5,308
Real estate	-	-	-	66	66
Other	33,548	-	-	77,158	110,706
Total	\$ 279,334	\$ 206,115	\$ -	\$ 716,994	\$ 1,202,443

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.

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2018, 2017 and 2016, the Company recognized an expense in the accompanying statements of income of \$1.8 million, \$1.5 million and \$1.4 million, respectively, for matching contributions.

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 \$11.2 million and \$11.0 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. CAPITALIZATION

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

(in thousands of dollars)

<u>Fiscal Years Ending March 31,</u>	
2019	\$ 20,000
2020	7,000
2021	5,000
2022	15,000
2023	10,000
Thereafter	<u>1,046,000</u>
Total	<u>\$ 1,103,000</u>

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

On July 31, 2017 the Company issued a \$500 million Senior Unsecured Note at 3.15% for \$499.5 million (\$0.5 million discount) that is expected to mature on August 1, 2027.

On October 12, 2017 the Company received a capital contribution of \$270 million from its Parent.

10. INCOME TAXES

Components of Income Tax Expense

	<u>Years Ended March 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
	<i>(in thousands of dollars)</i>		
Current tax expense (benefit):			
Federal	\$ (5,935)	\$ 4,781	\$ (382)
State	395	2,402	2,598
Total current tax expense (benefit)	<u>(5,540)</u>	<u>7,183</u>	<u>2,216</u>
Deferred tax expense:			
Federal	39,694	30,478	35,648
State	8,742	6,337	6,035
Total deferred tax expense	<u>48,436</u>	<u>36,815</u>	<u>41,683</u>
Total income tax expense	<u>\$ 42,896</u>	<u>\$ 43,998</u>	<u>\$ 43,899</u>

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2018, 2017 and 2016 are 36.7%, 40.5%, and 40.8% 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
	<i>(in thousands of dollars)</i>		
Computed tax	\$ 36,860	\$ 38,010	\$ 37,676
Change in computed taxes resulting from:			
State income tax, net of federal benefit	6,196	5,681	5,612
Other items, net	<u>(160)</u>	<u>307</u>	<u>611</u>
Total Changes	<u>6,036</u>	<u>5,988</u>	<u>6,223</u>
Total income tax expense	<u>\$ 42,896</u>	<u>\$ 43,998</u>	<u>\$ 43,899</u>

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 extend 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 \$197.5 million with \$0.3 million of the remeasurement recorded to deferred income tax expense and \$197.8 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	2017
	<i>(in thousands of dollars)</i>	
Deferred tax assets:		
Allowance for doubtful accounts	\$ 13,676	\$ 20,249
Environmental remediation costs	12,052	17,360
Future federal benefit on state taxes	14,930	27,988
Postretirement benefits and other employee benefits	13,166	26,173
Regulatory liabilities - other	13,850	28,397
Regulatory liabilities - taxes	74,196	-
Net operating losses	25,840	47,714
Other items	20,610	29,271
Total deferred tax assets	<u>188,320</u>	<u>197,152</u>
Deferred tax liabilities:		
Property related differences	428,196	610,124
Regulatory assets - deferred gas costs	23,477	52,537
Other items	44,613	62,984
Total deferred tax liabilities	<u>496,286</u>	<u>725,645</u>
Total net deferred income tax liabilities	<u>\$ 307,966</u>	<u>\$ 528,493</u>

Net Operating Losses

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

	Carryforward Amount <i>(in thousands of dollars)</i>	Expiration Period
Federal	\$ 237,092	2030- 2037
State	43,313	2036- 2038

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 consolidated statements of income. As of March 31, 2018 and 2017, the Company has accrued for interest related to unrecognized tax benefits of \$4.3 million and \$2.7 million, respectively. During years ended March 31, 2018, 2017 and 2016, the Company recorded interest expense of \$1.6 million, \$0.6 million and \$0.6 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 August 24, 2007, 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

11. 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.

Within the Commonwealth of Massachusetts, the Company is aware of numerous former MGP sites and related facilities within its existing or former service territories. Investigation and remediation expenditures incurred for the years ended March 31, 2018, 2017 and 2016 were \$1.7 million, \$6.3 million and \$4.8 million, respectively. .

The Company estimated the remaining costs of environmental remediation activities were \$41.6 million and \$40.4 million at March 31, 2018 and 2017, respectively. The Company had a current portion of environmental remediation costs of \$2.5 million included in other current liabilities on the balance sheet at March 31, 2018. These costs are expected to be incurred over approximately 51 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.

By rate orders, the DPU has provided for the recovery of site investigation and remediation costs. Accordingly, as of March 31, 2018 and 2017, the Company has recorded environmental regulatory assets of \$58.8 million and \$59.5 million, respectively.

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

12. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Company has various operating leases relating to office space. Total gross rental expense for operating leases included in operations and maintenance expense in the accompanying statements of income was \$3.8 million, \$3.1 million and \$3.0 million for the years ended March 31, 2018, 2017 and 2016, respectively. The rental expense, net of amounts allocated to other affiliated entities, recognized by the Company in the accompanying consolidated statements of income was approximately \$2.5 million, \$1.8 million, and \$1.7 million for the years ended March 31, 2018, 2017, and 2016, respectively.

The future minimum lease payments for the years subsequent to March 31, 2018 are as follows:

<i>(in thousands of dollars)</i>	
<u>Years Ending March 31.</u>	
2019	\$ 4,866
2020	5,274
2021	5,370
2022	5,399
2023	5,242
Thereafter	<u>21,824</u>
Total	<u>\$ 47,975</u>

Purchase Commitments

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

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2018 are summarized in the table below:

<i>(in thousands of dollars)</i>	
<u>Years Ending March 31.</u>	
	<u>Gas Purchases</u>
2019	\$ 225,718
2020	176,753
2021	124,038
2022	104,886
2023	101,827
Thereafter	<u>665,232</u>
Total	<u>\$ 1,398,454</u>

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.

In fiscal year 2017, the Company reported to the DPU and the MA attorney general's office that it erroneously charged reconnection fees to certain customers. These amounts have been refunded or are in the process of being refunded to customers. Additionally, the MA attorney general's office imposed a potential penalty related to this matter, which was settled in fiscal year 2018. As of March 31, 2018, the Company recorded a liability for the balance of fees to be refunded to customers as well as a reserve for the penalty based on the best estimate of the settlement amount.

On March 6, 2018, the Company and its affiliated company Colonial Gas Company, signed a Settlement Agreement with the Attorney General on the gas reconnection issue.

In addition to \$1.6 million that the Company and Colonial Gas previously credited to affected customers, the companies have established a Restitution Fund in the amount of \$2.3 million for those customers that had previously not been located. This amount includes interest for each reconnection fee. Other components of the settlement include a \$3.2 million payment by NGUSA to the Attorney General.

Work Continuation Plan

On June 25, 2018, the Company and its affiliate, Colonial Gas Company ("Colonial"), activated a work continuation plan after contractual agreements with two of their steelworkers unions expired and new agreements could not be reached. This work continuation plan, which is utilizing skilled personnel from other NGUSA service areas and contracted resources, is in place to enable safe and reliable gas operations while negotiations with the unions continue. The work continuation plan will remain in effect until there is final agreement on new labor contracts with the unions. We cannot predict when the work continuation plan will be lifted or what the final terms of the new labor agreements will be.

13. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

The Company records short-term receivables from, and payables to, certain of its affiliates in the ordinary course of business. The amounts receivable from, and payable to, its affiliates do not bear interest and are settled through the intercompany money pool. A summary of 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
	<i>(in thousands of dollars)</i>			
Colonial Gas Company	\$ 1,059	\$ -	\$ 5,033	\$ 15,101
KeySpan Corporation	658	7,032	-	-
National Grid Engineering Services, LLC	1,966	1,850	113	-
NGUSA	818	-	1,473	1,033
NGUSA Service Company	4,268	-	21,621	16,734
Other	159	131	649	1,248
Total	\$ 8,928	\$ 9,013	\$ 28,889	\$ 34,116

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 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 borrowings of \$167.5 million and \$591.5 million at March 31, 2018 and 2017, respectively. The average interest rates for the intercompany money pool were 1.6% and 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, when a specific cost/causation principle is not determinable, 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.

Net charges to and from the service companies of NGUSA, including but not limited to non-power goods and services, for the years ended March 31, 2018, 2017 and 2016 were \$194.0 million, \$219.4 million and \$200.9 million, respectively.