The Brooklyn Union Gas Company
d/b/a National Grid New York

Consolidated Financial Statements
For the years ended March 31, 2018, 2017, and 2016

THE BROOKLYN UNION GAS COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Brooklyn Union Gas Company

We have audited the accompanying consolidated financial statements of The Brooklyn Union Gas Company d/b/a National Grid New York (the "Company"), which comprise the consolidated balance sheet and statement of capitalization as of March 31, 2018, and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Brooklyn Union Gas Company d/b/a National Grid New York 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 Consolidated Financial Statements

The consolidated financial statements of the Company as of and for each of the two years ended March 31, 2017 were audited by other auditors whose report, dated August 18, 2017, expressed an unmodified opinion on those statements.

Deloitte + Touche LLP

September 19, 2018

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

	Years Ended March 31,		
	2018	2017	2016
Operating revenues	**$ 1,684,134**	$ 1,465,860	$ 1,317,700
Operating expenses:			
Purchased gas	**606,484**	482,604	373,853
Operations and maintenance	**605,257**	527,448	506,224
Depreciation	**90,553**	96,525	95,861
Other taxes	**218,241**	207,374	199,615
Total operating expenses	**1,520,535**	1,313,951	1,175,553
Operating income	**163,599**	151,909	142,147
Other income and (deductions):			
Interest on long-term debt	**(47,317)**	(60,168)	(51,218)
Other interest, including affiliate interest	**(7,389)**	(1,134)	(4,084)
Income from equity investments	**-**	-	8,072
(Loss) gain on sale of assets	**(43,187)**	-	70,253
Unrealized gains on investment in Dominion Midstream Partners, LP	**-**	13,973	50,470
Other (deductions) income, net	**(4,478)**	14,146	4,274
Total other (deductions) income, net	**(102,371)**	(33,183)	77,767
Income before income taxes	**61,228**	118,726	219,914
Income tax expense	**12,768**	42,439	89,200
Net income	**$ 48,460**	$ 76,287	$ 130,714

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

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

	Years Ended March 31,		
	2018	2017	2016
Net income	**$ 48,460**	$ 76,287	$ 130,714
Other comprehensive income, net of taxes:			
Unrealized gains on securities from equity investments	-	106	91
Total other comprehensive income	-	106	91
Comprehensive income	**$ 48,460**	$ 76,393	$ 130,805
Related tax (expense) benefit:			
Unrealized losses (gains) on securities from equity investments	**$** -	$ 169	$ (62)
Total tax benefit (expense)	**$** -	$ 169	$ (62)

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

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

	Years Ended March 31,		
	2018	2017	2016
Operating activities:			
Net income	**$ 48,460**	$ 76,287	$ 130,714
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**90,553**	96,525	95,861
Regulatory amortizations	**29,507**	58,654	53,903
Provision for deferred income taxes	**9,274**	42,430	73,642
Bad debt expense	**13,518**	13,511	21,779
Loss from equity investments, net of dividends received	**-**	-	1,660
Loss (gain) on sale of assets	**43,187**	-	(70,253)
Unrealized gains on investment in Dominion Midstream Partners, LP	**-**	(13,973)	(50,470)
Amortization of debt discount and issuance costs	**1,751**	1,872	1,855
Net postretirement benefits expense (contributions)	**21,443**	(1,955)	15,049
Net environmental remediation payments	**(45,471)**	(53,844)	(45,932)
Changes in operating assets and liabilities:			
Accounts receivable, net, and unbilled revenues	**(88,353)**	(92,518)	97,722
Inventory	**21,355**	18,408	(21,104)
Regulatory assets and liabilities, net	**60,417**	27,426	(36,214)
Derivative instruments	**814**	3,193	(8,787)
Prepaid and accrued taxes	**13,414**	(43,577)	5,240
Accounts payable and other liabilities	**30,196**	49,048	12,753
Other, net	**12,940**	(26,310)	(5,847)
Net cash provided by operating activities	**263,005**	155,177	271,571
Investing activities:			
Capital expenditures	**(642,588)**	(469,493)	(441,352)
Proceeds from sale of assets	**162,918**	-	-
Proceeds from restricted cash and special deposits	**2,847**	-	-
Payments on restricted cash and special deposits	**(3,210)**	-	-
Intercompany money pool and affiliated receivables/payables, net	**(168,970)**	340,015	(356,843)
Cost of removal	**(62,650)**	(40,659)	(24,752)
Other	**(318)**	(146)	(394)
Net cash used in investing activities	**(711,971)**	(170,283)	(823,341)
Financing activities:			
Payments on long-term debt	**(230,000)**	(810,500)	-
Proceeds from long-term debt	**650,000**	-	994,269
Payment of debt issuance costs	**(5,372)**	-	-
Intercompany money pool and affiliated receivables/payables, net	**34,813**	468,552	(447,912)
Equity infusion from Parent	**-**	350,000	-
Parent tax loss allocation	**-**	8,296	5,818
Net cash provided by financing activities	**449,441**	16,348	552,175
Net increase in cash and cash equivalents	**475**	1,242	405
Cash and cash equivalents, beginning of year	**5,476**	4,234	3,829
Cash and cash equivalents, end of year	**$ 5,951**	$ 5,476	$ 4,234
Supplemental disclosures:			
Interest paid	**$ (49,434)**	$ (70,011)	$ (49,156)
Income taxes refunded (paid)	**10,053**	7,056	(3,790)
Significant non-cash items:			
Capital-related accruals	**60,690**	25,878	44,494
Parent tax loss allocation - previously reported in financing activities	**2,638**	-	-

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

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

	March 31, 2018	March 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 5,951**	$ 5,476
Restricted cash and special deposits	**363**	-
Accounts receivable	**404,053**	343,166
Allowance for doubtful accounts	**(32,511)**	(31,830)
Accounts receivable from affiliates	**7,565**	5,253
Intercompany money pool	**304,067**	134,957
Unbilled revenues	**111,658**	97,029
Inventory	**42,533**	63,888
Regulatory assets	**22,836**	21,716
Derivative instruments	**706**	3,967
Prepaid taxes	**41,866**	43,858
Other	**4,491**	7,614
Total current assets	**913,578**	695,094
Property, plant and equipment, net	**4,609,648**	3,989,669
Other non-current assets:		
Regulatory assets	**1,934,282**	1,952,168
Goodwill	**1,451,141**	1,451,141
Postretirement benefits asset	**48,921**	-
Financial investments	**50**	206,155
Other	**25,061**	34,993
Total other non-current assets	**3,459,455**	3,644,457
Total assets	**$ 8,982,681**	$ 8,329,220

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

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

	March 31,	
	2018	2017
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 171,141**	$ 129,966
Accounts payable to affiliates	**116,705**	114,128
Taxes accrued	**14,645**	5,861
Customer deposits	**24,655**	25,032
Interest accrued	**3,800**	2,513
Regulatory liabilities	**126,754**	115,114
Intercompany money pool	**401,546**	366,858
Derivative instruments	**4,910**	4,446
Environmental remediation costs	**60,240**	45,471
Other	**22,232**	21,369
Total current liabilities	**946,628**	830,758
Other non-current liabilities:		
Regulatory liabilities	**963,172**	462,501
Asset retirement obligations	**14,594**	14,777
Deferred income tax liabilities, net	**526,284**	957,682
Postretirement benefits	**106,496**	100,913
Environmental remediation costs	**1,208,118**	1,230,927
Derivative instruments	**-**	2,911
Other	**117,110**	96,923
Total other non-current liabilities	**2,935,774**	2,866,634
Commitments and contingencies (Note 12)		
Capitalization:		
Shareholders' equity	**3,460,908**	3,409,810
Long-term debt	**1,639,371**	1,222,018
Total capitalization	**5,100,279**	4,631,828
Total liabilities and capitalization	**$ 8,982,681**	$ 8,329,220

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

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

			March 31,	
			2018	2017
Total shareholders' equity			**$ 3,460,908**	$ 3,409,810
Long-term debt:	Interest Rate	Maturity Date		
Unsecured Notes:				
Senior Note	4.27%	March 15, 2048	**650,000**	-
Senior Note	3.41%	March 10, 2026	**500,000**	500,000
Senior Note	4.50%	March 10, 2046	**500,000**	500,000
Gas Facilities Revenue Bonds:				
1997	Variable	December 1, 2020	**-**	125,000
2005B	Variable	June 1, 2025	**-**	55,000
1991D	Variable	July 1, 2026	**-**	50,000
Total debt			**1,650,000**	1,230,000
Unamortized debt issuance costs			**(10,629)**	(7,982)
Long-term debt			**1,639,371**	1,222,018
Total capitalization			**$ 5,100,279**	$ 4,631,828

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

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

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss): Equity Investments	Accumulated Other Comprehensive Income (Loss): Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2015	**$ -**	**$ -**	**$ 2,632,256**	**$ (197)**	**$ (197)**	**$ 206,439**	**$ 2,838,498**
Net income	-	-	-	-	-	130,714	130,714
Other comprehensive income:							
Unrealized gains on securities from equity investments, net of $62 tax expense	-	-	-	91	91	-	91
Total comprehensive income							130,805
Parent tax loss allocation	-	-	5,818	-	-	-	5,818
Balance as of March 31, 2016	**$ -**	**$ -**	**$ 2,638,074**	**$ (106)**	**$ (106)**	**$ 337,153**	**$ 2,975,121**
Net income	-	-	-		-	76,287	76,287
Other comprehensive income:							
Unrealized gains on securities from equity investments, net of $169 tax benefit	-	-	-	106	106	-	106
Total comprehensive income							76,393
Equity infusion from Parent	-	-	350,000	-	-	-	350,000
Parent tax loss allocation	-	-	8,296	-	-	-	8,296
Balance as of March 31, 2017	**$ -**	**$ -**	**$ 2,996,370**	**$ -**	**$ -**	**$ 413,440**	**$ 3,409,810**
Net income	-	-	-		-	48,460	48,460
Parent tax loss allocation	-	-	2,638	-	-	-	2,638
Balance as of March 31, 2018	**$ -**	**$ -**	**$ 2,999,008**	**$ -**	**$ -**	**$ 461,900**	**$ 3,460,908**

The Company had 100 shares of common stock authorized, issued and outstanding, with a par value of $0.01 per share and 1 share of preferred stock, authorized, issued and outstanding, with a par value of $1 per share at March 31, 2018 and 2017.

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

THE BROOKLYN UNION GAS COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The Brooklyn Union Gas Company d/b/a National Grid New York ("the Company") is a gas distribution company engaged in the transportation and sale of natural gas to approximately 1,256,000 customers in the boroughs of Brooklyn and Staten Island and two-thirds of the borough of Queens, all in New York City.

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.

Through its wholly-owned subsidiary, North East Transmission Co., Inc. ("NETCO"), the Company owned a 19.4% interest in Iroquois Gas Transmission System L.P. ("Iroquois"), which owns a 375-mile pipeline that transports Canadian gas supply daily to markets in the northeastern United States. Through another wholly-owned subsidiary, the total interest in Iroquois under KeySpan's common control was 20.4%. Because this interest provided KeySpan and its subsidiaries the ability to exercise significant influence over the operating and financial policies of Iroquois, the Company accounted for its interest under the equity method of accounting. The Company's share of the earnings or losses of the affiliate was included as income from equity investments in the accompanying consolidated statements of income through September 29, 2015.

On September 29, 2015, NETCO contributed its 19.4% interest in Iroquois to Dominion Midstream Partners, LP ("DM") in exchange for approximately 6.5 million common units (representing approximately an 8% interest) of DM. DM was formed to grow a portfolio of natural gas terminaling, processing, storage, and transportation assets. The transaction resulted in a gain on sale of assets of $70.3 million in the year ended March 31, 2016. The Company elected the fair value option with respect to its investment in DM and as such, any changes in the fair value of these common units were recorded as unrealized gains on investment in Dominion Midstream Partners, LP in the accompanying consolidated statements of income.

On February 13, 2018, the Company obtained board approval to sell its investment in DM. The Company completed the sale of its investment in DM to Deutsche Bank for proceeds of $162.9 million, which settled February 21, 2018. The transaction resulted in a loss on sale of assets of $43.2 million in the year ended March 31, 2018. The Company's investment in DM was included within financial investments on the consolidated balance sheet.

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

The Company has evaluated subsequent events and transactions through September 19, 2018, the date of issuance of these consolidated financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the consolidated financial statements as of and for the year ended March 31, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing consolidated 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 consolidated financial statements. Actual results could differ from those estimates.

Regulatory Accounting

The New York Public Service Commission ("NYPSC") regulates the rates the Company charges its customers. In certain cases, the rate actions of the NYPSC can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates.

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 NYPSC has approved a Revenue Decoupling Mechanism ("RDM"). Prior to January 1, 2017, the RDM applied only to the Company's firm residential heating sales and transportation customers. Under the new rate plan (as discussed in Note 4, "Rate Matters" under "Rate Case Filing") the RDM was expanded to include commercial and industrial customers. The RDM requires the Company to adjust its base rates annually to reflect the over or under recovery of the Company's allowed revenues per customer from the prior year (May-April).

The Company's tariff includes a cost of gas adjustment factor which requires an annual reconciliation of recoverable gas costs and revenues. Any difference is deferred pending recovery from, or refund to, customers.

The gas distribution business is influenced by seasonal weather conditions, and, therefore, the Company's tariff contains a weather normalization adjustment that provides for recovery from, or refund to, firm customers of material shortfalls or excesses of firm delivery revenues (revenues less applicable gas costs and revenue taxes) during a heating season due to variations from normal weather.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2018, 2017, and 2016 were $58.6 million, $48.8 million, and $43.3 million, respectively.

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

Income Taxes

Federal and state income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the consolidated 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 consolidated 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.

Restricted Cash and Special Deposits

Restricted cash consists of collateral paid to the Company's counterparties for outstanding derivative instruments.

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.

Inventory

Inventory is composed of materials and supplies as well as gas in storage. Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized as used. 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 audited annually by the NYPSC.

The Company had materials and supplies of $11.6 million and $14.3 million and gas in storage of $30.9 million and $49.6 million at March 31, 2018 and 2017, respectively.

Derivative Instruments

The Company uses various derivative instruments to manage commodity price risk. All derivative instruments are recorded on the consolidated 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 mechanism. 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 consolidated balance sheet.

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. Natural gas arrangements that do not qualify as derivatives are accounted for as executory contracts and are therefore recognized as the gas is purchased.

Fair Value Measurements

The Company measures derivative instruments and financial assets for which it has elected the fair value option at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following is the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value:

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

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

Property, Plant and Equipment

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

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. The average composite rates for the years ended March 31, 2018, 2017, and 2016 were 2.0%, 2.2%, and 2.3%, respectively.

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 $147.7 million and $177.9 million at March 31, 2018 and 2017, respectively.

Allowance for Funds Used During Construction

The Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the accompanying consolidated statements of income as non-cash income in other (deductions) income, 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 $0.5 million, $8.9 million, and $1.3 million and AFUDC related to debt of $5.2 million, $5.0 million, and $1.9 million 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 1.7%, 4.3%, and 1.3%, 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, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which eliminates step two from the two-step goodwill impairment test. The one-step approach requires a recoverability test performed based on the comparison of the Company's estimated fair value with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is considered not impaired. If the carrying value exceeds the estimated fair value, the Company is required to recognize an impairment charge for such excess, limited to the allocated amount of goodwill.

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

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 consolidated balance sheet. These regulatory assets represent timing differences between the recognition of costs in accordance with U.S. GAAP and costs recovered through the ratemaking process.

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

	Years Ended March 31,	
	2018	2017
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 14,777**	$ 14,145
Accretion expense	**886**	797
Liabilities settled	**(318)**	(165)
Balance as of the end of the year	**$ 15,345**	$ 14,777

The Company had a current portion of asset retirement obligations of $0.8 million included in other current liabilities on the balance sheet at March 31, 2018.

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 the Parent. The Company recognizes its portion of the pension and PBOP plans' funded status on the consolidated balance sheet as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The pension and PBOP plans' assets are commingled and allocated to measure and record pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

Going Concern

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

New and Recent Accounting Guidance

Accounting Guidance Recently Adopted

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.

Consolidation

In October 2016, the FASB issued ASU No. 2016-17, "Consolidation (Topic 810): Interests Held through Related Parties That are under Common Control." The new guidance requires that the reporting entity, in determining whether it satisfies the second characteristic of a primary beneficiary during the variable interest entity ("VIE") analysis, to include all of its direct variable interests in a VIE and, on a proportionate basis, its indirect variable interests in a VIE held through related parties, including related parties that are under common control with the reporting entity. The application of this guidance did not have a material impact on the results of operations, cash flows, or financial position of the Company.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." The new guidance eliminates entity specific consolidation guidance for limited partnerships. It also revises other aspects of the consolidation analysis, including how kick-out rights, fee arrangements, and related parties are assessed. The new guidance requires either modified retrospective or full retrospective basis application. 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. The Company’s leases are discussed in Note 12, “Commitments and Contingencies” under “Operating Lease Obligations.”

Financial Instruments – Classification and Measurement

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The new guidance principally affects the accounting for equity investments and financial liabilities where the fair value option has been elected, as well as the disclosure requirements for financial instruments. For the Company, the new guidance is effective for the fiscal year ended March 31, 2019, and interim periods therein, with early adoption permitted for fiscal years or interim periods that have not yet been issued. The application of this guidance is not expected to have a material impact 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 consolidated balance sheet:

		March 31,	
		2018	2017
		(in thousands of dollars)	
Regulatory assets			
Current:			
	Derivative instruments	**$ 4,204**	$ 3,390
	Gas costs adjustment	**16,079**	18,052
	Temporary state assessment	**2,502**	-
	Other	**51**	274
	Total	**22,836**	21,716
Non-current:			
	Environmental response costs	**1,460,645**	1,477,604
	Postretirement benefits	**251,227**	283,990
	Temperature control/interruptible sharing	**123,436**	103,681
	Other	**98,974**	86,893
	Total	**1,934,282**	1,952,168
Regulatory liabilities			
Current:			
	Energy efficiency	**43,452**	37,973
	Revenue decoupling mechanism	**77,688**	75,846
	Other	**5,614**	1,295
	Total	**126,754**	115,114
Non-current:			
	Carrying charges	**54,120**	40,760
	Cost of removal	**147,663**	177,883
	Delivery rate adjustment	**44,974**	44,974
	Excess earnings	**88,082**	88,082
	Postretirement benefits	**68,403**	36,385
	Regulatory tax liability, net	**433,330**	-
	Other	**126,600**	74,417
	Total	**963,172**	462,501
	Net regulatory assets	**$ 867,192**	$ 1,396,269

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

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

Delivery rate adjustment: The NYPSC authorized a surcharge for recovery of regulatory assets ("Delivery Rate Surcharge") of $5 million beginning January 1, 2008, which increased incrementally by $5 million in rate years two through five;

aggregating to a maximum of approximately $75 million over the term of a previous rate agreement, which capped at $45 million. The timing for the disposition of any associated deferred balances will be determined by future NYPSC rulings.

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

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

Environmental response costs: Represents deferred costs associated with the Company's shares of the estimated costs to investigate and perform certain remediation activities at former manufactured gas plant ("MGP") sites and related facilities. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Excess earnings: At the end of each rate year (calendar year), the Company is required to provide the NYPSC with a computation of its return on common equity capital ("ROE"). Under the new rate plan commencing calendar year 2017, if the ROE in the rate year exceeds 9.5% the Company is required to defer a portion of the revenue equivalent associated with any over earnings for the benefit of customers. Previously, the threshold for earnings sharing was 9.4% and the sharing mechanism was calculated based upon a cumulative average ROE over rate years 2013 and 2014 with 80% of any excess earnings applied as a credit against the environmental response costs deferral balance. The Company had no excess earnings for the calendar years ended December 31, 2017, 2016, or 2015. The timing for the disposition of any associated deferred balances will be determined by future NYPSC rulings.

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 NYPSC. These amounts will be refunded to, or recovered from, customers over the next year.

Postretirement benefits: 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.

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

Revenue decoupling mechanism: As approved by the NYPSC, the Company has a RDM as described in Note 2, "Summary of Significant Accounting Policies" under "Revenue Recognition." The RDM allows for annual adjustment 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.

Temperature control/interruptible ("TC/IT") sharing: Under the existing rate agreement, effective from January 1, 2017, the revenue requirement reflects certain levels of imputed TC/IT margins. Differences between the actual margins and imputed margins are fully credited or surcharged to the ratepayers

Temporary state assessment: In June 2009, the NYPSC authorized utilities, including the Company, to recover the costs required for payment of the Temporary State Energy & Utility Service Conservation Assessment ("Temporary State Assessment"), including carrying charges. The Temporary State Assessment was subject to reconciliation over a five year period which began July 1, 2009. On June 18, 2014, the NYPSC issued an order authorizing certain utilities, including the Company, to recover the Temporary State Assessment subject to reconciliation, including carrying charges, from July 1, 2014 through June 30, 2017. The Temporary State Assessment factor was discontinued as of June 2017, however the Company was allowed to continue to defer the general assessment expenses through March 31, 2018.

4. RATE MATTERS

Rate Case Filing

On January 29, 2016, the Company and KeySpan Gas East Corporation (the "New York Gas Companies") filed to adjust their base gas rates, to be effective from January 1, 2017. The filing requested to increase gas delivery base revenues.

On September 7, 2016, the New York Gas Companies filed a Joint Proposal establishing a three year rate plan beginning January 1, 2017 and ending December 31, 2019. The NYPSC issued an order approving the Joint Proposal on December 15, 2016 and the new rates went into effect beginning January 1, 2017.

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

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

The Company has various capital tracker mechanisms that reconcile the Company's capital expenditures to the amounts permitted in rates. The Net Utility Plant and Depreciation Expense tracker is a downward only reconciliation that applies to the Companies' aggregate total average net plant and depreciation expense combined. The reconciliation is summed at the end of Rate Year Three (December 31, 2019) to determine whether any underspend is owed to customers. Under the City/State Construction Reconciliation, the Company is authorized to defer 90% of the revenue requirement impact difference (excluding operations and maintenance expense) between actual and forecast city/state construction costs for future recovery from or return to customers. The capital tracker mechanisms are reflected in other non-current regulatory assets in the preceding table within Note 3 "Regulatory Assets and Liabilities" at March 31, 2018 and 2017.

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

The Company's environmental site investigation and remediation ("SIR") expense has also been moved from a surcharge to base rates. Beginning in January 2018, to the extent that the difference between actual SIR expense and the Forecast Rate Allowance exceeds $25 million on a cumulative basis, the Company will utilize its SIR Recovery Surcharge. The surcharge is designed to provide recovery for the differences between actual SIR expenses and the amounts allowed in rates and will be calculated annually and be limited to an amount no greater than 2% of the Company's prior year aggregate revenues. Differences over this threshold will be deferred for future recovery.

Tax Cuts and Jobs Act

In response to the Tax Act signed into law on December 22, 2017, the NYPSC issued an Order Instituting Proceeding under Case 17-M-0815 - Proceeding on Motion of the Commission on Changes in Law that May Affect Rates. This proceeding was instituted to solicit comments on the Tax Act's implications and places the utilities on notice of the NYPSC's intent to protect ratepayers' interest and to ensure that any federal income taxes currently built into rates and accumulated deferred income taxes which, under the Tax Act, would result in excess collection are deferred for future ratepayer benefit.

On March 29, 2018, the NYPSC Staff released its proposal to address accounting and ratemaking related to the Tax Act. Comments on NYPSC Staff's proposal were filed June 27, 2018.

On August 9, 2018, the NYPSC issued an order in its generic proceeding considering the impacts of federal tax reform. NYPSC Staff had advocated that all New York utilities implement a sur-credit by October 1st that would reflect the immediate effects of the Tax Act and also return any deferred benefits to customers. In response, the Company filed a proposal to (i) reduce the Company's rate prospectively to reflect the impact of the lower federal tax rate but delay any sur-credit to January 1st to offset scheduled rate increases and (ii) retain any deferred benefits, including accumulated deferred federal income taxes ("ADFIT"), for future rate moderation.

The NYPSC's order effectively approved all aspects of the Company's proposal. The NYPSC agreed that the Company should be allowed to defer both the pass back of calendar year 2018 tax savings and the amortization of excess ADFIT balances, and use the benefits as a rate moderator when base rates are next revised in 2020/2021. Specifically the NYPSC approved the Company's proposal to implement a sur-credit to reflect the lower tax rate effective January 1, 2019 to offset planned rate increases and retain the calendar year 2018 deferred amounts for future rate mitigation and/or to offset investments. Deferring the tax benefits until January 1, 2019 results in a deferred balance of $40 million. The Company estimates a protected excess ADFIT balance of $258 million and an unprotected excess ADFIT balance of $62 million.

Operations Audit

In August 2013, the NYPSC initiated an operational audit using a third party to review the accuracy of the customer service, electric reliability, and gas safety data reported by the investor owned utilities operating in New York, including the Company. On December 19, 2013, the NYPSC selected a third party to conduct the audit, which commenced in February 2014. On April 20, 2016, the NYPSC released the third party audit report publicly and adopted the majority of recommendations in the report. The audit report found that the Company, in general, is meeting its obligations to supply self-reported data. The report contains recommendations to improve internal controls and allow for greater consistency in reporting among the New York utilities. The recommendations do not affect current rate case performance targets or mechanisms and may be considered for potential implementation in future rate plans. The Company filed its plan to implement the audit recommendations with the NYPSC on May 19, 2016. On March 10, 2017, the NYPSC issued an Order approving the Company's implementation plan without modification, with quarterly updates to be made to the NYPSC on the status of implementation. On March 13, 2018, NYPSC Staff filed a letter indicating that the Company had implemented all recommendations and therefore the NYPSC was closing the audit.

Operations Staffing Audit

In January 2014, the NYPSC initiated an operational audit to review internal staffing levels and use of contractors for the core utility functions of the investor owned utilities operating in New York, including the Company. On June 26, 2014, the NYPSC selected a third party to conduct the audit. On February 21, 2017, the third party submitted its final report, which contained recommendations for all of National Grid's New York utilities designed to improve the staffing and workforce management processes. The report contained 26 recommendations for National Grid. The Company filed its implementation plan on March 23, 2017. On December 15, 2017, the NYPSC issued an Order approving the Company's implementation plan without modification, with quarterly updates to be made to the NYPSC on the status of implementation. The Company submitted its first update on April 16, 2018.

New York Management Audit

In 2018, the NYPSC will initiate a comprehensive management and operations audit of National Grid's three New York utilities. New York law requires periodic management audits of all utilities at least once every five years. National Grid last underwent a New York management audit in 2014/2015, when the NYPSC audited our New York gas business. The audit will be process oriented and forward looking, and presents opportunities to obtain feedback on how to improve service to customers and meet regulatory expectations. Areas of focus will likely include the traditional audit areas of corporate governance, budgeting and finance, customer, work management, and long-term planning, as well as organization design, information systems, and gas safety.

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
	(in thousands of dollars)	
Plant and machinery	**$ 4,966,071**	$ 4,368,971
Land and buildings	**201,857**	193,777
Assets in construction	**446,751**	424,225
Software and other intangibles	**126,085**	125,098
Total property, plant and equipment	**5,740,764**	5,112,071
Accumulated depreciation and amortization	**(1,131,116)**	(1,122,402)
Property, plant and equipment, net	**$ 4,609,648**	$ 3,989,669

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:

	March 31,	
	2018	2017
	(in thousands)	
Gas option contracts	**2,850**	3,550
Gas purchase contracts	**13,632**	10,004
Gas swap contracts	**24,905**	23,889
Total	**41,387**	37,443

Amounts Recognized on the Consolidated Balance Sheet

	Asset Derivatives			Liability Derivatives	
	March 31,			March 31,	
	2018	2017		**2018**	2017
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas option contracts	**$ -**	$ 43	Gas option contracts	**$ 341**	$ 115
Gas purchase contracts	**159**	2,171	Gas purchase contracts	**2,993**	2,959
Gas swap contracts	**547**	1,753	Gas swap contracts	**1,576**	1,372
	706	3,967		**4,910**	4,446
Other non-current assets:			Other non-current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	**-**	-	Gas purchase contracts	**-**	2,911
	-	-		**-**	2,911
Total	**$ 706**	$ 3,967	Total	**$ 4,910**	$ 7,357

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 consolidated 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, applicable payables and receivables, and instruments that are subject to master netting agreements, was a liability of $2.9 million and $3.4 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 $1.5 million and $0.5 million, respectively. The Company had no collateral posted for these instruments at March 31, 2018 and 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 $1.8 million and $0.8 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 Consolidated Balance Sheets

(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of assets presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative instruments						
Gas purchase contracts	$ 159	$ -	$ 159	$ -	$ -	$ 159
Gas swap contracts	547	-	547	-	-	547
Total	$ 706	$ -	$ 706	$ -	$ -	$ 706

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of liabilities presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative instruments						
Gas option contracts	$ 341	$ -	$ 341	$ -	$ -	$ 341
Gas purchase contracts	2,993	-	2,993	-	-	2,993
Gas swap contracts	1,576	-	1,576	-	363	1,213
Total	$ 4,910	$ -	$ 4,910	$ -	$ 363	$ 4,547

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

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of assets presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative instruments						
Gas option contracts	$ 43	$ -	$ 43	$ -	$ -	$ 43
Gas purchase contracts	2,171	-	2,171	-	-	2,171
Gas swap contracts	1,753	-	1,753	-	-	1,753
Total	$ 3,967	$ -	$ 3,967	$ -	$ -	$ 3,967

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of liabilities presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative instruments						
Gas option contracts	$ 115	$ -	$ 115	$ -	$ -	$ 115
Gas purchase contracts	5,870	-	5,870	-	-	5,870
Gas swap contracts	1,372	-	1,372	-	-	1,372
Total	$ 7,357	$ -	$ 7,357	$ -	$ -	$ 7,357

7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value on the consolidated balance sheet on a recurring basis and their level within the fair value hierarchy as of March 31, 2018 and 2017:

	March 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Assets:				
Derivative instruments				
Gas purchase contracts	$ -	$ 111	$ 48	$ 159
Gas swap contracts	-	547	-	547
Total	-	658	48	706
Liabilities:				
Derivative instruments				
Gas option contracts	-	-	341	341
Gas purchase contracts	-	2,993	-	2,993
Gas swap contracts	-	1,576	-	1,576
Total	-	4,569	341	4,910
Net liabilities	$ -	$ (3,911)	$ (293)	$ (4,204)

	March 31, 2017			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative instruments				
Gas option contracts	$ -	$ -	$ 43	$ 43
Gas purchase contracts	-	35	2,136	2,171
Gas swap contracts	-	1,753	-	1,753
Investment in Dominion Midstream Partners, LP	206,105	-	-	206,105
Total	206,105	1,788	2,179	210,072
Liabilities:				
Derivative instruments				
Gas option contracts	-	-	115	115
Gas purchase contracts	-	5,870	-	5,870
Gas swap contracts	-	1,372	-	1,372
Total	-	7,242	115	7,357
Net assets (liabilities)	$ 206,105	$ (5,454)	$ 2,064	$ 202,715

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 primarily consist of OTC gas option contracts and gas 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.

Investment in DM: Prior to September 30, 2016, the Company's investment in DM was valued based on Level 1 quoted market prices for DM common units, combined with a discount to the quoted market price, which was calculated using Level 2 inputs, to reflect restrictions on the transfer of the units and resulting lack of marketability. As of March 31, 2017 the restrictions on the transfer of the units were no longer in place and as such the Company's investment in DM was valued solely based on Level 1 quoted market prices for DM common units.

Changes in Level 3 Derivative Instruments

	Years Ended March 31,	
	2018	2017
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 2,064**	$ (944)
Total gains included in regulatory assets and liabilities	**21,575**	4,994
Settlements	**(23,932)**	(1,986)
Balance as of the end of the year	**$ (293)**	$ 2,064

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 into or out of Level 3 during the years ended March 31, 2018, 2017, or 2016.

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 tenure 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 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			
		(in thousands of dollars)					
Gas/Power	Cross commodity contracts	$ 48	$ -	$ 48	Discounted Cash Flow	Forward Curve (A)	$27.48 - $268.31/dth
Gas	Option contracts	-	(341)	(341)	Discounted Cash Flow	Implied Volatility	22% - 28%
	Total	$ 48	$ (341)	$ (293)			

(A) Includes deals with valuation assumptions on gas supply.

Commodity	Level 3 Position	Fair Value as of March 31, 2017			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Gas	Purchase contracts	$ 2,113	$ -	$ 2,113	Discounted Cash Flow	Forward Curve (A)	$1.67/dth
Gas/Power	Cross commodity contracts	23	-	23	Discounted Cash Flow	Forward Curve	$31.52 - $238.00/dth
Gas	Option contracts	43	(115)	(72)	Discounted Cash Flow	Implied Volatility	33% - 39%
	Total	$ 2,179	$ (115)	$ 2,064			

(A) Includes deals with valuation assumptions on gas supply.

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 and gas option derivative instruments are forward commodity prices, implied volatility, and valuation assumptions pertaining to peaking gas deals based on forward gas curves. 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 consolidated balance sheet reflects 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 $1.7 billion and $1.3 billion, respectively.

All other financial instruments on the consolidated 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 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 $23.5 million, $19.7 million, and $13.8 million, respectively, to the qualified pension plans. The Company expects to contribute approximately $58.6 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 $16.3 million, $43.8 million, and $22.8 million, respectively.

PBOP Plans

The PBOP plan provides 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 $15.5 million, $33.8 million, and $10.8 million, respectively, to the PBOP Plans. The Company does not expect to contribute to the PBOP Plans during the year ending March 31, 2019.

Benefit payments to PBOP plan participants for the years ended March 31, 2018, 2017, and 2016 were $21.6 million, $13.0 million, and zero, respectively.

Net Periodic Benefit Costs

The Company's net periodic benefit pension cost for the years ended March 31, 2018, 2017, and 2016 were $35.5 million, $37.8 million, and $37.0 million, respectively.

The Company's net periodic benefit PBOP cost for the years ended March 31, 2018, 2017, and 2016 were $6.1 million, $15.2 million, and $13.2 million, respectively

Amounts Recognized in Regulatory Assets/Liabilities

The following tables summarize the Company's changes in actuarial gains/losses and prior service costs recognized in regulatory assets/liabilities for the years ended March 31, 2018, 2017, and 2016:

	Pension Plans		
	Years Ended March 31,		
	2018	**2017**	**2016**
	(in thousands of dollars)		
Net actuarial loss (gain)	**$ 12,883**	$ (28,234)	$ 33,861
Amortization of net actuarial loss	**(34,579)**	(34,920)	(32,961)
Amortization of prior service cost, net	**(19)**	(19)	(19)
Total	**$ (21,715)**	$ (63,173)	$ 881
Included in regulatory assets	**(21,715)**	(63,173)	881
Total	**(21,715)**	(63,173)	881

	PBOP Plans		
	Years Ended March 31,		
	2018	**2017**	**2016**
	(in thousands of dollars)		
Net actuarial (gain) loss	**$ (16,469)**	$ (45,267)	$ 25,250
Amortization of net actuarial loss	**(5,977)**	(10,761)	(9,154)
Amortization of prior service cost, net	**(20)**	(26)	(29)
Total	**$ (22,466)**	$ (56,054)	$ 16,067
Included in regulatory liabilities	**$ (22,466)**	$ (56,054)	$ 16,067
Total	**$ (22,466)**	$ (56,054)	$ 16,067

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

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

	Pension Plans		
	Years Ended March 31,		
	2018	**2017**	**2016**
	(in thousands of dollars)		
Net actuarial loss	**$ 112,918**	$ 134,614	$ 197,768
Prior service cost	**89**	108	127
Total	**$ 113,007**	$ 134,722	$ 197,895
Included in regulatory assets	**$ 113,007**	$ 134,722	$ 197,895
Total	**$ 113,007**	$ 134,722	$ 197,895

	PBOP Plans		
	Years Ended March 31,		
	2018	**2017**	**2016**
	(in thousands of dollars)		
Net actuarial (gain) loss	**$ (1,070)**	$ 21,376	$ 77,404
Prior service cost	**(41)**	(21)	5
Total	**$ (1,111)**	$ 21,355	$ 77,409
Included in regulatory liabilities	**$ (1,111)**	$ 21,355	$ 77,409
Total	**$ (1,111)**	$ 21,355	$ 77,409

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 $29.8 million and zero, 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 $4.7 million and zero, respectively.

Amounts Recognized on the Balance Sheet

The following table summarizes the portion of the funded status above that is recognized on the Company's balance sheet at March 31, 2018 and 2017:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2018	2017	**2018**	2017
		(in thousands of dollars)		
Projected benefit obligation	**$ (798,801)**	$ (748,639)	**$ (277,058)**	$ (282,127)
Fair value of plan assets	**692,305**	632,292	**325,979**	297,561
Total	**$ (106,496)**	$ (116,347)	**$ 48,921**	$ 15,434
Other non-current assets	**$ -**	$ -	**$ 48,921**	$ -
Other non-current liabilities	**(106,496)**	(116,347)	**-**	15,434
Total	**$ (106,496)**	$ (116,347)	**$ 48,921**	$ 15,434

Expected Benefit Payments

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

(in thousands of dollars) Years Ended March 31,	Pension Plans	PBOP Plans
2019	$ 16,809	$ 17,320
2020	17,303	18,208
2021	17,790	19,075
2022	18,198	20,028
2023	18,695	20,829
2024-2028	97,944	112,647
Total	$ 186,739	$ 208,107

Assumptions Used for Employee Benefits Accounting

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

	PBOP Plans	
	Years Ended March 31,	
	2018	2017
Benefit Obligations:		
Discount rate	**4.10%**	4.30%
Rate of compensation increase	**n/a**	n/a
Expected return on plan assets	**6.25%-6.75%**	6.50%-6.75%
Net Periodic Benefit Costs:		
Discount rate	**4.30%**	4.25%
Rate of compensation increase	**n/a**	n/a
Expected return on plan assets	**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 decl	**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, trusteed, 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		Union PBOP Plans		Non-Union PBOP Plans	
	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 securities	**40%**	40%	**20%**	20%	**30%**	30%
Private equity	**5%**	5%	**0%**	0%	**0%**	0%
Real estate	**5%**	5%	**0%**	0%	**0%**	0%
Infrastructure	**3%**	3%	**0%**	0%	**0%**	0%
	100%	100%	**100%**	100%	**100%**	100%

Fair Value Measurements

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

	March 31, 2018				
	Level 1	**Level 2**	**Level 3**	**Not categorized**	**Total**
	(in thousands of dollars)				
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
			(in thousands of dollars)		
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 is 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 $2.4 million, $1.9 million, and $1.6 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 $10.6 million and $9.9 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)	
Years Ending March 31,	
2019	$ -
2020	-
2021	-
2022	-
2023	-
Thereafter	1,650,000
Total	$ 1,650,000

The Company's debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity 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.

Debt Authorizations

On December 18, 2015 the NYPSC authorized the Company to issue up to $1.7 billion of long-term debt in one or more transactions through March 31, 2019. The Company can issue up to $641 million of the total authorization for optional refinancing of existing debt. In March 2016, the Company issued $500 million of unsecured senior long-term debt at 3.41% with a maturity date of March 10, 2026 and $500 million of unsecured senior long-term debt at 4.50% with a maturity date of March 10, 2046. In March 2018, the Company issued $650 million of unsecured senior long-term debt at 4.27% with a maturity date of March 15, 2048.

In November 2016, the Company paid $400 million of unsecured senior long-term debt at 5.60%.

Gas Facilities Revenue Bonds

The Company had outstanding tax-exempt Gas Facilities Revenue Bonds ("GFRB") issued through the New York State Energy Research and Development Authority. Prior to March 31, 2018, $230 million of variable rate, auction rate GFRB were outstanding. The interest rate on the various variable rate series was reset weekly and ranged from 0.64% to 4.52% during the year ended March 31, 2018 and 0.51% to 2.45% during the year ended March 31, 2017. The GFRB were in auction rate mode and were backed by bond insurance. These bonds were not permitted to be put back to the Company and, in the case of a failed auction, the resulting interest rate on the bonds reverted to the maximum auction rate which depends on the current appropriate, short-term benchmark rates and the senior unsecured rating of the Company's bonds. The effect of the failed auctions on interest on long-term debt was not material for the years ended March 31, 2018, 2017, or 2016.

In April 2016 and March 2018, the Company repaid its fixed and variable rate GFRB's as follows:

	Interest Rate	Maturity Date	Years Ended March 31, 2018	Years Ended March 31, 2017
			(in thousands of dollars)	
Gas Facilities Revenues Bonds:				
1993A and 1993B	6.37%	April 1, 2020	$ -	$ 75,000
1996	5.50%	January 1, 2021	-	153,500
2005A	4.70%	February 1, 2024	-	82,000
1991A and 1991B	6.95%	July 1, 2026	-	100,000
1997	Variable	December 1, 2020	**125,000**	-
2005B	Variable	June 1, 2025	**55,000**	-
1991D	Variable	July 1, 2026	**50,000**	-
Total			**$ 230,000**	$ 410,500

Dividend Restrictions

Pursuant to the NYPSC's orders, the ability of the Company to pay dividends to KeySpan is conditioned upon maintenance of a utility capital structure with debt not exceeding 56% of total utility capitalization. At March 31, 2018 and 2017, the Company was in compliance with the utility capital structure required by the NYPSC. In accordance with the NYPSC order approving the acquisition of KeySpan, the Company is permitted to declare dividends in an amount not to exceed retained earnings accumulated since the date of acquisition plus unappropriated retained earnings, unappropriated undistributed earnings and accumulated other comprehensive income existing immediately prior to the date of acquisition.

Preferred Stock

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

Equity Infusion From Parent

On March 27, 2017, the Company received a capital contribution of $350 million from the Parent. This contribution was made in order to achieve the agreed upon capital structure of 48% equity and 52% debt as set forth in the Joint Proposal (as discussed in Note 4, "Rate Matters" under "Rate Case Filing").

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2018	2017	2016
	(in thousands of dollars)		
Current tax expense (benefit):			
Federal	**$ 67**	$ 9,651	$ 9,741
State	**3,427**	(9,642)	5,817
Total current tax expense (benefit)	**3,494**	9	15,558
Deferred tax expense (benefit):			
Federal	**9,211**	26,808	60,612
State	**974**	16,533	13,941
Total deferred tax expense (benefit)	**10,185**	43,341	74,553
Amortized investment tax credits (1)	**(911)**	(911)	(911)
Total deferred tax expense (benefit)	**9,274**	42,430	73,642
Total income tax expense	**$ 12,768**	$ 42,439	$ 89,200

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

Statutory Rate Reconciliation

The Company’s effective tax rates for the years ended March 31, 2018, 2017, and 2016 are 20.9%, 35.8%, and 40.6%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 31.55%, 35%, and 35%, respectively, to the actual tax expense:

	Years Ended March 31,		
	2018	2017	2016
	(in thousands of dollars)		
Computed tax	**$ 19,318**	$ 41,554	$ 76,970
Change in computed taxes resulting from:			
Allowance for equity funds used during construction	**57**	(2,873)	(68)
Investment tax credits	**(911)**	(911)	(911)
State income tax, net of federal benefit	**3,013**	4,479	12,843
Equity based compensation	**(1,193)**	(411)	(436)
Federal rate change	**(5,731)**	-	-
Other items, net	**(1,785)**	601	802
Total changes	**(6,550)**	885	12,230
Total income tax expenses	**$ 12,768**	$ 42,439	$ 89,200

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

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 U.S. 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 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 $326.5 million with $5.7 million of the remeasurement recorded to deferred income tax benefit and $320.8 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
	(in thousands of dollars)	
Deferred tax assets:		
Environmental remediation costs	**$ 372,136**	$ 437,257
Future federal benefit on state taxes	**26,834**	55,251
Net operating losses	**47,446**	97,600
Postretirement benefits and other employee benefits	**22,899**	54,835
Regulatory liability - taxes	**127,138**	-
Regulatory liabilities - other	**109,163**	179,226
Other items	**56,847**	68,771
Total deferred tax assets	**762,463**	892,940
Deferred tax liabilities:		
Investments in partnerships	**-**	91,052
Property related differences	**740,258**	995,899
Regulatory assets - environmental response costs	**424,119**	524,577
Regulatory assets - postretirement benefits	**50,289**	100,887
Regulatory assets - other	**62,808**	121,280
Other items	**11,102**	15,845
Total deferred tax liabilities	**1,288,576**	1,849,540
Net deferred income tax liabilities	**526,113**	956,600
Deferred investment tax credits	**171**	1,082
Deferred income tax liabilities, net	**$ 526,284**	$ 957,682

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	Expiration Period
	(in thousands of dollars)	
Federal	$ 357,611	2029-2037
NYS	138,671	2035-2037

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 net operating loss carryforwards 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) income, 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 $9.2 million and $6.1 million, respectively. During the years ended March 31, 2018, 2017, and 2016, the Company recorded interest expense of $3.1 million, $1.3 million, and $1.2 million, respectively. No tax penalties were recognized during the year ended March 31, 2018. During the years ended March 31, 2017 and 2016 the Company recognized a tax penalty expense of $0.3 million and $0.2 million, respectively.

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 New York will commence the examination of the Company's NYS income tax returns for the years ended March 31, 2009 through March 31, 2012 in the next fiscal year. The years ended March 31, 2013 through March 31, 2018 remain subject to examination by the state of New York.

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

Jurisdiction	Tax Year
Federal	March 31, 2010
New York	March 31, 2009

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.

The Company has identified numerous MGP sites and related facilities, which were owned or operated by the Company or its predecessors. These former sites, some of which are no longer owned by the Company, have been identified to the NYPSC and the New York State Department of Environmental Conservation (“DEC”) for inclusion on appropriate site inventories. Administrative Orders on Consent or Voluntary Cleanup Agreements have been executed with the DEC to address the investigation and remediation activities associated with certain sites. Expenditures incurred for the years ended March 31, 2018, 2017, and 2016 were $45.5 million, $53.8 million, and $45.9 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $1,268.4 million and $1,276.4 million at March 31, 2018 and 2017, respectively. These costs are expected to be incurred over approximately 42 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 NYPSC has provided for the recovery of SIR costs. Accordingly, as of March 31, 2018 and 2017, the Company has recorded net environmental regulatory assets of $1,444.7 million and $1,473.0 million, respectively.

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

12. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company has an operating lease for office space which is utilized by both the Company and its affiliates. A portion of the lease expense is allocated to the affiliated entities that benefit from its use. The gross rental expense for the office space was approximately $12.3 million, $12.5 million, and $12.2 million 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 $5.0 million, $4.2 million, and $4.1 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:

(in thousands of dollars) Years Ending March 31,		
2019	$	12,480
2020		12,629
2021		12,820
2022		12,878
2023		12,918
Thereafter		24,330
Total	$	88,055

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:

(in thousands of dollars) Years Ending March 31,	Gas Purchases	
2019	$	240,344
2020		211,659
2021		191,068
2022		150,581
2023		134,895
Thereafter		834,202
Total	$	1,762,749

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.

13. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2018	2017	**2018**	2017
	(in thousands of dollars)			
KeySpan Corporation	**$ 2,392**	$ 1,711	**$ 70,249**	$ 70,414
KeySpan Gas East Corporation	**-**	-	**9,356**	8,341
National Grid Electric Services	**418**	418	**1,519**	1,519
National Grid Engineering Services, LLC	**1,785**	1,830	**148**	159
NGUSA	**968**	968	**2,793**	3,340
NGUSA Service Company	**1,820**	31	**32,427**	29,351
Other	**182**	295	**213**	1,004
Total	**$ 7,565**	$ 5,253	**$ 116,705**	$ 114,128

Intercompany Money Pool

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

The Regulated and Unregulated Money Pools are funded by operating funds from participants in the applicable pool. NGUSA has the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Money Pools, if necessary. The Company had short-term intercompany money pool borrowings of $401.5 million and

$366.9 million at March 31, 2018 and 2017, respectively. NETCO had short-term intercompany money pool investments of $304.1 million and $135.0 million at March 31, 2018 and 2017, respectively. The average interest rates for the intercompany money pool were 1.6%, 1.1%, and 0.7% for the years ended March 31, 2018, 2017, and 2016, respectively.

Service Company Charges

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

Charges from the service companies of NGUSA, including but not limited to non-power goods and services, to the Company for the years ended March 31, 2018, 2017, and 2016 were $376.3 million, $376.3 million, and $374.3 million, respectively.