nationalgrid

Massachusetts Electric Company

Financial Statements

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

MASSACHUSETTS ELECTRIC COMPANY

FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED

MARCH 31, 2018

I hereby certify that I am Vice-President, NE Controller of The Narragansett Electric Company and that the enclosed financial statements for the twelve months ended March 31, 2018, have been prepared in accordance with generally accepted accounting principles, and are, in my opinion, correct, subject to year-end audit adjustments and footnote disclosure.

Christopher McCusker, Vice-President, NE Controller

08/23/18

Date

MASSACHUSETTS ELECTRIC COMPANY

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Massachusetts Electric Company

We have audited the accompanying financial statements of Massachusetts Electric Company (the "Company"), which comprise the balance sheet and statement of capitalization as of March 31, 2018, and the related statements of income, comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Predecessor Auditors' Opinion on 2017 and 2016 Financial Statements

The financial statements of the Company as of and for each of the two years ended March 31, 2017 were audited by other auditors whose report, dated August 25, 2017, expressed an unmodified opinion on those statements.

Deloitte & Touche LLP

August 27, 2018

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

	Years Ended March 31,		
	2018	2017	2016
Operating revenues	**$ 2,320,501**	$ 2,143,690	$ 2,338,904
Operating expenses:			
Purchased electricity	**628,363**	534,107	800,034
Operations and maintenance	**1,262,811**	1,242,160	1,260,997
Depreciation	**141,181**	135,408	129,287
Other taxes	**77,665**	73,528	70,815
Total operating expenses	**2,110,020**	1,985,203	2,261,133
Operating income	**210,481**	158,487	77,771
Other income and (deductions):			
Interest on long-term debt	**(67,879)**	(61,132)	(47,925)
Other interest, including affiliate interest	**407**	839	1,461
Other income, net	**19,592**	10,174	11,177
Total other deductions, net	**(47,880)**	(50,119)	(35,287)
Income before income taxes	**162,601**	108,368	42,484
Income tax expense	**55,227**	39,410	13,690
Net income	**$ 107,374**	$ 68,958	$ 28,794

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

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

	Years Ended March 31,		
	2018	2017	2016
Net income	**$ 107,374**	$ 68,958	$ 28,794
Other comprehensive income (loss), net of taxes:			
Unrealized gains (losses) on securities	**35**	141	(80)
Change in pension and other postretirement obligations	**564**	6	17
Total other comprehensive income (loss)	**599**	147	(63)
Comprehensive income	**$ 107,973**	$ 69,105	$ 28,731
Related tax (expense) benefit:			
Unrealized gains or losses on securities	**$ (55)**	(95)	$ 54
Change in pension and other postretirement obligations	**(219)**	(4)	(12)
Total tax (expense) benefit	**$ (274)**	$ (99)	$ 42

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

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

	Years Ended March 31,		
	2018	2017	2016
Operating activities:			
Net income	**$ 107,374**	$ 68,958	$ 28,794
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**141,181**	135,408	129,287
Provision for deferred income taxes	**19,257**	31,307	14,719
Bad debt expense	**42,654**	40,679	56,430
Allowance for equity funds used during construction	**(7,059)**	(7,571)	(7,388)
Amortization of debt discount and issuance costs	**444**	399	315
Net postretirement benefits (contributions) expense	**(7,348)**	2,995	15,731
Net environmental remediation payments	**(12,351)**	(20,667)	(19,062)
Changes in operating assets and liabilities:			
Accounts receivable and other receivable, net, and unbilled revenues	**(111,101)**	(81,176)	77,052
Inventory	**(2,035)**	3,190	(2,731)
Regulatory assets and liabilities, net	**(8,774)**	30,079	(15,902)
Prepaid and accrued taxes	**39,888**	(4,531)	6,320
Accounts payable and other liabilities	**96,297**	22,904	(33,307)
Renewable energy certificate obligations, net	**7,098**	(21,299)	(38,835)
Other, net	**(876)**	(6,794)	10,178
Net cash provided by operating activities	**304,649**	193,881	221,601
Investing activities:			
Capital expenditures	**(340,231)**	(277,566)	(277,139)
Payments on restricted cash and special deposits	**-**	20	79,951
Intercompany money pool and affiliated receivables/payables, net	**217,600**	(172,843)	1,049
Cost of removal	**(30,416)**	(26,574)	(27,548)
Other	**(249)**	(238)	(455)
Net cash used in investing activities	**(153,296)**	(477,201)	(224,142)
Financing activities:			
Preferred stock dividends	**(100)**	(100)	(100)
Proceeds from long-term debt	-	500,000	-
Payment of debt issuance costs	-	(3,889)	-
Advance from affiliate	**(150,000)**	(375,000)	-
Equity infusion from Parent	-	160,300	-
Net cash (used in) provided by financing activities	**(150,100)**	281,311	(100)
Net increase (decrease) in cash and cash equivalents	**1,253**	(2,009)	(2,641)
Cash and cash equivalents, beginning of year	**3,986**	5,995	8,636
Cash and cash equivalents, end of year	**$ 5,239**	$ 3,986	$ 5,995
Supplemental disclosures:			
Interest paid	**$ (67,220)**	(55,523)	(46,190)
Interest received	**3,384**	-	-
Income taxes refunded	**1,874**	100	6,029
Significant non-cash items:			
Capital-related accruals	**4,790**	6,134	7,146

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

MASSACHUSETTS ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 5,239**	$ 3,986
Accounts receivable	**544,466**	472,119
Allowance for doubtful accounts	**(122,827)**	(112,977)
Accounts receivable from affiliates	**40,566**	72,444
Intercompany money pool	**87,790**	256,639
Unbilled revenues	**88,345**	82,395
Inventory	**111,279**	104,110
Regulatory assets	**185,305**	230,598
Prepaid taxes	**1,038**	6,716
Other	**2,955**	4,528
Total current assets	**944,156**	1,120,558
Property, plant and equipment, net	**3,291,572**	3,051,177
Other non-current assets:		
Regulatory assets	**674,132**	618,900
Goodwill	**1,008,244**	1,008,244
Other	**14,750**	14,779
Total other non-current assets	**1,697,126**	1,641,923
Total assets	**$ 5,932,854**	$ 5,813,658

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

MASSACHUSETTS ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2018	2017
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 359,614**	$ 291,823
Accounts payable to affiliates	**108,739**	91,866
Advance from affiliate	**-**	150,000
Taxes accrued	**34,447**	2,279
Customer deposits	**25,388**	28,332
Interest accrued	**20,635**	20,607
Regulatory liabilities	**16,389**	10,829
Renewable energy certificate obligations	**140,842**	128,610
Distributed generation study	**15,502**	-
Other	**45,764**	25,107
Total current liabilities	**767,320**	749,453
Other non-current liabilities:		
Regulatory liabilities	**652,358**	320,448
Asset retirement obligations	**2,326**	2,450
Deferred income tax liabilities, net	**390,969**	696,669
Postretirement benefits	**167,147**	183,801
Environmental remediation costs	**63,301**	71,756
Other	**33,065**	41,030
Total other non-current liabilities	**1,309,166**	1,316,154
Capitalization:		
Shareholders' equity	**2,566,850**	2,458,977
Long-term debt	**1,289,518**	1,289,074
Total capitalization	**3,856,368**	3,748,051
Total liabilities and capitalization	**$ 5,932,854**	$ 5,813,658

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

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

			March 31, 2018	March 31, 2017
Total shareholders' equity			**$ 2,566,850**	$ 2,458,977
Long-term debt:	Interest Rate	Maturity Date		
Senior Note	5.90%	November 15, 2039	**800,000**	800,000
Senior Note	4.00%	August 15, 2046	**500,000**	**500,000**
Total debt			**1,300,000**	**1,300,000**
Unamortized debt discount			**(1,927)**	**(2,016)**
Unamortized debt issuance costs			**(8,555)**	**(8,910)**
Long-term debt			**1,289,518**	**1,289,074**
Total capitalization			**$ 3,856,368**	**$ 3,748,051**

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

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

				Accumulated Other Comprehensive Income (Loss)				
	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Unrealized Gain (Loss) on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2015	**$ 59,953**	**$ 2,259**	**$ 1,693,049**	**$ 912**	**$ 4,172**	**$ 5,084**	**$ 440,696**	**$ 2,201,041**
Net income	-	-	-	-	-	-	28,794	28,794
Other comprehensive income (loss):								
Unrealized losses on securities, net of $54 tax benefit	-	-	-	(80)	-	(80)	-	(80)
Change in pension and other postretirement obligations, net of $12 tax expense	-	-	-	-	17	17	-	17
Total comprehensive income								28,731
Preferred stock dividends	-	-	-	-	-	-	(100)	(100)
Balance as of March 31, 2016	**$ 59,953**	**$ 2,259**	**$ 1,693,049**	**$ 832**	**$ 4,189**	**$ 5,021**	**$ 469,390**	**$ 2,229,672**
Net income	-	-	-	-		-	68,958	68,958
Other comprehensive income:								
Unrealized gains on securities, net of $95 tax expense	-	-	-	141	-	141	-	141
Change in pension and other postretirement obligations, net of $4 tax expense	-	-	-	-	6	6	-	6
Total comprehensive income								69,105
Equity infusion from Parent	-	-	160,300	-	-	-	-	160,300
Preferred stock dividends	-	-	-	-	-	-	(100)	(100)
Balance as of March 31, 2017	**$ 59,953**	**$ 2,259**	**$ 1,853,349**	**$ 973**	**$ 4,195**	**$ 5,168**	**$ 538,248**	2,458,977
Net income	-	-	-	-		-	107,374	107,374
Other comprehensive income:								
Unrealized gains on securities, net of $55 tax expense	-	-	-	35	-	35	-	35
Change in pension and other postretirement obligations, net of $219 tax expense	-	-	-	-	564	564	-	564
Total comprehensive income								107,973
Preferred stock dividends	-	-	-	-	-	-	(100)	(100)
Balance as of March 31, 2018	**$ 59,953**	**$ 2,259**	**$ 1,853,349**	**$ 1,008**	**$ 4,759**	**$ 5,767**	**$ 645,522**	**$ 2,566,850**

The Company had 2,398,111 shares of common stock authorized, issued and outstanding, with a par value of $25 per share and 22,585 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2018 and 2017.

The accompanying notes are an integral part of these financial statements

MASSACHUSETTS ELECTRIC COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

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

Pursuant to a settlement agreement associated with NGUSA's purchase of the Nantucket Electric Company ("Nantucket Electric") in 1996 approved by the Massachusetts Department of Public Utilities ("MA DPU"), the Company is considered, along with its affiliate Nantucket Electric as one regulated entity for the purpose of recovering its costs and establishing its rates assessed to its customers, with the exception of the recovery of Nantucket Electric's investment in two undersea electric cables. In the recovery of certain regulatory assets, funding of the recovery is from the customers of both companies. However, the mechanism by which recovery is ultimately achieved is through a single regulatory asset recorded on the balance sheet of the Company. Nantucket Electric's share of these costs and recoveries are reflected through a return on equity mechanism between the Company and Nantucket Electric, as discussed in Note 13 – "Related Party Transactions."

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), including the accounting principles for rate-regulated entities. The financial statements reflect the ratemaking practices of the applicable regulatory authorities.

The Company has evaluated subsequent events and transactions through August 27, 2018, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities included in the financial statements. Actual results could differ from those estimates.

Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC") and the MA DPU regulate the rates the Company charges its customers. In certain cases, the rate actions of the FERC and MA DPU can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. Regulatory assets and liabilities are reflected on the balance sheet consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

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

As approved by the MA DPU, the Company is allowed to pass through commodity-related costs to customers and also bills for approved rate adjustment mechanisms. In addition, the Company has an electric revenue decoupling mechanism ("RDM") which allows for adjustments to the Company's delivery rates as a result of the reconciliation between allowed revenue and billed revenue. Any difference between the allowed revenue and the billed revenue is recorded as a regulatory asset or regulatory liability.

Other Taxes

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

The Company's policy is to accrue for property taxes on a calendar year basis, taking into account the assessment period. The Company had accrued for property taxes of zero and $0.4 million at March 31, 2018 and 2017, respectively.

Income Taxes

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

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

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

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. The collectability of receivables is continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible. The Company recorded bad debt expense of $42.7 million, $40.7 million and $56.4 million for the years ended March 31, 2018, 2017 and 2016, respectfully, within operations and maintenance in the statements of income.

Inventory

Inventory is composed of materials and supplies and 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.

The Company had materials and supplies of $26.5 million and $24.4 million, and purchased renewable energy certificates ("RECs") of $84.8 million and $79.7 million at March 31, 2018 and 2017, respectively. (See Renewable Energy Certificate Obligations below for more information on RECs).

Renewable Energy Certificate Obligations

RECs are stated at cost and are used to measure compliance with renewable energy standards. RECs are held primarily for consumption. At March 31, 2018 and 2017 the Company recorded purchased RECs of $84.8 million and $79.7 million, respectively, within inventory and a compliance liability based on retail electricity sales of $140.8 million and $128.6 million, respectively.

Power Purchase Agreements

The Company enters into power purchase agreements to procure commodity to serve its electric service customers. The Company evaluates whether such agreements are leases, derivative instruments, or executory contracts. Power purchase agreements that do not qualify as leases or derivative instruments are accounted for as executory contracts and are, therefore, recognized as the electricity is purchased. In making its determination of the accounting for power purchase agreements, the Company considers many factors, including: the source of the electricity; the level of output from any specified facility that the Company is taking under the contract; the involvement, if any, that the Company has in operating the specified facility; and the pricing mechanisms in the contract.

Fair Value Measurements

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

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

measured based on the fair value of the underlying investments but may not be readily redeemable at that fair value.

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

Property, Plant and Equipment

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

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the FERC and MA DPU. The average composite rates for the years ended March 31, 2018, 2017, and 2016 are as follows:

	2018	2017	2016
Composite rates	**3.2%**	3.3%	3.2%

Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of $266.5 million and $261.0 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 statements of income as non-cash income in other 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 $7.1 million, $7.6 million, and $7.4 million reflecting adjustments to plant balances for the years ended March 31, 2018, 2017 and 2016, respectively. The Company recorded AFUDC related to debt of $3.6 million, $3.0 million, and $3.1 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 7.8%, 8.4%, and 8.5%, 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 required under the current standard. The one-step approach requires a recoverability test performed based on the comparison of the Company's estimated fair value with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is considered not impaired. If the carrying value exceeds the estimated fair value, the Company is required to recognize an impairment charge for such excess, limited to the allocated amount of goodwill.

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

Available-For-Sale Securities

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

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant and equipment primarily associated with the Company's distribution facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value. The Company applies regulatory accounting guidance and both the depreciation and accretion costs associated with asset retirement obligation are recorded as increases to regulatory assets on the balance 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	**$ 2,450**	$ 2,370
Accretion expense	**103**	100
Liabilities settled	**(176)**	(20)
Balance as of the end of the year	**$ 2,377**	$ 2,450

The Company had a current portion of asset retirement obligations of $0.1 million included in other current liabilities on the balance sheet at March 31, 2018.

Employee Benefits

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

Going Concern

Current U.S. GAAP guidance requires management to evaluate whether there is substantial doubt surrounding an entity's ability to continue as a going concern. If management concludes that substantial doubt exists additional disclosures relating to management's evaluation and conclusion are required. Management is not aware of any indicators giving rise to substantial doubt about the Company's ability to continue to operate and to meet its obligations as they 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, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which eliminates Step 2 from the goodwill impairment test. For the Company, the requirements of the new standard will be effective for the fiscal year ended March 31, 2022, with early adoption permitted. The Company early adopted the ASU in the year ended March 31, 2018 for its 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.

Accounting Guidance Not Yet Adopted

Pension and Postretirement Benefits

In March 2017, the FASB issued ASU No. 2017-07, "Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which changes certain presentation and disclosure requirements for employers that sponsor defined benefit pension and other postretirement benefit plans. The ASU requires the service cost component of the net benefit cost to be in the same line item as other compensation in operating income and the other components of net benefit cost to be presented outside of operating income on a retrospective basis. 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 7, “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 will impact how available for sale securities will be presented in the financial statements and is not expected to have a material impact on the presentation, results of its operations, cash flows, and financial position.

Stock Compensation

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

Reclassifications

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

3. REGULATORY ASSETS AND LIABILITIES

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

	March 31,	
	2018	2017
	(in thousands of dollars)	
Regulatory assets		
Current:		
Energy efficiency	**$ 2,684**	$ 47,016
Rate adjustment mechanisms	**50,893**	54,398
Renewable energy certificates	**56,006**	48,908
Revenue decoupling mechanism	**67,468**	67,087
Transmission service	**5,808**	12,675
Other	**2,446**	515
Total	**185,305**	230,598
Non-current:		
Environmental response costs	**71,644**	71,950
Postretirement benefits	**273,443**	294,484
Storm costs	**149,468**	80,110
Net metering deferral	**108,122**	83,878
Rate adjustment mechanisms	**28,425**	36,547
Other	**43,030**	51,931
Total	**674,132**	618,900
Regulatory liabilities		
Current:		
Residential assistance adjustment factor	**6,873**	5,361
Rate adjustment mechanisms	**6,576**	672
Solar generation program	**2,940**	4,796
Total	**16,389**	10,829
Non-current:		
Cost of removal	**266,522**	261,034
Environmental response costs	**25,042**	31,410
Rate adjustment mechanisms	**10,881**	7,809
Regulatory tax liability, net	**322,302**	-
Other	**27,611**	20,195
Total	**652,358**	320,448
Net Regulatory asset	**$ 190,690**	$ 518,222

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

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

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

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

Postretirement benefits: The regulatory asset represents the Company's deferral related to the underfunded status of its pension and PBOP plans. The regulatory liability primarily represents the excess of amounts received in rates over actual costs of the Company's pension and PBOP plans to be refunded in future periods.

Rate adjustment mechanisms: The Company is subject to a number of rate adjustment mechanisms, 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 MA DPU.

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").

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

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

Revenue decoupling mechanism: As approved by the MA DPU, the Company has an electric Revenue Decoupling Mechanism ("RDM") which allows for an annual adjustment to the Company's delivery rates as a result of the reconciliation between annual target revenue and actual billed delivery service revenue. Any difference between the annual target revenue and actual billed delivery service revenue is recorded as a regulatory asset or regulatory liability.

Solar generation program: The Solar Generation program reflects reconciliation of the recovery against investment and ongoing maintenance costs of Solar Generation Facilities constructed, owned and operated by the Company, as well as any credits for net proceeds associated with energy sales to the Independent System Operator of New England ("ISO-NE"). This program also considers the market value of the generated Solar generated Renewable Energy Certificates ("SRECs"), which were used to comply with the Company's Renewable Portfolio Standards and net proceeds, via sale, or transfer of SRECS (at market value) from distribution customers (customers charged for the Solar provision) to Commodity customers (Basic/Default service provision) for use in complying with the Renewable Portfolio Standards, of which the cost is collected via the Basic/Default service provision, if any, associated with bidding the capacity of the Solar Generating Facilities into the ISO-NE Forward Capacity Market.

Storm costs: The Company is allowed to recover storm costs from all retail delivery service customers. This balance reflects costs yet to be recovered. See Note 4 Rate Matters for additional information regarding recovery of storm costs.

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

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

4. RATE MATTERS

Rate Case Filing

In November 2015, the Company, together with its affiliate, Nantucket Electric Company ("Nantucket Electric"), filed an application for new base distribution rates that become effective October 1, 2016. The MA DPU approved an overall increase in base distribution revenue of approximately $169.7 million based upon a 9.9% return on equity and an overall capital structure of 50.69% equity, 49.22% long-term debt and 0.09% preferred stock. This increase in revenue includes returns on capital and solar assets placed in service after the last rate case test year of December 2008 and previously recovered through separate factors. The order also allows recovery over five years of the aggregate test-year balance of protected customer accounts receivable outstanding for more than 360 days of $40.6 million. As a result of the order the Company has recovered a revenue of approximately $12.2 million for the year ended March 31, 2018 in relation to the recovery of protected accounts; the remaining $28.4 million of the protected receivables will be collected through 2021.

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

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

Recovery of Transmission Costs

New England Power (NEP) a company affiliate operates the transmission facilities of its New England affiliates as a single integrated system and reimburses the Company for the cost of its transmission facilities, including a return on those facilities under NEP's Tariff No. 1. In turn, these costs are allocated among transmission customers in New England in accordance with the ISO New England Open Access Transmission Tariff ("ISO-NE OATT"). According to the FERC order, the Company is compensated for its actual monthly transmission costs with its authorized maximum return on equity ("ROE") of 11.74% on certain transmission assets. The amounts reimbursed to the Company by NEP for the years ended March 31, 2018, 2017 and 2016 were $19.5 million, $18.0 million and $16.5 million, respectively, which are included within the accompanying statements of income. On October 16, 2014, the FERC issued an order, Opinion No. 531-A, resetting the base ROE applicable to transmission assets under the ISO-NE OATT from 11.14% to 10.57% effective as of October 16, 2014 and establishing a maximum ROE of 11.74%. On March 3, 2015, the FERC issued an Order on Rehearing, Opinion No. 531-B, affirming the 10.57% base ROE and clarifying that the 11.74% maximum ROE applies to all individual transmission projects with ROE incentives previously granted by the FERC. On April 14, 2017, the U.S. Court of Appeals for the D.C. Circuit (Court of Appeals) vacated and remanded FERC's Opinion No. 531 (and successor orders), through which FERC had lowered New England Transmission Owners ("NETO") return on equity from 11.14% to 10.57% and capped the total incentives at 11.74%. Due to this vacatur, on June 5, 2017, the NETO made a filing with FERC to reinstate the base ROE of 11.14% effective June 6, 2017. The final resolution of procedural posture of ROE complaints is unclear at this time.

Tax Cuts and Jobs Act

On March 15, 2018 FERC initiated multiple proceedings intended to adjust FERC-jurisdictional rates to reflect the corporate tax changes as a result of the passage of the Tax Act of 2017. Of the proceedings initiated relevant to the Company is the Notice of Inquiry ("NOI") seeking comments on the effects of the Tax Act on all FERC-jurisdiction rates. This NOI will be used by the FERC to build a record on the tax issues affecting FERC-jurisdictional rates and will be used to determine whether additional action is needed.

The MA DPU issued an order opening an investigation docketed as MA DPU 18-15 to examine the effect of the Tax Act on the rates of the investor-owned utilities in Massachusetts. The MA DPU order explains that the statutory reduction in the federal corporate income tax rates pursuant to the Tax Act constitutes evidence that the rates being charged by each utility may no longer be just and reasonable as of January 1, 2018. To address this issue, the MA DPU has ordered each utility, as of January 1, 2018, to account for any revenues associated with the difference between the previous and current corporate income tax rates, and also establish a regulatory liability for excess recovery in rates of accumulated deferred income taxes resulting from the lower federal corporate income tax rate. The order requires utilities to file a plan for how it will refund these amounts by May 1, 2018, with an expectation that a rate reduction shall go into effect by July 1, 2018. To the extent that a utility seeks to implement any part of its rate adjustment, including the refund of excess deferred taxes, on a date later than July 1, 2018, that party must demonstrate that customers will not be harmed by the proposal and that the proposal is otherwise in the public interest. The filing was submitted to the MA DPU on May 1, 2018. On June 29, 2018 , the MA DPU ordered rates to be reduced on July 1, 2018 to reflect the lower federal tax rates in the current approved rate plans, with all else held equal. The order deferred the decision on the flow back of excess deferred income taxes and the effect of the tax reduction, from the period of January 1, 2018 through June 30, 2018, to a future date.

Grid Modernization Plan

On August 19, 2015 the Company filed its proposed grid modernization plan with the MA DPU, with four different proposed investment scenarios. On May 10, 2018, the MA DPU issued an order in this proceeding in which it approved $82 million in grid-facing investments over three years in: (1) Conservation Voltage Reduction and Volt VAR Optimization; (2) advanced distribution automation; (3) feeder monitors; (4) communications and information/operational technologies; and (5) advanced distribution management. The MA DPU allowed recovery of both operation and maintenance expense and capital costs through a reconciling mechanism, and in the future will consider grid modernization plans outside of general rate cases. The MA DPU did not approve any customer-facing (i.e., advanced metering infrastructure) investments and will address these types of investments in a separate investigation to see if there are ways to achieve cost-effective deployment of advanced metering functionality (AMF). The MA DPU found there needs to be widespread adoption of dynamic pricing in order for AMF to be successful, and it needs to address how to facilitate this first. The MA DPU also refined its grid modernization objectives to place additional focus on improved access to the distribution system planning process.

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	**$ 4,369,508**	$ 4,139,642
Land and buildings	**212,109**	204,155
Assets in construction	**198,945**	148,258
Total property, plant and equipment	**4,780,562**	4,492,055
Accumulated depreciation and amortization	**(1,488,990)**	(1,440,878)
Property, plant and equipment, net	**$ 3,291,572**	$ 3,051,177

6. FAIR VALUE MEASUREMENTS

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

	March 31, 2018							
	Level 1		Level 2		Level 3		Total	
			(in thousands of dollars)					
Assets:								
Available-for-sale securities	$	3,630	$	4,987	$	-	$	8,617

	March 31, 2017							
	Level 1		Level 2		Level 3		Total	
			(in thousands of dollars)					
Assets:								
Available-for-sale securities	$	3,472	$	4,564	$	-	$	8,036

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

Other Fair Value Measurements

The Company's 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 $1.5 billion and $1.5 billion, respectively.

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

7. EMPLOYEE BENEFITS

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

Plan assets are maintained for all of NGUSA and its subsidiaries in commingled trusts. In respect of cost determination, plan assets are allocated to the Company based on the Company's proportionate share of the Plan's projected benefit obligation. The Plan's costs are first directly charged to the Company based on the Company's employees that participate in the Plan. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. The Company applies deferral accounting for pension and PBOP expenses associated with its regulated electric 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 $18.8 million, $18.2 million, and $13.3 million, respectively, to the qualified pension plans. The Company expects to contribute approximately $19.2 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 $36.4 million, $28.7 million, and $24.3 million, respectively.

PBOP Plans

The PBOP plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. During the years ended March 31, 2018, 2017, and 2016, the Company made contributions of approximately $6.1 million, $4.7 million, and $1.7 million, respectively, to the PBOP Plans. The Company does not expect to contribute to the PBOP Plans during the year ending March 31, 2019.

Benefit payments to PBOP plan participants for the years ended March 31, 2018, 2017, and 2016 were approximately $13.1 million, $12.7 million, and $13.7 million, respectively.

Net Periodic Benefit Costs

The Company's net periodic benefit pension cost for the years ended March 31, 2018, 2017, and 2016 was $16.5 million, $20.3 million, and $26.1 million, respectively.

The Company's net periodic benefit PBOP cost for the years ended March 31, 2018, 2017, and 2016 was $5.6 million, $9.9 million, and $9.4 million, respectively.

Amounts Recognized in AOCI and Regulatory Assets

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

	Pension Plans		
	Years Ended March 31,		
	2018	2017	2016
	(in thousands of dollars)		
Net actuarial loss (gain)	**$ 4,454**	$ (14,723)	$ 21,036
Amortization of net actuarial loss	**(13,810)**	(16,295)	(19,041)
Amortization of prior service cost, net	**(84)**	(84)	(84)
Total	**$ (9,440)**	$ (31,102)	$ 1,911
Recognized in regulatory assets	**$ (8,657)**	$ (31,093)	$ 1,940
Recognized in AOCI	**(783)**	(9)	(29)
Total	**$ (9,440)**	$ (31,102)	$ 1,911

	PBOP Plans		
	Years Ended March 31,		
	2018	2017	2016
	(in thousands of dollars)		
Net actuarial (gain) loss	**$ (1,510)**	$ (44,023)	$ 14,010
Amortization of net actuarial loss	**(2,443)**	(5,417)	(5,397)
Amortization of prior service credit, net	**54**	402	542
Total	**$ (3,899)**	$ (49,038)	$ 9,155
Recognized in regulatory assets	**$ (3,899)**	$ (49,038)	$ 9,155
Total	**$ (3,899)**	$ (49,038)	$ 9,155

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

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

	Pension Plans		
	March 31,		
	2018	2017	2016
	(in thousands of dollars)		
Net actuarial loss	**$ 199,633**	$ 208,989	$ 240,007
Prior service cost	**184**	268	352
Total	**$ 199,817**	$ 209,257	$ 240,359
Recognized in regulatory assets	**$ 199,817**	$ 208,474	$ 239,567
Recognized in AOCI	**-**	783	792
Total	**$ 199,817**	$ 209,257	$ 240,359

	PBOP Plans		
	March 31,		
	2018	2017	2016
	(in thousands of dollars)		
Net actuarial loss	**$ 64,300**	$ 68,253	$ 117,693
Prior service credit	**-**	(54)	(456)
Total	**$ 64,300**	$ 68,199	$ 117,237
Recognized in regulatory assets	**$ 64,300**	$ 68,199	$ 117,237
Total	**$ 64,300**	$ 68,199	$ 117,237

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 $14.0 million and $0.1 million, respectively, and net actuarial loss and prior service benefit to be amortized from regulatory assets during the year ending March 31, 2019 for the PBOP Plans is $2.2 million and $0, respectively.

Amounts Recognized on the Balance Sheet

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

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2018	2017	**2018**	2017
	(in thousands of dollars)			
Projected benefit obligation	**$ (718,793)**	$ (690,952)	**$ (361,095)**	$ (345,996)
Fair value of plan assets	**645,951**	606,258	**266,357**	246,385
Total	**$ (72,842)**	$ (84,694)	**$ (94,738)**	$ (99,611)
Current liabilities	**$ (34)**	$ (202)	**$ (398)**	$ (302)
Other non-current liabilities	**(72,808)**	(84,492)	**(94,340)**	(99,309)
Total	**$ (72,842)**	$ (84,694)	**$ (94,738)**	$ (99,611)

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	$ 42,467	$ 14,655
2020	43,861	15,417
2021	45,274	16,351
2022	46,795	17,143
2023	48,514	18,001
2024-2028	266,739	100,434
Total	$ 493,650	$ 182,001

Assumptions Used for Employee Benefits Accounting

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

	PBOP Plans		
	Years Ended March 31,		
	2018	2017	2016
Benefit Obligations:			
Discount rate	**4.10%**	4.30%	4.25%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.25%-6.75%**	6.50%-6.75%	6.50%-6.75%
Net Periodic Benefit Costs:			
Discount rate	**4.30%**	4.25%	4.10%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.50%-6.75%**	6.50%-6.75%	6.25%-6.75%

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

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

Assumed Health Cost Trend Rate

	March 31,	
	2018	2017
Health care cost trend rate assumed for next year		
Pre 65	**7.50%**	7.00%
Post 65	**5.75%**	6.00%
Prescription	**10.25%**	10.25%
Rate to which the cost trend is assumed to decline (ultimate)	**4.50%**	4.50%
Year that rate reaches ultimate trend		
Pre 65	**2028**	2025
Post 65	**2026**	2024
Prescription	**2027**	2025

Plan Assets

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

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

The target asset allocations for the benefit plans as of March 31, 2018 and 2017 are as follows:

	Pension Plans		PBOP Union		PBOP Non-Union	
	March 31,		March 31,		March 31,	
	2018	2017	**2018**	2017	**2018**	2017
			(in thousands of dollars)			
US Equities	**20%**	20%	**34%**	34%	**45%**	45%
Global equities (including US)	**7%**	7%	**12%**	12%	**0%**	0%
Global tactical asset allocation	**10%**	10%	**17%**	17%	**0%**	0%
Non-US equities	**10%**	10%	**17%**	17%	**25%**	25%
Fixed income securities	**40%**	40%	**20%**	20%	**30%**	30%
Private equity	**5%**	5%	**0%**	0%	**0%**	0%
Real estate	**5%**	5%	**0%**	0%	**0%**	0%
Infrastructure	**3%**	3%	**0%**	0%	**0%**	0%
Total	**100%**	100%	**100%**	100%	**100%**	100%

Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

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 $4.1 million, $3.9 million, and $3.9 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 $5.5 million and $7.1 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.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Unrealized Gain (Loss) on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Total
	(in thousands of dollars)		
Balance as of March 31, 2016	**$ 832**	**$ 4,189**	**$ 5,021**
Other comprehensive income (loss) before reclassifications:			
Unrecognized net actuarial loss (net of $26 tax benefit)	-	(38)	(38)
Gain on investment (net of $134 tax benefit)	(199)	-	(199)
Amounts reclassified from other comprehensive income:			
Amortization of net actuarial loss (net of $29 tax expense) (1)	-	44	44
Gain on investment (net of $229 tax expense) (1)	340	-	340
Net prior period other comprehensive income	141	6	147
Balance as of March 31, 2017	**$ 973**	**$ 4,195**	**$ 5,168**
Other comprehensive income (loss) before reclassifications:			
Unrecognized net actuarial gain (net of $192 tax expense)		513	513
Gain on investment (net of $ 152 tax expense)	171	-	171
Amounts reclassified from other comprehensive income:			
Amortization of net actuarial loss (net of $27 tax expense) (1)	-	51	51
Gain on investment (net of $ 97 tax benefit) (1)	(136)	-	(136)
Net current period other comprehensive income	35	564	599
Balance as of March 31, 2018	**$ 1,008**	**$ 4,759**	**$ 5,767**

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

9. CAPITALIZATION

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

(in thousands of dollars)	
Fiscal Years Ending March 31,	
2019	$ -
2020	-
2021	-
2022	-
2023	-
Thereafter	1,300,000
Total	$ 1,300,000

The Company's debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants such as restrictions on the level of indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the Company's debt and may restrict the Company's ability to draw upon its facilities or access the capital markets. During the years ended March 31, 2018 and 2017, the Company was in compliance with all such covenants.

Debt Authorizations

On April 13, 2016, MA DPU granted multi-year authority to issue up to $784 million in new long-term debt securities through the period ending March 31, 2018. On August 2, 2016, the Company issued $500 million of unsecured senior long-term debt at 4.004% with a maturity date of August 15, 2046. Prior to the issuance, it had $800 million of unsecured long-term debt at 5.9% with a maturity date of November 15, 2039 issued under a previous order.

Dividend Restrictions

Pursuant to the preferred stock arrangement, as long as any preferred stock is outstanding, certain restrictions on payment of common stock dividends would come into effect if the common stock equity was, or by reason of payment of such dividends became, less than 25% of total capitalization. The Company was in compliance with this covenant and accordingly, the Company was not restricted as to the payment of common stock dividends under the foregoing provisions at March 31, 2018 or 2017.

Cumulative Preferred Stock

The Company has certain issues of non-participating cumulative preferred stock outstanding which can be redeemed at the option of the Company. There are no mandatory redemption provisions on the Company's cumulative preferred stock. A summary of cumulative preferred stock is as follows:

	Shares Outstanding		**Amount**		
	March 31,		**March 31,**		**Call**
Series	**2018**	2017	**2018**	2017	**Price**
	(in thousands of dollars, except per share and number of shares data)				
$100 par value - 4.44% Series	**22,585**	22,585	**$ 2,259**	$ 2,259	$ 104.068

The Company did not redeem any preferred stock during the years ended March 31, 2018, 2017, or 2016. The annual dividend requirement for cumulative preferred stock was $0.1 million for each of the years ended March 31, 2018, 2017, and 2016.

10. INCOME TAXES

Components of Income Tax Expense

The components of federal and state income tax expense are as follows:

	Years Ended March 31,		
	2018	2017	2016
		(in thousands of dollars)	
Current tax expense (benefit):			
Federal	**$ 26,646**	$ 5,598	$ 1,502
State	**9,324**	2,505	(2,531)
Total current tax expense (benefit)	**35,970**	8,103	(1,029)
Deferred tax expense:			
Federal	**15,841**	25,944	10,202
State	**3,866**	5,930	5,168
Total deferred tax expense	**19,707**	31,874	15,370
Amortized investment tax credits (1)	**(450)**	(567)	(651)
Total deferred tax expense	**19,257**	31,307	14,719
Total income tax expense	**$ 55,227**	$ 39,410	$ 13,690

(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 34.0%, 36.3%, and 32.2%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 31.55%, 35% and 35%, respectively, to the actual tax expense:

	Years Ended March 31,		
	2018	2017	2016
		(in thousands of dollars)	
Computed tax	**$ 51,301**	$ 37,929	$ 14,869
Change in computed taxes resulting from:			
Allowance for equity funds used during construction	**(1,927)**	(2,385)	(2,391)
Investment tax credit	**(450)**	(567)	(651)
State income tax, net of federal benefit	**9,028**	5,482	1,714
Other items - net	**(2,725)**	(1,049)	149
Total Changes	**3,926**	1,481	(1,179)
Total income tax expense	**$ 55,227**	$ 39,410	$ 13,690

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

On December 22, 2017, the Tax Act was signed into law. The Tax Act includes significant changes to various federal tax provisions applicable to the Company, including provisions specific to regulated public utilities. The most significant changes include the reduction in the corporate federal income tax rate from 35% to 21% effective January 1, 2018 and the limitation of the net operating loss deduction for net operating losses generated in tax years starting after December 31, 2017 to 80% of taxable income with an indefinite carryforward period. The Tax Act provisions related to regulated public utilities eliminate bonus depreciation for certain property acquired or placed in service after September 27, 2017 and extend the normalization requirements for ratemaking treatment of excess deferred taxes.

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

In accordance with Accounting Standards Codification ("ASC") 740, "Income Taxes," the effects of changes in tax law are required to be recognized in the period of enactment, which for the Company is the period ended March 31, 2018. Since the Company's fiscal year end is March 31, the statutory rate applicable for the Company's fiscal year ended March 31, 2018, is a blended tax rate of 31.55%. In subsequent periods, the federal income tax rate will be 21%. In addition, ASC 740 requires deferred income tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. As a result, the Company remeasured its federal deferred income tax assets and liabilities using the newly enacted tax rate of 21%.

The Company recognized a decrease in its net deferred income tax liability in the amount of $244.3 million with $0.9 million of the benefit recorded to deferred income tax expense and $245.2 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:		
Allowance for uncollectible accounts	**$ 35,620**	$ 48,580
Environmental remediation costs	**21,648**	32,675
Future federal benefit on state taxes	**20,045**	41,375
Net operating losses	**61,386**	117,371
Postretirement benefits and other employee benefits	**56,749**	90,766
Regulatory liabilities - taxes	**99,111**	-
Regulatory liabilities - other	**14,576**	42,570
Renewable energy certificate obligations	**40,844**	55,302
Other items	**25,048**	10,845
Total deferred tax assets	**375,027**	439,484
Deferred tax liabilities:		
Property related differences	**500,066**	737,043
Regulatory assets - postretirement benefits	**77,959**	122,940
Regulatory assets - storm costs	**43,346**	52,077
Regulatory assets - other	**118,629**	199,142
Other items	**10,407**	15,562
Total deferred tax liabilities	**750,407**	1,126,764
Net deferred income tax liabilities	**375,380**	687,280
Deferred investment tax credits	**15,589**	9,389
Deferred income tax liabilities, net	**$ 390,969**	$ 696,669

Net Operating Losses

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

Expiration of net operating losses:	Carryforward Amount	Expiration Period
	(in thousands of dollars)	
Federal	$ 355,388	2030-2037
State	55,640	2035-2036

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

The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other deductions, net, in the accompanying consolidated statements of income. As of March 31, 2018 and 2017, the Company has accrued for interest related to unrecognized tax benefits of $1.7 million and $1.3 million, respectively. During the years ended March 31, 2018, 2017 and 2016, the Company recorded interest expense of $0.4 million, $0.3 million and $0.3 million, respectively. No tax penalties were recognized during the years ended March 31, 2018, 2017 or 2016.

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

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

The state of Massachusetts is in the process of examining the Company's income tax returns for the years ended March 31, 2010 through March 31, 2012. The income tax returns for the years ended March 31, 2013 through March 31, 2018 remain subject to examination by the state of Massachusetts.

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

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

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 United States Environmental Protection Agency ("EPA") and the Massachusetts Department of Environmental Protection ("DEP"), as well as private entities, have alleged that the Company is a potentially responsible party under state or federal law for the remediation of numerous sites. The Company's most significant liabilities relate to former Manufactured Gas Plant ("MGP") facilities. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA and DEP. Expenditures incurred for the years ended March 31, 2018, 2017, and 2016 were $12.4 million, $20.7 million, and $19.6 million, respectively.

At March 31, 2018 and 2017, the Company had total reserves for environmental remediation costs, inclusive of amounts reflected in other current liabilities, of $70.4 million and $71.8 million, respectively. These costs include reserves established in connection with the Company's hazardous waste fund referred to below and in totality are expected to be incurred over the next 34 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.

The MA DPU has approved a settlement agreement that provides for rate recovery of remediation costs of former MGP sites and certain other hazardous waste sites located in Massachusetts. Under that agreement, qualified costs related to these sites are paid out of a special fund established as a regulatory liability in the accompanying balance sheet. Rate-recoverable contributions of approximately $4.0 million are added annually to the fund along with interest and any recoveries from insurance carriers and other third-parties. Accordingly, as of March 31, 2018 and March 31, 2017, the Company has recorded environmental regulatory assets of $71.6 million and $71.9 million, respectively, and environmental regulatory liabilities of $25.0 million and $31.4 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 various operating leases relating to office space. Total rental expense for operating leases included in operations and maintenance expense in the accompanying statements of income was $0.2 million, $0.2 million, and $0.1 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	$ 136
2020	137
2021	138
2022	139
2023	140
Thereafter	-
Total	$ 690

Purchase Commitments

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

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

(in thousands of dollars)

Years Ending March 31,	Energy Purchases
2019	$ 414,756
2020	16,757
2021	-
2022	-
2023	-
Thereafter	-
Total	$ 431,513

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

Financial Guarantees

The Company unconditionally guarantees the full and prompt payment of the principal, premium, if any, and interest on certain tax-exempt bonds issued by the Massachusetts Development Finance Agency in connection with Nantucket Electric's financing of its first and second underground and submarine cable projects. The Company would be required to make any principal, interest or premium payments if Nantucket Electric failed to pay. The carrying value of the debt guaranteed is approximately $51.3 million at March 31, 2018 and has maturities extending through 2042. This guarantee is absolute and unconditional. As of the date of this report, the Company has not had a claim made against it for this guarantee and has no reason to believe that Nantucket will default on its obligations.

Legal Matters

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

13. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2018	2017	**2018**	2017
	(in thousands of dollars)			
Nantucket Electric	**$ 19,460**	$ 15,786	**$ -**	$ -
National Grid USA Parent	**3,337**	3,118	**3,813**	-
New England Power Company	**3,827**	-	**3,535**	8,916
NGUSA Service Company	**10,548**	-	**91,018**	71,868
Niagara Mohawk Power Corporation	**-**	-	**8,255**	9,883
The Narragansett Electric Company	**2,988**	53,278	**1,761**	-
Other	**406**	262	**357**	1,199
Total	**$ 40,566**	$ 72,444	**$ 108,739**	$ 91,866

The Company's intercompany receivable is primarily due to charges made to New England Power for the use of its transmission facilities as per the Integrated Facilities Agreement.

Advance from Affiliate

The Company has an agreement with NGUSA whereby the Company can borrow up to $600 million from time to time for working capital needs. The advance is non-interest bearing. During 2018 the Company repaid $150 million of previous advances and at March 31, 2018 and 2017, the Company had an outstanding advance from affiliate of zero and $150 million, respectively.

Intercompany Money Pool

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

The Regulated Money Pool is funded by operating funds from participants. Collectively, NGUSA and its subsidiary, KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Regulated Money Pool, if necessary. The Company had short-term intercompany money pool investments of $87.8 million and $256.6 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.

Related Party Reimbursement

In accordance with the Credit and Operating Support Agreement dated March 26, 1996, the Company will reimburse Nantucket Electric an amount equal to the difference between Nantucket Electric's actual net income for the year and the net income necessary for Nantucket Electric to earn its MA DPU approved Return on Equity ("ROE") for the fiscal year, currently 9.9%. This reimbursement shall constitute additional revenue to Nantucket Electric and expense to the Company.

To the extent Nantucket Electric's actual ROE for the year exceeds its allowed ROE, there will be no reimbursement. For the years ended March 31, 2018, 2017, and 2016, the Company reimbursed Nantucket Electric $5.7 million, $7.5 million, and $7.7 million, respectively.

Service Company Charges

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

Charges from the service companies of NGUSA, including but not limited to non-power goods and services, to the Company for the years ended March 31, 2018, 2017, and 2016 were $330 million, $385 million, and $371 million, respectively.