Colonial Gas Company
d/b/a National Grid

Financial Statements

For the years ended March 31, 2018 and 2017

COLONIAL GAS COMPANY

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Colonial Gas Company

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

Predecessor Auditors' Opinion on 2017 Financial Statements

The financial statements of the Company as of and for the year ended March 31, 2017, were audited by other auditors whose report, dated August 3, 2017, expressed an unmodified opinion on those statements.

Deloitte & Touche LLP

August 7, 2018

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

	Years Ended March 31,	
	2018	2017
Operating revenues	**$ 303,762**	$ 250,494
Operating expenses:		
Purchased gas	**137,286**	95,054
Operations and maintenance	**83,600**	73,306
Depreciation	**30,224**	27,685
Amortization of acquisition premium	**8,200**	8,200
Other taxes	**10,544**	9,430
Total operating expenses	**269,854**	213,675
Operating income	**33,908**	36,819
Other income and (deductions):		
Interest on long-term debt	**(10,082)**	(7,764)
Other interest, including affiliate interest	**(3,797)**	(1,895)
Other income (deductions), net	**1,222**	(722)
Total other deductions, net	**(12,657)**	(10,381)
Income before income taxes	**21,251**	26,438
Income tax expense	**8,149**	10,971
Net income	**$ 13,102**	$ 15,467

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

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

	Years Ended March 31, 2018	2017
Operating activities:		
Net income	$ **13,102**	$ 15,467
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**30,224**	27,685
Regulatory amortizations	**8,200**	8,200
Provision for deferred income taxes	**11,876**	9,995
Bad debt expense	**4,103**	4,290
Allowance for equity funds used during construction	**(545)**	(392)
Net postretirement benefits (contributions) expense	**(587)**	701
Environmental remediation payments	**(422)**	(439)
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenues	**(22,892)**	(18,500)
Inventory	**(904)**	1,765
Regulatory assets and liabilities, net	**(10,341)**	(399)
Derivative instruments	**1,012**	(479)
Prepaid and accrued taxes	**(2,150)**	(1,955)
Accounts payable and other liabilities	**9,613**	(1,460)
Other, net	**(721)**	(562)
Net cash provided by operating activities	**39,568**	43,917
Investing activities:		
Capital expenditures	**(123,305)**	(90,396)
Cost of removal	**(6,843)**	(6,157)
Net cash used in investing activities	**(130,148)**	(96,553)
Financing activities:		
Common stock dividends to Parent	**(37,500)**	-
Proceeds from long-term debt	**150,000**	-
Intercompany money pool and affiliated receivables/payables, net	**(21,920)**	52,636
Net cash provided by financing activities	**90,580**	52,636
Net increase in cash and cash equivalents	**-**	-
Cash and cash equivalents, beginning of year	**-**	-
Cash and cash equivalents, end of year	**$ -**	$ -
Supplemental disclosures:		
Interest paid	**(8,473)**	(7,728)
Income taxes refunded	**2,636**	-
Significant non-cash items:		
Capital-related accruals included in accounts payable	**1,579**	4,899

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

COLONIAL GAS COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2018	March 31, 2017
ASSETS		
Current assets:		
Accounts receivable	$ 65,460	$ 50,888
Allowance for doubtful accounts	(8,800)	(8,670)
Accounts receivable from affiliates	7,233	17,928
Unbilled revenues	25,252	20,905
Inventory	8,914	8,010
Regulatory assets	4,455	1,701
Derivative instruments	124	928
Other	3,958	1,961
Total current assets	106,596	93,651
Property, plant and equipment, net	789,357	689,166
Other non-current assets:		
Regulatory assets	195,000	217,950
Accounts receivable from affiliates - deferred	-	16,515
Goodwill	54,074	54,074
Derivative instruments	9	-
Other	5	12
Total other non-current assets	249,088	288,551
Total assets	$ 1,145,041	$ 1,071,368

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

COLONIAL GAS COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2018	March 31, 2017
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 15,175**	$ 12,453
Accounts payable to affiliates	**16,172**	15,416
Taxes accrued	**357**	559
Interest accrued	**4,388**	2,198
Regulatory liabilities	**69,777**	76,954
Intercompany money pool	**37,560**	70,931
Derivative instruments	**561**	441
Other	**5,485**	4,594
Total current liabilities	**149,475**	183,546
Other non-current liabilities:		
Regulatory liabilities	**178,996**	98,098
Asset retirement obligations	**2,047**	2,073
Deferred income tax liabilities, net	**101,187**	174,614
Postretirement benefits	**27,290**	51,849
Environmental remediation costs	**7,168**	8,055
Derivative instruments	**1,424**	1,326
Other	**10,484**	10,132
Total other non-current liabilities	**328,596**	346,147
Commitments and contingencies (Note 12)		
Capitalization:		
Shareholder's equity	**393,636**	418,034
Long-term debt	**273,334**	123,641
Total capitalization	**666,970**	541,675
Total liabilities and capitalization	**$ 1,145,041**	$ 1,071,368

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

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

			March 31,	
			2018	2017
Total shareholder's equity			**$ 393,636**	$ 418,034
Unsecured notes:				
Senior Note	3.30%	March 15, 2022	**25,000**	25,000
Senior Note	4.63%	March 15, 2042	**25,000**	25,000
Senior Note	3.13%	October 5, 2027	**150,000**	-
			200,000	50,000
First Mortgage Bonds				
FMB Series CH	8.80%	July 1, 2022	**25,000**	25,000
FMB Series A-1	7.38%	October 14, 2025	**10,000**	10,000
FMB Series A-2	6.90%	December 15, 2025	**10,000**	10,000
FMB Series A-3	6.94%	February 5, 2026	**10,000**	10,000
FMB Series B-1	7.12%	April 7, 2028	**20,000**	20,000
			75,000	75,000
Unamortized debt issuance costs			**(1,666)**	(1,359)
Long-term debt			**273,334**	123,641
Total capitalization			**$ 666,970**	$ 541,675

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

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance as of March 31, 2016	**$ 10**	**$ 328,574**	**$ 73,983**	**$ 402,567**
Net income	-	-	15,467	15,467
Balance as of March 31, 2017	**$ 10**	**$ 328,574**	**$ 89,450**	**$ 418,034**
Net income	-	-	13,102	13,102
Common stock dividends to Parent	-	-	(37,500)	(37,500)
Balance as of March 31, 2018	**$ 10**	**$ 328,574**	**$ 65,052**	**$ 393,636**

The Company had 200 shares of common stock authorized, of which 100 shares are 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.

COLONIAL GAS COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Colonial Gas Company d/b/a National Grid ("the Company") is a gas distribution company engaged in the transportation and sale of natural gas to approximately 209,000 residential, commercial and industrial customers in northwest Boston and Cape Cod, Massachusetts.

At March 31, 2018, the Company was a wholly-owned subsidiary of KeySpan Corporation ("KeySpan" or the "Parent"), which was a wholly-owned subsidiary of National Grid USA ("NGUSA"), a public utility holding company with regulated subsidiaries engaged in the generation of electricity and the transmission, distribution, and sale of both natural gas and electricity. NGUSA is a direct wholly-owned subsidiary of National Grid North America Inc. ("NGNA") and an indirect wholly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales. Effective April 30, 2018 KeySpan merged into NGUSA and from that point forward the Company is a wholly-owned subsidiary of NGUSA. Since the merger occurred post fiscal year-end, the intercompany relationships between the Company and KeySpan were still in effect at March 31, 2018. As such, the disclosures in these financial statements and footnotes reflect those relationships that existed at March 31, 2018. NGUSA management is currently reviewing the relationships between KeySpan and all NGUSA subsidiaries and will make the appropriate adjustments to these relationships during the next fiscal year.

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

The Company has evaluated subsequent events and transactions through August 7, 2018, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Regulatory Accounting

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

Revenue Recognition

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

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

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

Other Taxes

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

Income Taxes

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

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

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

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. The collectability of receivables is continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies as well as gas in storage. Materials and supplies are stated at the lower of weighted average cost or market 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 or 2017.

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

The Company had materials and supplies of $0.3 million and $0.1 million at March 31, 2018 and 2017, respectively, and gas in storage of $8.6 million and $8.0 million at March 31, 2018 and 2017, respectively.

Derivative Instruments

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

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

Natural Gas Long-Term Arrangements

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

Fair Value Measurements

The Company measures derivative instruments 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.

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

Property, Plant and Equipment

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

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

	Years Ended March 31,	
	2018	2017
Composite rates	**3.5%**	3.1%

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 $99.0 million and $96.0 million at March 31, 2018 and 2017, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the statements of income as non-cash income in other (deductions) income, net, and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $0.5 million and $0.4 million and AFUDC related to debt of $0.5 million and $0.4 million for the years ended March 31, 2018 and 2017, respectively. The average AFUDC rates for the years ended March 31, 2018 and 2017 were 3.0% and 2.4%, 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 and 2017, there were no impairment losses recognized for long-lived assets.

Goodwill

The Company tests goodwill for impairment annually on January 1, and when events occur or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. The Company has early adopted ASU 2017-04 issued "Intangibles—Goodwill and Other (Topic 350) which eliminates step two from the two-step goodwill impairment test required under the current standard. The one-step approach requires a recoverability test performed based on the comparison of the Company's estimated fair value with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is considered not impaired. If the carrying value exceeds the estimated fair value, the Company is required to recognize an impairment charge for such excess, limited to the allocated amount of goodwill.

Historically the fair value of the Company was calculated for the annual goodwill impairment test utilizing both the income and market based approaches. For the year ended March 31, 2018, the fair value of the Company was calculated utilizing solely the income approach. The Company believes that due to the recent rate case filing currently in process with its regulator, this approach provides the most reliable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment to the goodwill carrying value was required at March 31, 2018 or 2017.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant and equipment, primarily associated with the Company's gas distribution facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value. The Company applies regulatory accounting guidance and both the depreciation and accretion costs associated with asset retirement obligation are recorded as increases to regulatory assets on the balance sheets. These regulatory assets represent timing differences between the recognition of costs in accordance with U.S. GAAP and costs recovered through the 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	**$ 2,073**	$ 2,198
Accretion expense	**141**	124
Liabilities settled	**(71)**	(249)
Balance as of the end of the year	**$ 2,143**	$ 2,073

The Company had a current portion of asset retirement obligations of $0.1 million included in other current liabilities on the balance sheet at both March 31, 2018 and March 31, 2017.

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

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2018

Measurement of Inventory

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

Employee Share-Based Payment Accounting

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

Goodwill

In January 2017, the FASB issued ASU No. 2017-04, which eliminates Step 2 from the goodwill impairment test. For the Company, the requirements of the new standard will be effective for the fiscal year ended March 31, 2022, with early adoption permitted. The Company early adopted the ASU in the year ended March 31, 2018 for its annual goodwill impairment testing. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment to the goodwill carrying value was required at March 31, 2018 or 2017.

Derivatives and Hedging

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

Accounting Guidance Not Yet Adopted

Derivatives and Hedging

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

Pension and Postretirement Benefits

In March 2017, the FASB issued ASU No. 2017-07, “Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” which changes certain presentation and disclosure requirements for employers that sponsor defined benefit pension and other postretirement benefit plans. The ASU requires the service cost component of the net benefit cost to be in the same line item as other compensation in operating income and the other components of net benefit cost to be presented outside of operating income on a retrospective basis. In addition, only the service cost component will be eligible for capitalization when applicable, on a prospective basis. For the Company, the requirements of the new standard will be effective for the fiscal year ended March 31, 2019, and interim periods within the reporting period, with early adoption permitted. The implementation of the ASU will not have a material impact on the net income of the Company since the Company defers the difference between actual pension costs and the amounts used to establish rates (See Note 8, “Employee Benefits” for additional details).

Statement of Cash Flows

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

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments (Topic 230)," which provides guidance about the classification of certain cash receipts and payments within the statement of cash flows, including debt prepayment or extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and policies, and distributions received from equity method investments.

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

Income Taxes

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

Financial Instruments – Credit Losses

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

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” The underlying principle of this ASU is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to, in exchange for those goods or services. For the Company, the new guidance is effective for the fiscal year ended March 31, 2019, including interim periods therein, and will be adopted using a modified retrospective approach.

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

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

Leases

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

Financial Instruments – Classification and Measurement

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

Stock Compensation

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

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:		
Derivative instruments	**$ 1,852**	$ 839
Hardship arrears greater than 360 days recovery	**2,119**	-
Revenue decoupling mechanism	**-**	862
Other	**484**	-
Total	**4,455**	1,701
Non-current:		
Environmental response costs	**5,163**	5,460
Postretirement benefits	**9,313**	16,770
Recovery of acquisition premium	**175,617**	183,817
Regulatory deferred tax asset, net	**-**	8,334
Other	**4,907**	3,569
Total	**195,000**	217,950
Regulatory liabilities		
Current:		
Gas costs adjustment	**43,458**	50,540
Local distribution adjustment clause	**12,336**	10,722
Profit sharing	**7,358**	15,585
Revenue decoupling mechanism	**6,625**	-
Other	**-**	107
Total	**69,777**	76,954
Non-current:		
Cost of removal	**99,019**	95,977
Regulatory deferred tax liability, net	**77,489**	-
Other	**2,488**	2,121
Total	**178,996**	98,098
Net regulatory assets (liabilities)	**$ (49,318)**	$ 44,599

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

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

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

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

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

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

Recovery of acquisition premium: Represents the unrecovered amount (plus related taxes) by which the purchase price paid exceeded the net book value of the Company's assets in the 1998 acquisition of the Company by Eastern Enterprises, Inc. In exchange for certain rate concessions and the achievement of certain merger savings targets, the DPU has allowed the Company to recover the acquisition premium in rates through August 2039.

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

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

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

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

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

4. RATE MATTERS

General Rate Case

In November 2010, the DPU issued an order in the Company's 2010 rate case approving a revenue increase of $16.5 million based upon a 9.75% rate of return on equity and a 50% equity ratio. The Company filed two motions in response (1) a motion for recalculation of certain adjustments, in which the DPU awarded an increase of $0.2 million of the additional $5.5 million requested, effective November 1, 2011, and (2) a motion for reconsideration, in which the DPU upheld its decision on all of the financial matters raised by the Company except on the issue of merger related costs. The Company demonstrated that it had achieved savings of $12.3 million per year, related to its 1998 acquisition of the Company by the former Eastern Enterprises. This is the equivalent of the full pre-tax annual level of merger costs amortized over the 30-year period ending August 31, 2039.

The combined effect of the DPU's orders was a total revenue increase of $21.2 million in this proceeding, with the $4.5 million reflected in rates effective February 1, 2013. Rates have remained in effect since this time and for each of the years presented.

On November 15, 2017, the Company and its affiliate, Boston Gas Company ("Boston"), filed a request for a combined net increase in revenue of $87 million, of which $19 million is for Colonial Gas Company, to be in effect October 1, 2018 with a 10.5% rate of return on equity and a 53.04% equity ratio. The Company's filing is based on capital additions including cost of removal since the last rate case, and includes cost changes associated with operation and maintenance expenses and operating expenses related to capital projects. As part of the request, the Company proposed recovery for two new programs. The first is the gas, safety, and reliability program, which is a set of critical projects specifically aimed at meeting safety and reliability requirements and modernizing the gas system. The second is the gas business enablement program, which will consolidate and modernize the Company's systems and operating platforms to facilitate internal efficiencies and improve customer experience. On April 20, 2018, the Company updated its request to reflect the Tax Cuts and Jobs Act and other changes, which lowered the combined net increase in revenue to $43 million. The DPU held evidentiary hearings on the Company's filing in May 2018 and an order is expected by September 30, 2018. The Company cannot predict the outcome of this proceeding.

Gas System Enhancement Plan

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

The DPU approved the Company's GSEP for calendar years 2015, 2016 and 2017, including the associated Gas System Enhancement Adjustment Factors ("GSEAFs"). The approved GSEAFs are designed to provide concurrent recovery of the revenue requirement associated with the Company's capital costs for the replacement of eligible leak prone pipe and ancillary equipment. The approved GSEAFs were designed to recover from all firm sales and transportation customers a revenue requirement of approximately $7.7 million for 2017, $3.8 million for 2016 and $0.7 million for 2015.

On May 1, 2017, the Company filed its GSEP reconciliation filing for 2016, which reconciled the 2016 revenue requirement on 2016 actual GSEP capital investment with revenue billed through the GSEAFs, resulting in an under-collection of approximately $1.0 million. Since the application of the 1.5% GSEP cap would prevent recovery of a significant portion of this amount until such time as there is room under the cap or in the next rate case that covers the period of investment, the Company requested a waiver of the cap in its filing. On October 31, 2017, the DPU approved the Company's filing and granted the waiver of the 1.5% cap. In the order, the DPU instructed the Company to remove allowance of funds used during construction from future filings, but ruled that it will permit the Company along with the other Massachusetts gas distribution companies to make a joint proposal to recover costs associated with funding construction. On May 1, 2018, the Company filed its GSEP reconciliation filing for 2017.

On October 31, 2017, the Company filed its GSEP for calendar year 2018, which entailed a revenue requirement of approximately $13.3 million, recovery of funds to repair Grade 3 leaks, a proposal to extend the plan timeline from 8 to 11 years, and a request for a waiver of the 1.5% cap. On January 31, 2018, the Company filed an update to its GSEP due to the ongoing rate case, federal tax law changes, and other updates. As a result of the updated GSEP filing, the requested revenue requirement was reduced to approximately $11.2 million, which still exceeds the 1.5% cap. The DPU approved the 2018 GSEP on April 30, 2018, including the extended timeframe to complete the plan, but denied recovery of Grade 3 leak repair funds and the waiver of the 1.5% cap. The Company will seek recovery of these amounts in a future filing.

Tax Cuts and Jobs Act

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

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	**$ 887,677**	$ 837,739
Land and buildings	**47,464**	47,203
Assets in construction	**80,377**	30,547
Software and other intangibles	**13,560**	13,560
Total property, plant and equipment	**1,029,078**	929,049
Accumulated depreciation and amortization	**(239,721)**	(239,883)
Property, plant and equipment, net	**$ 789,357**	$ 689,166

6. DERIVATIVE INSTRUMENTS

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

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

Volumes

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

	March 31,	
	2018	2017
	(in thousands)	
Gas purchase contracts	**2,037**	2,995
Gas swap contracts	**6,050**	4,770
Total	**8,087**	7,765

Amounts Recognized on the Balance Sheet

	Asset Derivatives			Liability Derivatives	
	March 31,			March 31,	
	2018	2017		**2018**	2017
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	**$ 3**	$ 7	Gas purchase contracts	**$ 376**	$ 437
Gas swap contracts	**121**	921	Gas swap contracts	**185**	4
	124	928		**561**	441
Other non-current assets			Other non-current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas swap contracts	**9**	-	Gas swap contracts	**197**	205
Gas purchase contracts	**-**	-	Gas purchase contracts	**1,227**	1,121
	9	-		**1,424**	1,326
Total	**$ 133**	$ 928	Total	**$ 1,985**	$ 1,767

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

Credit and Collateral

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

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

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

The Company's credit exposure for all commodity derivative instruments and applicable payables and receivables, net of collateral, and instruments that are subject to master netting agreements, was a liability of $2.3 million and $0.7 million as of March 31, 2018 and 2017, respectively.

The aggregate fair value of the Company's commodity derivative instruments with credit-risk-related contingent features that were in a liability position at March 31, 2018 and 2017 was $0.3 million and zero, respectively. The Company had no collateral posted for these instruments at March 31, 2018 or 2017. If the Company's credit rating were to be downgraded by one or two levels, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post $0.8 million and $0.1 million additional collateral to its counterparties at March 31, 2018 and 2017, respectively.

Offsetting Information for Derivative Instruments Subject to Master Netting Arrangements

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

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial Instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative instruments						
Gas purchase contracts	$ 3	$ -	$ 3	$ -	$ -	$ 3
Gas swap contracts	130	-	130	-	-	130
Total	$ 133	$ -	$ 133	$ -	$ -	$ 133

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilites presented in the Balance Sheets *C=A+B*	Financial Instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative instruments						
Gas purchase contracts	$ 1,603	$ -	$ 1,603	$ -	$ -	$ 1,603
Gas swap contracts	382	-	382	-	-	382
Total	$ 1,985	$ -	$ 1,985	$ -	$ -	$ 1,985

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

ASSETS:	Gross amounts of recognized assets A	Gross amounts offset in the Balance Sheets B	Net amounts of assets presented in the Balance Sheets C=A+B	Financial Instruments Da	Cash collateral received Db	Net amount E=C-D
Derivative instruments						
Gas purchase contracts	$ 7	$ -	$ 7	$ -	$ -	$ 7
Gas swap contracts	921	-	921	-	-	921
Total	$ 928	$ -	$ 928	$ -	$ -	$ 928

LIABILITIES:	Gross amounts of recognized liabilities A	Gross amounts offset in the Balance Sheets B	Net amounts of liabilites presented in the Balance Sheets C=A+B	Financial Instruments Da	Cash collateral paid Db	Net amount E=C-D
Derivative instruments						
Gas purchase contracts	$ 1,558	$ -	$ 1,558	$ -	$ -	$ 1,558
Gas swap contracts	209	-	209	-	-	209
Total	$ 1,767	$ -	$ 1,767	$ -	$ -	$ 1,767

7. FAIR VALUE MEASUREMENTS

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

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative instruments				
Gas purchase contracts	$ -	$ 3	$ -	$ 3
Gas swap contracts	-	130	-	130
Total	-	133	-	133
Liabilities:				
Derivative instruments				
Gas purchase contracts	-	-	1,603	1,603
Gas swap contracts	-	382	-	382
Total	-	382	1,603	1,985
Net (liabilities) assets	$ -	$ (249)	$ (1,603)	$ (1,852)

	March 31, 2017							
	Level 1		Level 2		Level 3		Total	
	(in thousands of dollars)							
Assets:								
Derivative instruments								
Gas purchase contracts	$	-	$	7	$	-	$	7
Gas swap contracts		-		921		-		921
Total		-		928		-		928
Liabilities:								
Derivative instruments								
Gas purchase contracts	$	-	$	-	$	1,558	$	1,558
Gas swap contracts		-		209		-		209
Total		-		209		1,558		1,767
Net (liabilities) assets	$	-	$	719	$	(1,558)	$	(839)

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

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

Changes in Level 3 Derivative Instruments

	Years Ended March 31,			
	2018		2017	
	(in thousands of dollars)			
Balance as of the beginning of the year	**$**	**(1,558)**	$	20
Total gains or losses included in regulatory assets and liabilities		**1,336**		(13,192)
Settlements		**(1,381)**		11,614
Balance as of the end of the year	**$**	**(1,603)**	$	(1,558)

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3, during the years ended March 31, 2018 and 2017. For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivative instruments valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility, and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. The forward curves used for financial reporting are developed and verified by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative instruments categorized in Level 2 and Level 3.

Quantitative Information About Level 3 Fair Value Measurements

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

Commodity	Level 3 Position	Fair Value as of March 31, 2018			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
			(thousands of dollars)				
Gas	Purchase contracts	$ -	$ (1,603)	$ (1,603)	Discounted Cash Flow	Unobservable Basis point	$10,1471 - $10,6784/dth
	Total	$ -	$ (1,603)	$ (1,603)			

Commodity	Level 3 Position	Fair Value as of March 31, 2017			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
			(thousands of dollars)				
Gas	Purchase contracts	$ -	$ (1,558)	$ (1,558)	Discounted Cash Flow	Unobservable Basis point	$9.8418 - $10.8906/dth
	Total	$ -	$ (1,558)	$ (1,558)			

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

Other Fair Value Measurements

The Company's balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2018 and 2017 was $290.4 million and $150.5 million, respectively.

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

8. EMPLOYEE BENEFITS

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

Plan assets are maintained for all of KeySpan and its subsidiaries in commingled trusts. In respect of cost determination, plan assets are allocated to the Company based on proportionate share of projected benefit obligation. The Plan’s costs are first directly charged to the Company based on the Company’s employees that participate in the Plan. Costs associated with affiliated service companies’ employees are then allocated as part of the labor burden for work performed on the Company’s behalf. The Company applies deferral accounting for pension and PBOP expenses associated with its regulated gas operations. Any differences between actual pension costs and amounts used to establish rates are deferred and collected from, or refunded to, customers in subsequent periods. Pension and PBOP expense are included within operations and maintenance expense in the accompanying statements of income. Portions of the net periodic benefit costs disclosed below have been capitalized as a component of property, plant and equipment.

Pension Plans

The Pension Plan is a defined benefit plan which provides union employees, as well as non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. During the years ended March 31, 2018 and 2017, the Company made contributions of approximately $4.9 million and $4.6 million, respectively, to the qualified pension plans. The Company expects to contribute approximately $17.8 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 and 2017 were approximately $9.1 million and $6.3 million, respectively.

PBOP Plans

The PBOP plan provides health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. During the years ended March 31, 2018 and 2017, the Company made contributions of approximately $1.1 million and $1.3 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 and 2017 were zero and approximately $1.0 million, respectively.

Net Periodic Benefit Costs

The Company’s net periodic benefit pension cost for the years ended March 31, 2018 and 2017 were $4.0 million and $4.8 million, respectively.

The Company’s net periodic benefit PBOP cost for the years ended March 31, 2018 and 2017 were $0.6 million and $1.3 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 and 2017:

	Pension Plans	
	Years Ended March 31,	
	2018	2017
	(in thousands of dollars)	
Net actuarial gain	**$ (2,166)**	$ (2,775)
Amortization of net actuarial gain	**(4,176)**	(4,719)
Amortization of prior service cost, net	**(276)**	(257)
Total	**$ (6,618)**	$ (7,751)
Included in regulatory assets	**$ (6,618)**	$ (7,751)
Total	**$ (6,618)**	$ (7,751)

	PBOP Plans	
	Years Ended March 31,	
	2018	2017
	(in thousands of dollars)	
Net actuarial loss (gain)	**$ 1,376**	$ (3,881)
Amortization of net actuarial loss (gain)	**(27)**	(108)
Amortization of prior service cost, net	**(5)**	(236)
Total	**$ 1,344**	$ (4,225)
Included in regulatory assets	**$ 1,344**	$ (4,225)
Total	**$ 1,344**	$ (4,225)

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 and 2017:

	Pension Plans	
	March 31,	
	2018	2017
	(in thousands of dollars)	
Net actuarial loss	**$ 11,613**	$ 17,955
Prior service cost	**1,861**	2,137
Total	**$ 13,474**	$ 20,092
Included in regulatory assets	**$ 13,474**	$ 20,092
Total	**$ 13,474**	$ 20,092

	PBOP Plans	
	March 31,	
	2018	2017
	(in thousands of dollars)	
Net actuarial loss (gain)	**$ 852**	$ (1,673)
Prior service cost	**1**	5
Total	**$ 853**	$ (1,668)
Included in regulatory assets	**$ 853**	$ (1,668)
Total	**$ 853**	$ (1,668)

The amount of net actuarial loss and prior service cost to be amortized from regulatory assets during the year ending March 31, 2019 for the Pension Plans is $3.1 million and $0.3 million, respectively, and net actuarial loss and prior service benefit to be amortized from regulatory assets for the PBOP plans during the year ending March 31, 2019 for the PBOP Plans is $0.1 million and zero, respectively.

Amounts Recognized on the Balance Sheet

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

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2018	2017	**2018**	2017
	(in thousands of dollars)			
Projected benefit obligation	**$ (107,504)**	$ (107,687)	**$ (17,742)**	$ (23,994)
Fair value of plan assets	**78,554**	71,665	**19,403**	8,167
Total	**$ (28,950)**	$ (36,022)	**$ 1,661**	$ (15,827)
Other non-current liabilities	**(28,950)**	(36,022)	**1,661**	(15,827)
Total	**$ (28,950)**	$ (36,022)	**$ 1,661**	$ (15,827)

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	$ 9,413	$ 20
2020	$ 9,690	$ 21
2021	$ 9,963	$ 22
2022	$ 10,191	$ 23
2023	$ 10,470	$ 24
2024-2028	$ 54,851	$ 132
Total	$ 104,578	$ 242

Assumptions Used for Employee Benefits Accounting

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

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

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

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

Assumed Health Cost Trend Rate

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

Plan Assets

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

The Pension Plan is a trusted non-contributory defined benefit plan covering all eligible represented employees of the Company and eligible non-represented employees of the participating National Grid companies. The PBOP Plans are both a contributory and non-contributory, 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
U.S. equities	**20%**	20%	**34%**	34%	**45%**	45%
Global equities (including U.S.)	**7%**	7%	**12%**	12%	**0%**	0%
Global tactical asset allocation	**10%**	10%	**17%**	17%	**0%**	0%
Non-U.S. equities	**10%**	10%	**17%**	17%	**25%**	25%
Fixed income	**40%**	40%	**20%**	20%	**30%**	30%
Private equity	**5%**	5%	**0%**	0%	**0%**	0%
Real estate	**5%**	5%	**0%**	0%	**0%**	0%
Infrastructure	**3%**	3%	**0%**	0%	**0%**	0%
Total	**100%**	100%	**100%**	100%	**100%**	100%

Fair Value Measurements

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

	March 31, 2018				
	Level 1	**Level 2**	**Level 3**	**Not Categorized**	**Total**
			(in thousands of dollars)		
Pension assets					
Cash and cash equivalents	**$ 1,331**	**$ 20,844**	**$ -**	**$ 72,420**	**$ 94,595**
Accounts receivable	**196,817**	**-**	**-**	**-**	**196,817**
Accounts payable	**(298,572)**	**-**	**-**	**-**	**(298,572)**
Equity	**582,386**	**-**	**-**	**1,238,311**	**1,820,697**
Fixed income securities	**149**	**1,093,506**	**-**	**637,665**	**1,731,320**
Preferred securities	**-**	**11,725**	**-**	**-**	**11,725**
Private equity	**-**	**-**	**-**	**260,209**	**260,209**
Real estate	**-**	**-**	**-**	**208,488**	**208,488**
Other	**2,370**	**-**	**-**	**303,504**	**305,874**
Total	**$ 484,481**	**$ 1,126,075**	**$ -**	**$ 2,720,597**	**$ 4,331,153**
PBOP Assets					
Cash and cash equivalents	**$ 15,390**	**$ 6**	**$ -**	**$ 22**	**$ 15,418**
Accounts receivable	**1,733**	**-**	**-**	**-**	**1,733**
Accounts payable	**(136)**	**-**	**-**	**-**	**(136)**
Equity	**241,131**	**-**	**-**	**536,938**	**778,069**
Fixed income securities	**6,428**	**236,732**	**-**	**192**	**243,352**
Preferred securities	**-**	**4**	**-**	**-**	**4**
Private equity	**-**	**-**	**-**	**4,310**	**4,310**
Real estate	**-**	**-**	**-**	**63**	**63**
Other	**35,738**	**-**	**-**	**229,677**	**265,415**
Total	**$ 300,284**	**$ 236,742**	**$ -**	**$ 771,202**	**$ 1,308,228**

	March 31, 2017				
	Level 1	Level 2	Level 3	Not Categorized	Total
	(in thousands of dollars)				
Pension assets					
Cash and cash equivalents	$ 1,947	$ 2,908	$ -	$ 59,393	$ 64,248
Accounts receivable	26,670	-	-	-	26,670
Accounts payable	(48,369)	-	-	-	(48,369)
Equity	592,975	(363)	-	1,149,127	1,741,739
Fixed income securities	149	1,213,534	-	352,004	1,565,687
Preferred securities	-	7,754	-	(71)	7,683
Private equity	-	-	-	238,651	238,651
Real estate	-	-	-	219,203	219,203
Other	746	(2)	-	192,433	193,177
Total	**$ 574,118**	**$ 1,223,831**	**$ -**	**$ 2,210,740**	**$ 4,008,689**
PBOP Assets					
Cash and cash equivalents	$ 22,045	$ 1,011	$ -	$ 18	$ 23,074
Accounts receivable	1,272	-	-	-	1,272
Accounts payable	(138)	-	-	-	(138)
Equity	218,445	-	-	501,700	720,145
Fixed income securities	4,162	205,102	-	132,744	342,008
Preferred securities	-	2	-	-	2
Private equity				5,308	5,308
Real estate	-	-	-	66	66
Other	33,548	-	-	77,158	110,706
Total	**$ 279,334**	**$ 206,115**	**$ -**	**$ 716,994**	**$ 1,202,443**

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

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

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

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

Fixed income securities: Fixed income securities (which include corporate debt securities, municipal fixed income securities, U.S. Government and Government agency securities including government mortgage backed securities, index linked government bonds, and state and local bonds) convertible securities, and investments in securities lending collateral (which include repurchase agreements, asset backed securities, floating rate notes and time deposits) are valued with an institutional bid valuation. A bid valuation is an estimated price at which a dealer would pay for a security (typically in an institutional round lot). Oftentimes, these evaluations are based on proprietary models which pricing vendors establish for these purposes. In some cases there may be manual sources when primary vendors do not supply prices. Fixed income investments are primarily comprised of fixed income securities and fixed income commingled funds. The prices for direct investments in fixed income securities are generated on a daily basis. Prices generated from less active trading with wider bid ask prices are classified as Level 2 investments. Mutual funds with publicly quoted prices and active trading are classified as Level 1 investments. For commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV per fund share, and 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 and 2017, the Company recognized an expense in the accompanying statements of income of $0.5 million and $0.4 million, respectively, for matching contributions.

Other Benefits

At March 31, 2018 and 2017, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR") of $2.4 million and $2.2 million, respectively. IBNR reserves have been established for claims and/or events that have transpired, but have not yet been reported to the Company for payment.

9. 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		25,000
2023		25,000
Thereafter		225,000
Total	$	275,000

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.

On October 6, 2017 the Company issued a Senior Unsecured Note at 3.13% for $150 million that is expected to mature on October 5, 2027.

On October 26, 2017, the Company paid a dividend payment of $37.5 million to its Parent.

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2018	2017
	(in thousands of dollars)	
Current tax expense (benefit):		
Federal	**$ (3,370)**	$ 170
State	**(357)**	806
Total current tax expense (benefit)	**(3,727)**	976
Deferred tax expense:		
Federal	**9,801**	8,623
State	**2,075**	1,372
Total deferred tax expense	**11,876**	9,995
Total income tax expense	**$ 8,149**	$ 10,971

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2018 and 2017 were 38.3% and 41.5%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 31.55% and 35%, respectively, to the actual tax expense:

	Years Ended March 31,	
	2018	2017
	(in thousands of dollars)	
Computed tax	**$ 6,705**	$ 9,253
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**1,157**	1,415
Temporary differences flowed through	**183**	314
Other items, net	**104**	(11)
Total change	**1,444**	1,718
Total income tax expense	**$ 8,149**	$ 10,971

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 liabilities for any potential assessments against the consolidated group.

On December 22, 2017, the Tax Cuts and Jobs Act ("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.

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, ASC740 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 $62.2 million with $0.1 million of the benefit recorded to deferred income tax expense and $62.3 million recorded as a deferred regulatory liability for the refund of excess deferred income taxes to 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 the 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 doubtful accounts	**$ 2,552**	$ 3,728
Future federal benefit on state taxes	**5,408**	10,397
Net operating losses	**5,639**	10,501
Postretirement benefits and other employee benefits	**9,614**	17,744
Regulatory liabilities - other	**21,444**	24,457
Regulatory liabilities - taxes	**22,472**	-
Other items	**4,315**	5,567
Total deferred tax assets	**71,444**	72,394
Deferred tax liabilities:		
Property related differences	**113,834**	161,363
Regulatory assets - merger savings	**50,929**	79,041
Other items	**7,868**	6,604
Total deferred tax liabilities	**172,631**	247,008
Deferred income tax liabilities, net	**$ 101,187**	$ 174,614

Net Operating Losses

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

	Carryforward Amount	Expiration Period
	(in thousands of dollars)	
Federal	$ 42,840	2035- 2037
State	9,865	2036- 2038

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

The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other deductions net, in the accompanying consolidated statements of income. As of March 31, 2018 and 2017, the Company has accrued for interest related to unrecognized tax benefits of $1.4 million and $0.9 million, respectively. During the years ended March 31, 2018 and 2017, the Company recorded interest expense of $0.5 million and $0.2 million, respectively. No tax penalties were recognized during the years ended March 31, 2018 or 2017.

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

The Company is included in NGNA and subsidiaries' administrative appeal with the Internal Revenue Service ("IRS") related to the issues disputed in the examination cycles for the years ended August 24, 2007, March 31, 2008 and March 31, 2009. The Company is expecting to reach a settlement with the IRS in the next fiscal year. The Company does not believe that the outcome of the settlement will have a material impact on its results of operations, financial position, or cash flows. The IRS continues its examination of the next cycle which includes income tax returns for the years ended March 31, 2010 through March 31, 2012. The examination is not expected to conclude in the next fiscal year. The income tax returns for the years ended March 31, 2013 through March 31, 2018 remain subject to examination by the IRS.

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

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

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

11. ENVIRONMENTAL MATTERS

The normal ongoing operations and historic activities of the Company are subject to various federal, state, and local environmental laws and regulations. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without regard to fault, even if the activities were lawful when they occurred.

Within the Commonwealth of Massachusetts, the Company is aware of numerous former MGP sites and related facilities within its existing or former service territories. Investigation and remediation expenditures incurred for the years ended March 31, 2018 and 2017 were $0.4 million.

The Company estimated the remaining costs of environmental remediation activities were $7.9 million and $8.1 million at March 31, 2018 and 2017, respectively. The Company had a current portion of environmental remediation costs of $0.7 million included in other current liabilities on the balance sheet at March 31, 2018. These costs are expected to be incurred over approximately 33 years. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders, the DPU has provided for the recovery of site investigation and remediation costs. Accordingly, as of March 31, 2018 and 2017, the Company has recorded environmental regulatory assets of $5.2 million and $5.5 million, respectively.

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

12. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

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

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

(in thousands of dollars) Years Ending March 31,	Gas Purchases	Capital Expenditures
2019	$ 49,002	$ 3,951
2020	43,770	-
2021	32,839	-
2022	24,325	-
2023	20,957	-
Thereafter	112,594	-
Total	$ 283,487	$ 3,951

Legal Matters

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

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

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

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

Work Continuation Plan

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

13. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2018	2017	**2018**	2017
	(in thousands of dollars)			
Boston Gas Company	**$ 3,972**	$ 15,101	**$ -**	$ -
KeySpan Corporation	**-**	-	**15,030**	13,485
NGUSA Service Company	**-**	-	**726**	1,049
Transgas Inc.	**2,838**	2,403	**-**	-
Other	**423**	424	**416**	882
Total	**$ 7,233**	$ 17,928	**$ 16,172**	$ 15,416

Intercompany Money Pool

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

The Regulated Money Pool is funded by operating funds from participants. Collectively, NGUSA have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Regulated Money Pool, if necessary. The Company had short-term intercompany money pool borrowings of $37.6 million and $70.9 million at March 31, 2018 and 2017, respectively. The average interest rates for the intercompany money pool were 1.6% and 1.1% for the years ended March 31, 2018 and 2017, respectively.

Service Company Charges

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

Net charges to and from the service companies of NGUSA, including but not limited to non-power goods and services, for the years ended March 31, 2018 and 2017 were $46.7 million and $50.6 million, respectively.