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Niagara Mohawk Power Corporation

Financial Statements

For the years ended March 31, 2017, 2016, and 2015

NIAGARA MOHAWK POWER CORPORATION

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Report of Independent Auditors

To the Board of Directors of
Niagara Mohawk Power Corporation

We have audited the accompanying financial statements of Niagara Mohawk Power Corporation, which comprise the balance sheets and statements of capitalization as of March 31, 2017 and 2016, and the related statements of income, comprehensive income, cash flows, and changes in shareholders' equity for each of the three years in the period ended March 31, 2017.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements based on our audits. We conducted our audits 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 our 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, we consider 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 Niagara Mohawk Power Corporation as of March 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2017 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

June 29, 2017

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NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2017	2016	2015
Operating revenues:			
Electric services	**$ 2,336,955**	$ 2,371,789	$ 2,582,648
Gas distribution	**512,486**	486,169	585,218
Total operating revenues	**2,849,441**	2,857,958	3,167,866
Operating expenses:			
Purchased electricity	**678,500**	671,304	827,611
Purchased gas	**161,967**	145,752	247,209
Operations and maintenance	**1,044,431**	1,112,644	1,254,073
Depreciation	**253,819**	243,631	230,473
Other taxes	**263,347**	253,292	250,876
Total operating expenses	**2,402,064**	2,426,623	2,810,242
Operating income	**447,377**	431,335	357,624
Other income and (deductions):			
Interest on long-term debt	**(106,833)**	(105,095)	(100,331)
Other interest, including affiliate interest	**(34,540)**	(25,646)	(12,845)
Other income, net	**10,019**	11,967	14,762
Total other deductions, net	**(131,354)**	(118,774)	(98,414)
Income before income taxes	**316,023**	312,561	259,210
Income tax expense	**118,626**	117,002	90,027
Net income	**$ 197,397**	$ 195,559	$ 169,183

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2017	2016	2015
Net income	**$ 197,397**	$ 195,559	$ 169,183
Other comprehensive income (loss), net of taxes:			
Unrealized gains (losses) on securities	**549**	(984)	407
Change in pension and other postretirement obligations	**149**	72	(144)
Total other comprehensive income (loss)	**698**	(912)	263
Comprehensive income	**$ 198,095**	$ 194,647	$ 169,446
Related tax (expense) benefit:			
Unrealized (gains) losses on securities	**$ (355)**	$ 646	$ (267)
Change in pension and other postretirement obligations	**(96)**	(47)	94
Total tax (expense) benefit	**$ (451)**	$ 599	$ (173)

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2017	2016	2015
Operating activities:			
Net income	**$ 197,397**	$ 195,559	$ 169,183
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**253,819**	243,631	230,473
Regulatory amortizations	**(2,578)**	7,102	(24,463)
Provision for deferred income taxes	**13,843**	92,670	87,656
Bad debt expense	**49,290**	41,260	62,941
Loss (income) from equity investments, net of dividends received	**136**	(3)	156
Allowance for equity funds used during construction	**(10,287)**	(9,962)	(13,270)
Amortization of debt discount and issuance costs	**2,943**	2,962	3,673
Net postretirement benefits expense (contributions)	**2,133**	(1,468)	23,966
Environmental remediation payments	**(20,957)**	(33,477)	(32,575)
Changes in operating assets and liabilities:			
Accounts receivable, net, and unbilled revenues	**(63,535)**	97,537	45,914
Inventory	**13,523**	167	(12,133)
Regulatory assets and liabilities, net	**256,162**	137,894	125,058
Derivative instruments	**(33,961)**	33,534	92,995
Prepaid and accrued taxes	**68,818**	14,210	(15,454)
Accounts payable and other liabilities	**114,834**	(80,893)	(27,189)
Other, net	**2,818**	(13,914)	22,277
Net cash provided by operating activities	**844,398**	726,809	739,208
Investing activities:			
Capital expenditures	**(566,575)**	(572,187)	(596,954)
Proceeds from restricted cash and special deposits	**130,650**	161,152	124,459
Payments on restricted cash and special deposits	**(125,734)**	(187,327)	(122,933)
Affiliated money pool investing and receivables/payables, net	**(221,935)**	5,185	(221,837)
Cost of removal	**(59,526)**	(60,745)	(37,966)
Other	**(1,080)**	488	(1,270)
Net cash used in investing activities	**(844,200)**	(653,434)	(856,501)
Financing activities:			
Preferred stock dividends	**(1,060)**	(1,060)	(1,060)
Payments on long-term debt	**-**	(75,000)	(600,000)
Proceeds from long-term debt	**-**	-	900,000
Payment of debt issuance costs	**-**	-	(5,000)
Advance from affiliate	**-**	(25,000)	(200,000)
Parent loss tax allocation	**-**	17,635	12,415
Net cash (used in) provided by financing activities	**(1,060)**	(83,425)	106,355
Net decrease in cash and cash equivalents	**(862)**	(10,050)	(10,938)
Cash and cash equivalents, beginning of year	**5,562**	15,612	26,550
Cash and cash equivalents, end of year	**$ 4,700**	$ 5,562	$ 15,612
Supplemental disclosures:			
Interest paid	**$ (106,969)**	$ (104,353)	$ (88,018)
Income taxes refunded (paid)	**1,457**	110	(5,376)
Significant non-cash items:			
Capital-related accruals included in accounts payable	**27,845**	21,447	7,928
Share based compensation	**304**	240	180

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

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 4,700**	$ 5,562
Restricted cash and special deposits	**35,575**	40,491
Accounts receivable	**571,977**	552,096
Allowance for doubtful accounts	**(159,897)**	(154,631)
Accounts receivable from affiliates	**20,573**	18,561
Intercompany money pool	**574,236**	288,173
Unbilled revenues	**101,051**	101,421
Inventory	**46,559**	60,082
Regulatory assets	**107,207**	113,305
Derivative instruments	**14,618**	3,604
Prepaid taxes	**18,173**	24,537
Other	**31,693**	32,503
Total current assets	**1,366,465**	1,085,704
Equity investments	**773**	2,565
Property, plant and equipment, net	**8,610,134**	8,246,046
Other non-current assets:		
Regulatory assets	**929,912**	1,309,404
Goodwill	**1,289,132**	1,289,132
Derivative instruments	**1,533**	2,291
Postretirement benefits asset	**299,554**	211,726
Other	**68,330**	67,781
Total other non-current assets	**2,588,461**	2,880,334
Total assets	**$ 12,565,833**	$ 12,214,649

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

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2017	2016
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 188,234**	$ 146,366
Accounts payable to affiliates	**88,557**	22,417
Taxes accrued	**81,364**	19,763
Customer deposits	**30,333**	30,081
Interest accrued	**32,294**	31,955
Regulatory liabilities	**388,705**	232,750
Derivative instruments	**45,037**	64,508
Other	**114,965**	108,188
Total current liabilities	**969,489**	656,028
Other non-current liabilities:		
Regulatory liabilities	**982,282**	938,093
Asset retirement obligations	**15,187**	15,289
Deferred income tax liabilities, net	**1,889,991**	1,866,930
Postretirement benefits	**389,761**	676,179
Environmental remediation costs	**364,515**	372,452
Derivative instruments	**32,631**	36,865
Other	**394,584**	324,666
Total other non-current liabilities	**4,068,951**	4,230,474
Commitments and contingencies (Note 13)		
Capitalization:		
Shareholders' equity	**4,765,560**	4,568,221
Long-term debt	**2,761,833**	2,759,926
Total capitalization	**7,527,393**	7,328,147
Total liabilities and capitalization	**$ 12,565,833**	$ 12,214,649

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2017	2016
Total shareholders' equity			**$ 4,765,560**	$ 4,568,221
Long-term debt:	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Notes	4.88%	August 15, 2019	**750,000**	750,000
Senior Notes	2.72%	November 28, 2022	**300,000**	300,000
Senior Notes	3.51%	October 1, 2024	**500,000**	500,000
Senior Notes	4.28%	October 1, 2034	**400,000**	400,000
Senior Notes	4.12%	November 28, 2042	**400,000**	400,000
			2,350,000	2,350,000
State Authority Financing Bonds:				
NYSERDA tax-exempt	Variable	December 1, 2023 - July 1, 2029	**429,465**	429,465
			429,465	429,465
Total debt			**2,779,465**	2,779,465
Unamortized debt discount			**(7)**	(8)
Unamortized debt issuance costs			**(17,625)**	(19,531)
Long-term debt			**2,761,833**	2,759,926
Total capitalization			**$ 7,527,393**	$ 7,328,147

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Available-For-Sale Securities	Accumulated Other Comprehensive Income (Loss): Pension and Other Postretirement Benefits	Accumulated Other Comprehensive Income (Loss): Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2014	**$ 187,365**	**$ 28,985**	**$ 2,998,861**	**$ 2,248**	**$ (668)**	**$ 1,580**	**$ 958,987**	**$ 4,175,778**
Net income	-	-	-	-	-	-	169,183	169,183
Other comprehensive income (loss):								
Unrealized gains on securities, net of $267 tax expense	-	-	-	407	-	407	-	407
Change in pension and other postretirement obligations, net of $94 tax benefit	-	-	-	-	(144)	(144)	-	(144)
Total comprehensive income								169,446
Parent loss tax allocation	-	-	12,415	-	-	-	-	12,415
Share based compensation	-	-	180	-	-	-	-	180
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2015	**$ 187,365**	**$ 28,985**	**$ 3,011,456**	**$ 2,655**	**$ (812)**	**$ 1,843**	**$ 1,127,110**	**$ 4,356,759**
Net income	-	-	-	-	-	-	195,559	195,559
Other comprehensive income (loss):								
Unrealized losses on securities, net of $646 tax benefit	-	-	-	(984)	-	(984)	-	(984)
Change in pension and other postretirement obligations, net of $47 tax expense	-	-	-	-	72	72	-	72
Total comprehensive income								194,647
Parent loss tax allocation	-	-	17,635	-	-	-	-	17,635
Share based compensation	-	-	240	-	-	-	-	240
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2016	**$ 187,365**	**$ 28,985**	**$ 3,029,331**	**$ 1,671**	**$ (740)**	**$ 931**	**$ 1,321,609**	**$ 4,568,221**
Net income	-	-	-	-	-	-	197,397	197,397
Other comprehensive income (loss):								
Unrealized gains on securities, net of $355 tax expense	-	-	-	549	-	549	-	549
Change in pension and other postretirement obligations, net of $96 tax expense	-	-	-	-	149	149	-	149
Total comprehensive income								198,095
Share based compensation	-	-	304	-	-	-	-	304
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2017	**$ 187,365**	**$ 28,985**	**$ 3,029,635**	**$ 2,220**	**$ (591)**	**$ 1,629**	**$ 1,517,946**	**$ 4,765,560**

The Company had 187,364,863 shares of common stock authorized, issued and outstanding, with a par value of $1 per share and 289,848 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2017 and 2016.

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

NIAGARA MOHAWK POWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Niagara Mohawk Power Corporation ("the Company"), a New York Corporation, is engaged principally in the regulated energy delivery business in New York State ("NYS"). The Company provides electric service to approximately 1.7 million customers in the areas of eastern, central, northern, and western New York and sells, distributes, and transports natural gas to approximately 0.6 million customers in the areas of central, northern, and eastern New York.

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

The 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 June 29, 2017, 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, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Regulatory Accounting

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

Revenue Recognition

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

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

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas and electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2017, 2016, and 2015 were $35.5 million, $39.3 million, and $38.6 million, respectively.

The state of New York imposes on corporations a franchise tax that is computed as the higher of a tax based on income or a tax based on capital. To the extent the Company's state tax based on capital is in excess of the state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements. The Company was not in an excess position this year.

The Company's policy is to accrue for property taxes on a calendar year basis, taking into account the assessment period. The Company had prepaid property taxes of $18.1 million and $15.7 million at March 31, 2017 and 2016, respectively.

Income Taxes

Federal and state income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses, and general business credit carryforwards.

The 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 current and deferred taxes based on the separate return method, modified by benefits-for-loss allocation pursuant to a tax sharing agreement between NGNA and its subsidiaries. To the extent that the consolidated return group settles cash differently than the amount reported as realized under the benefit-for-loss allocation, the difference is accounted for as either a capital contribution or as a distribution. The Company did not record a difference this year since it was in a taxable loss position.

Cash and Cash Equivalents

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

Restricted Cash and Special Deposits

Restricted cash consists of collateral paid to the Company's counterparties for outstanding derivative instruments. Special deposits primarily consist of a release of property account for mortgaged property under a mortgage trust indenture and a reserve for potential environmental violations. The Company had restricted cash of $23.9 million and $29 million and special deposits of $11.7 million and $11.5 million at March 31, 2017 and 2016, respectively.

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, 2017, 2016, or 2015.

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 NYPSC.

The Company had materials and supplies of $43.9 million and $47.5 million and gas in storage of $2.7 million and $12.6 million at March 31, 2017 and 2016, respectively.

Derivative Instruments

The Company uses derivative instruments (including capacity, option, purchase, and swap contracts) to manage commodity price risk. All derivative instruments, except those that qualify for the normal purchase normal sale exception, 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 commodity rate 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 has certain non-trading instruments for the physical purchase of electricity that qualify for the normal purchase normal sale exception and are accounted for upon settlement. If the Company were to determine that a contract no longer qualifies for the normal purchase normal sale exception, then the Company would recognize the fair value of the contract in accordance with the regulatory accounting described above.

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, and 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.

Power Purchase Agreements

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

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. Similar to the power purchase agreements noted above, the Company evaluates whether such agreements are derivative instruments or executory contracts and applies the appropriate accounting treatment.

Fair Value Measurements

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

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

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

Property, Plant and Equipment

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

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. The average composite rates for the years ended March 31, 2017, 2016, and 2015 are as follows:

	Composite Rates		
	Years Ended March 31,		
	2017	2016	2015
Electric	**2.3%**	2.2%	2.2%
Gas	**2.1%**	2.1%	2.1%
Common	**3.9%**	4.6%	4.7%

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 $317 million and $342 million at March 31, 2017 and 2016, 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 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 $10.3 million, $10 million, and $13.3 million and AFUDC related to debt of $3.5 million, $3.7 million, and $4.7 million for the years ended March 31, 2017, 2016, and 2015, respectively. The average AFUDC rates for the years ended March 31, 2017, 2016, and 2015 were 6.7%, 6.5%, and 6.5%, respectively.

Impairment of Long-Lived Assets

The Company tests the impairment of long-lived assets annually or when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The recoverability of an asset is determined by comparing its carrying value to the future undiscounted cash flows that the asset is expected to generate. If the comparison indicates that the carrying value is not recoverable, an impairment loss is recognized for the excess of the carrying value over the estimated fair value. For the years ended March 31, 2017, 2016, and 2015, 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. Goodwill is tested for impairment using a two-step approach. The first step compares the estimated fair value of the Company 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, then a second step is performed to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The fair value of the Company was calculated in the annual goodwill impairment test for the year ended March 31, 2017 utilizing both income and market approaches. The Company uses a 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment of the goodwill carrying value was required at March 31, 2017 or 2016.

Available-For-Sale Securities

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

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant and equipment, primarily associated with the Company’s distribution facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value. The Company applies regulatory

accounting guidance and both the depreciation and accretion costs associated with asset retirement obligation are recorded as increases to regulatory assets on the balance sheets. These regulatory assets represent timing differences between the recognition of costs in accordance with U.S. GAAP and costs recovered through the rate-making process.

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

	Years Ended March 31,	
	2017	2016
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 15,289**	$ 10,929
Accretion expense	**619**	410
Liabilities settled	**(721)**	(788)
Revaluations to present values of estimated cash flows	**-**	4,738
Balance as of the end of the year	**$ 15,187**	$ 15,289

At March 31, 2016, the Company carried out a revaluation study that resulted in a net upward revaluation in estimated costs related to the asset retirement obligations. These increases were due to changes in remediation cost and enhanced asset replacement programs.

Employee Benefits

The Company has defined benefit pension plans and postretirement benefit other than pension ("PBOP") plans for its employees. The Company recognizes all pension and PBOP plans' funded status on the balance sheet as a net liability or asset with an offsetting adjustment to accumulated other comprehensive income ("AOCI") in shareholders' equity. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The Company measures and records its pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

Supplemental Executive Retirement Plans

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

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2017

Presentation of Financial Statements – Balance Sheet Classification of Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." The new guidance requires that debt issuance costs related to term loans, be presented in the balance sheets as a direct deduction from the carrying value of debt. The guidance was adopted and retrospectively applied as described in Note 10, "Capitalization."

Presentation of Financial Statements – Going Concern, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued amendments on reporting about an entity's ability to continue as a going concern in ASU 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205 - 40): Disclosure of Uncertainties about an

Entity’s Ability to Continue as a Going Concern.” The amendments provide guidance about management’s responsibility 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, the amendments require additional disclosures relating to management’s evaluation and conclusion. 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. Therefore no additional disclosure has been deemed necessary.

Accounting Guidance Not Yet Adopted

Pension and Postretirement Benefits

In March 2017, the FASB issued ASU 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, 2020, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on the presentation, results of operations, cash flows, and financial position of the Company.

Goodwill

In January 2017, the FASB issued ASU 2017-04, “Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which eliminates Step 2 from the goodwill impairment test. For the Company, the requirements of the new standard will be effective for the fiscal year ended March 31, 2023, with early adoption permitted. The Company currently anticipates adopting the ASU in the year ended March 31, 2018.

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. For the Company, the requirements of the new standard will be effective for the fiscal year ended March 31, 2020, and interim periods thereafter, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on the presentation of the Company’s statements 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 standard will be effective for the fiscal year ended March 31, 2020, and interim periods thereafter, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on the presentation of the Company’s statements of cash flows.

Income Taxes

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," which eliminates the exception for all intra-entity sales of assets other than inventory. As a result, a reporting entity would recognize the tax expense from the sale of the asset in the seller’s tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. For the Company, the requirements of the new standard will be effective for the fiscal year ended March 31, 2020, and interim periods thereafter, with early

adoption permitted. The Company is currently evaluating the impact of the new guidance on the results of operations, cash flows, and 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 thereafter, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on the results of operations, cash flows, and financial position of the Company.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), which changes the criteria for recognizing revenue from a contract with a customer. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers – Deferral of the Effective Date”, which effectively defers by one year the effective date of ASU 2014-09. The underlying principle of “Revenue from Contracts with Customers” 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.

Additionally, there were subsequent amendments to ASU 2014-09. In March 2016, the FASB issued ASU 2016-08, 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 2016-12, providing additional clarity on various aspects of Topic 606. 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.

The new revenue recognition guidance and related amendments must be adopted using either a full retrospective approach or a modified retrospective approach. For the Company, the new guidance is effective for the fiscal year ended March 31, 2019, and interim periods within the reporting period, with early adoption permitted.

The Company continues to assess the impacts this guidance may have on its results of operations, cash flows and financial position. In performing this assessment the Company is utilizing an implementation team comprising both internal and external resources. The key areas of focus include but not limited to: reviewing the potential new disclosures regarding the nature, amount, timing and uncertainty of revenue and related cash flows; developing an implementation approach and process for complying with these new disclosures; and evaluating existing contracts and revenue streams for potential changes in the amounts and timing of recognizing revenues under the new guidance. While there continues to be ongoing activities in all these areas, the Company has preliminarily concluded that it expects to apply the new guidance using the modified retrospective method.

Leases

In February 2016, the FASB issued a new lease accounting standard, ASU 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, 2021, 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 operations, cash flows, and financial position of the Company. The Company's leases are discussed in Note 13, "Commitments and Contingencies" under "Operating Lease Obligations."

Financial Instruments – Classification and Measurement

In January 2016, the FASB issued ASU 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, 2020, and interim periods thereafter, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on the results of operations, cash flows, and financial position of the Company.

Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." The new guidance requires that inventory be measured at the lower of cost or net realizable value (other than inventory measured using "last-in, first out" and the "retail inventory method"). For the Company, the new guidance, which must be applied prospectively, is effective for the fiscal year ended March 31, 2018, 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 since the Company's gas in storage is fully recoverable from customers and material and supplies inventory is stated at the lower of cost or market.

Reclassifications

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

3. REGULATORY ASSETS AND LIABILITIES

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

	March 31,	
	2017	2016
	(in thousands of dollars)	
Regulatory assets		
Current:		
Derivative instruments	**$ 61,518**	$ 95,479
Gas costs adjustment	**12,594**	989
Rate adjustment mechanisms	**9,600**	3,919
Revenue decoupling mechanism	**23,495**	12,918
Total	**107,207**	113,305
Non-current:		
Dunkirk settlement deferral	**57,000**	57,000
Environmental response costs	**364,515**	372,452
Postretirement benefits	**255,442**	644,693
Regulatory deferred tax asset	**93,793**	88,373
Storm costs	**106,925**	95,207
Other	**52,237**	51,679
Total	**929,912**	1,309,404
Regulatory liabilities		
Current:		
Energy efficiency	**270,001**	118,598
Gas costs adjustment	**8,700**	9,826
Rate adjustment mechanisms	**101,542**	91,769
Revenue decoupling mechanism	**1,147**	5,159
Other	**7,315**	7,398
Total	**388,705**	232,750
Non-current:		
Carrying charges	**95,162**	73,386
Cost of removal	**316,583**	341,963
Economic development fund	**91,635**	76,455
Environmental response costs	**59,875**	38,765
Long-term debt true-up	**66,650**	47,624
Postretirement benefits	**64,641**	77,922
Storm costs	**148,389**	119,389
Other	**139,347**	162,589
Total	**982,282**	938,093
Net regulatory (liabilities) assets	**$ (333,868)**	$ 251,866

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.

Dunkirk settlement deferral: The Company is allowed to defer up to $57 million to offset the Reliability Support Services ("RSS") associated with the Dunkirk generating plant and RSS agreements with other generators. This is an on-going deferral mechanism. The timing for disposition of any associated deferred balances will be determined by future PSC rulings.

Economic development fund: Represents a deferral mechanism for economic development discounts. Under this mechanism, the Company reconciles the economic discounts provided to customers to the amount reflected in rates for future refund to, or recovery from, customers. This is an on-going deferral mechanism. The timing for disposition of any associated deferred balances will be determined by future PSC rulings.

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

Environmental response costs: The regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at sites with which it may be associated. The Company's rate plans provide for specific rate allowances for these costs at a level of $42 million per year, with variances deferred for future recovery from, or return to, customers. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates. The regulatory liability represents the excess of amounts received in rates over the Company's actual site investigation and remediation costs.

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

Long-term debt true-up: The Company has a mechanism whereby it reconciles the actual interest expense and other debt costs related to its variable rate debt with the amount reflected in rates ($22 million for electric and $5.5 million for gas). The Company defers any over or under recoveries for future refund to, or recovery from, customers. This is an on-going deferral mechanism. The timing for disposition of any associated deferred balances will be determined by future PSC rulings.

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

Rate adjustment mechanisms: The Company is subject to a number of rate adjustment mechanisms whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered, or differences between actual revenues and targeted amounts as approved by the NYPSC. These amounts will be refunded to, or recovered from, customers.

Regulatory deferred tax asset: Represents unrecovered federal and state deferred taxes of the Company primarily as a result of regulatory flow through accounting treatment and tax rate changes. The income tax benefits or charges for certain plant related timing differences, such as equity AFUDC, are immediately flowed through to, or collected from, customers. The amortization of the related regulatory deferred tax asset, for these items, follows the book life of the underlying plant asset. The Company also has a recovery of historic unfunded deferred tax balances that are currently being amortized through rates at a stated annual revenue requirement under the current rate plan.

Revenue decoupling mechanism: As approved by the NYPSC, the Company has an electric RDM which allows for an annual adjustment to the Company's delivery rates as a result of the reconciliation between annual target revenue and actual billed delivery service revenue. Any difference between the annual target revenue and actual billed delivery service

revenue is recorded as a regulatory asset or regulatory liability. The Company also has a gas RDM which allows for an annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. Any difference between the allowed revenue per customer and the actual revenue per customer is recorded as a regulatory asset or regulatory liability.

Storm costs: The Joint Proposal (NMPC rate proceeding Case 12-E-0201) established an annual allowance for major storm recovery of $29 million in each of the three fiscal years ending March 31, 2016. The NYPSC allowed for the continuation of this allowance in Case 15-M-0744 for the two fiscal years ending March 31, 2018. The Company will defer the difference between the base rate allowance and actual major storm incremental costs for future refund to, or recovery from, customers. The regulatory liability represents the cumulative storm reserve allowance / funding for major storm incremental costs. The regulatory asset represents the cumulative incremental costs incurred for qualified storm events.

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

Electric and Gas Filing

In March 2013, the NYPSC issued a final order regarding the Company’s electric and gas base rate filing made on April 27, 2012. The original term of the rate plan was from April 1, 2013 through March 31, 2016. On December 21, 2015, the Company filed a Petition with the NYPSC seeking authorization to recover approximately $150 million in revenue requirements associated with a proposed two-year, $1.4 billion capital spending program for the Company’s electric and gas operations in fiscal years 2017 and 2018. The Petition proposed that the revenue requirement be fully funded by existing regulatory deferrals and proposed no increase in customer rates. The Petition also proposed an extension of the existing rate plan which expired in March 2016 through March 2018.

On May 19, 2016, the NYPSC granted approval of the capital investment petition, approving a two-year capital program worth approximately $1.3 billion and funding of the incremental portion of that investment through the use of $140 million in regulatory liabilities due to customers over 24 months.

On April 28, 2017 the Company filed a proposal to reset electric and natural gas delivery prices beginning in April 2018. If approved by the NYPSC, the new prices would take effect April 1, 2018. The filed proposal requests a rate increase of $326 million and $81 million for the electric and gas business respectively based upon a 9.79% return on equity and 48% common equity ratio. If a three year settlement is reached the Company proposes that a return on equity of 10.29% be used to calculate the revenue requirement. The current delivery price freeze for upstate electric and natural gas customers will remain in effect through March 31, 2018.

Transmission Formula Rate

The Company’s wholesale transmission service charge (“TSC”) rates are established based on a FERC-approved formula. The Company is required to make an informational filing annually to update certain components of the TSC formula rate. The revenue requirement component of the annual formula rate update is based on prior year actual costs and current year projected capital additions. The update also reconciles any differences between the revenue requirement in effect in the prior year and the actual revenue requirement for that year.

On January 30, 2017, pursuant to Section 205 of the Federal Power Act and Part 35.13 of the NYPSC’s regulations, the Company submitted modifications to its TSC formula rate set forth in Attachment H to the New York Independent System Operator (“NYISO”) Open Access Transmission Tariff. In the filing the Company proposed revisions to the calculation of the Company’s projected test year revenue requirement. The Company also proposed administrative changes to certain schedules in the formula rate template.

On April 7, 2017 the NYPSC issued an order accepting the Company's tariff revision filing filed on January 30, 2017 and subsequently revised on February 15, 2017. The tariff adjustments are effective April 1, 2017 to ensure that the proposed tariff modifications are in place for purposes of National Grid's next Formula Rate annual update. Any change in revenues received from wholesale transmission customers resulting from the revisions to the Accumulated Deferred Income Tax calculation methodology will be offset by revenues from retail electric distribution customers through the Transmission Revenue Adjustment Clause mechanism.

Operations Audit

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

Operations Staffing Audit

In January 2014, the NYPSC initiated an operational audit to review internal staffing levels and use of contractors for the core utility functions of the investor owned utilities operating in New York, including the Company. On June 26, 2014, the NYPSC selected a third party to conduct the audit. On February 21, 2017, the third party submitted its final report, which contained recommendations for all of National Grid's New York utilities designed to improve staffing processes. The report contained 26 recommendations for National Grid. The Company filed its implementation plan on March 23, 2017.

5. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2017	2016
	(in thousands of dollars)	
Plant and machinery	**$ 11,021,840**	$ 10,622,855
Land and buildings	**589,774**	582,547
Assets in construction	**333,980**	257,459
Software and other intangibles	**6,888**	6,888
Total property, plant and equipment	**11,952,482**	11,469,749
Accumulated depreciation and amortization	**(3,342,348)**	(3,223,703)
Property, plant and equipment, net	**$ 8,610,134**	$ 8,246,046

6. DERIVATIVE INSTRUMENTS

The Company utilizes derivative instruments to manage commodity price risk associated with its natural gas and electricity purchases. The Company's commodity risk management strategy is to reduce fluctuations in firm gas and electricity 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") and megawatt hours ("mwhs") are as follows:

	Electric		Gas	
	March 31,		March 31,	
	2017	2016	**2017**	2016
	(in thousands)		*(in thousands)*	
Gas option contracts (dths)	**-**	-	**1,850**	4,055
Gas purchase contracts (dths)	**-**	-	**4,226**	4,373
Gas swap contracts (dths)	**-**	-	**3,890**	3,350
Electric capacity (mwhs)	**651**	854	**-**	-
Electric swap contracts (mwhs)	**12,777**	11,786	**-**	-
Electric swaption contracts (mwhs)	**136**	203	**-**	-
Total	**13,564**	12,843	**9,966**	11,778

Amounts Recognized on the Balance Sheet

	Asset Derivatives			Liability Derivatives	
	March 31,			March 31,	
	2017	2016		**2017**	2016
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas option contracts	**$ 25**	$ 90	Gas option contracts	**$ 29**	$ 155
Gas purchase contracts	**300**	16	Gas purchase contracts	**-**	67
Gas swap contracts	**846**	-	Gas swap contracts	**-**	1,047
Electric capacity contracts	**116**	137	Electric swap contracts	**44,382**	63,081
Electric swap contracts	**13,331**	3,361	Electric swaption contracts	**626**	158
	14,618	3,604		**45,037**	64,508
Other non-current assets:			Other non-current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	**23**	60	Electric swap contracts	**32,631**	36,140
Electric capacity contracts	**1,175**	2,231	Electric swaption contracts	**-**	725
Electric swap contracts	**335**	-		**32,631**	36,865
	1,533	2,291	Total	**$ 77,668**	$ 101,373
Total	**$ 16,151**	$ 5,895			

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. The Company had no derivative instruments not subject to rate recovery as of March 31, 2017 and 2016.

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, normal purchase normal sale contracts, and applicable payables and receivables, net of collateral, and instruments that are subject to master netting agreements, was a liability of $37.6 million and $66.5 million as of March 31, 2017 and 2016, 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, 2017 and 2016 was $64.5 million and $98.4 million, respectively. The Company had $23.9 million and $29 million collateral posted for these instruments at March 31, 2017 and 2016, respectively. At March 31, 2017, if the Company's credit rating were to be downgraded by one, two, or three levels, it would be required to post additional collateral to its counterparties of $2.9 million, $7.9 million, or $41.2 million, respectively. At March 31, 2016, if the Company's credit rating were to be downgraded by one, two, or three levels, it would be required to post additional collateral to its counterparties of $9.6 million, $22.1 million, or $69.4 million, respectively.

Offsetting Information for Derivative Instruments Subject to Master Netting Arrangements

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 option contracts	$ 25	$ -	$ 25	$ -	$ -	$ 25
Gas purchase contracts	323	-	323	-	-	323
Gas swap contracts	846	-	846	-	-	846
Electric capacity contracts	1,291	-	1,291	-	-	1,291
Electric swap contracts	13,666	-	13,666	-	-	13,666
Total	$ 16,151	$ -	$ 16,151	$ -	$ -	$ 16,151

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilities presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative instruments						
Gas option contracts	$ 29	$ -	$ 29	$ -	$ -	$ 29
Electric swap contracts	77,013	-	77,013	-	-	77,013
Electric swaption contracts	626	-	626	-	23,900	(23,274)
Total	$ 77,668	$ -	$ 77,668	$ -	$ 23,900	$ 53,768

March 31, 2016
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 option contracts	$ 90	$ -	$ 90	$ -	$ -	$ 90
Gas purchase contracts	76	-	76	-	-	76
Electric capacity contracts	2,368	-	2,368	-	-	2,368
Electric swap contracts	3,361	-	3,361	-	-	3,361
Total	$ 5,895	$ -	$ 5,895	$ -	$ -	$ 5,895

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilities presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative instruments						
Gas option contracts	$ 155	$ -	$ 155	$ -	$ -	$ 155
Gas purchase contracts	67	-	67	-	-	67
Gas swap contracts	1,047	-	1,047	-	-	1,047
Electric swap contracts	99,221	-	99,221	-	29,000	70,221
Electric swaption contracts	883	-	883	-	-	883
Total	$ 101,373	$ -	$ 101,373	$ -	$ 29,000	$ 72,373

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, 2017 and 2016:

	March 31, 2017			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative instruments				
Gas option contracts	$ -	$ -	$ 25	$ 25
Gas purchase contracts	-	236	87	323
Gas swap contracts	-	846	-	846
Electric capacity contracts	-	-	1,291	1,291
Electric swap contracts	-	13,666	-	13,666
Available-for-sale securities	21,641	10,898	-	32,539
Total	21,641	25,646	1,403	48,690
Liabilities:				
Derivative instruments				
Gas option contracts	-	-	29	29
Electric swap contracts	-	77,013	-	77,013
Electric swaption contracts	-	-	626	626
Total	-	77,013	655	77,668
Net assets (liabilities)	$ 21,641	$ (51,367)	$ 748	$ (28,978)

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative instruments				
Gas option contracts	$ -	$ -	$ 90	$ 90
Gas purchase contracts	-	-	76	76
Electric capacity contracts	-	-	2,368	2,368
Electric swap contracts	-	3,361	-	3,361
Available-for-sale securities	19,761	10,081	-	29,842
Total	19,761	13,442	2,534	35,737
Liabilities:				
Derivative instruments				
Gas option contracts	-	-	155	155
Gas purchase contracts	-	67	-	67
Gas swap contracts	-	1,047	-	1,047
Electric swap contracts	-	99,221	-	99,221
Electric swaption contracts	-	-	883	883
Total	-	100,335	1,038	101,373
Net assets (liabilities)	$ 19,761	$ (86,893)	$ 1,496	$ (65,636)

Derivative instruments*:* The Company's Level 2 fair value derivative instruments primarily consist of over-the-counter ("OTC") electric and gas swaps 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 gas option and purchase, and electric option and capacity transactions, 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. The internally developed forward curves have a high level of correlation with published curves and are reviewed 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.

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

Changes in Level 3 Derivative Instruments

	Years Ended March 31,	
	2017	2016
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 1,496**	$ (1,184)
Net gains (losses) included in regulatory assets and liabilities	**(344)**	1,293
Settlements	**(404)**	1,387
Balance as of the end of the year	**$ 748**	$ 1,496

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, 2017, 2016, or 2015.

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.

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, 2017			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Gas	Option contracts	$ 25	$ (29)	$ (4)	Discounted Cash Flow	Forward Curve Implied Volatility	$0.30 - $0.42/dth 33% - 39%
Gas	Purchase contracts	87	-	87	Discounted Cash Flow	Forward Curve	$29.87 - $238.00/dth
Electric	Capacity contracts	1,291	-	1,291	Discounted Cash Flow	Forward Curve	$0.35 - $3.68/MW
Electric	Swaption contracts	-	(626)	(626)	Discounted Cash Flow	Implied Volatility	12% - 63%
	Total	$ 1,403	$ (655)	$ 748			

Commodity	Level 3 Position	Fair Value as of March 31, 2016			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Gas	Option contracts	$ 90	$ (155)	$ (65)	Discounted Cash Flow	Forward Curve Implied Volatility	$0.09 - $0.36/dth 34% - 38%
Gas	Purchase contracts	76	-	76	Discounted Cash Flow	Forward Curve	$12.72-$31.35/dth
Electric	Capacity contracts	2,368	-	2,368	Discounted Cash Flow	Forward Curve	$0.58-$5.80/MW
Electric	Swaption contracts	-	(883)	(883)	Discounted Cash Flow	Implied Volatility	12% - 54%
	Total	$ 2,534	$ (1,038)	$ 1,496			

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 option derivative instruments and electric option and swap derivative instruments are implied volatility and gas forward curves. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

Other Fair Value Measurements

The Company's 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, 2017 and 2016 was $2.8 billion and $2.9 billion, respectively.

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

8. EMPLOYEE BENEFITS

The Company sponsors several qualified and non-qualified non-contributory defined benefit pension plans (the "Pension Plans") and several PBOP plans (the "PBOP Plans," together with the Pension Plans, the "Plans"). The Company calculates benefits under these plans based on age, years of service and pay using March 31 as a measurement date. In addition, the Company also sponsors defined contribution plans for eligible employees.

The Plan's costs are first directly charged to the Company based on the Company's employees that participate in the Plan. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf.

Pension Plans

The Pension Plans are comprised of both qualified and non-qualified plans. The qualified pension plan provides substantially all union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. The qualified pension plan is a cash balance pension plan design in which pay-based credits are applied based on service time and interest credits are applied at rates set forth in the plan. For non-union employees, effective January 1, 2011, pay-based credits are based on a combination of service time and age. The non-qualified pension plans provide additional defined pension benefits to certain eligible executives. The funding policy is determined largely by the Company's rate agreements with the NYPSC. However, the contribution to the qualified pension plan for any year will not be less than the minimum amount required under IRS regulations. The Company expects to contribute approximately $35.8 million to the qualified pension plan during the year ending March 31, 2018.

PBOP Plans

The Company's PBOP Plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. The PBOP Plans are funded based on rate agreements with the NYPSC. The Company expects to contribute approximately $52.5 million to the PBOP Plans during the year ending March 31, 2018.

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2017, 2016, and 2015, the Company recognized an expense in the accompanying statements of income of $8.7 million, $8.4 million, and $7.9 million, respectively, for matching contributions.

Components of Net Periodic Benefit Costs

	Pension Plans		
	Years Ended March 31,		
	2017	2016	2015
	(in thousands of dollars)		
Service cost	**$ 24,640**	$ 26,229	$ 23,583
Interest cost	**56,082**	56,379	60,957
Expected return on plan assets	**(95,345)**	(89,179)	(100,068)
Amortization of prior service cost, net	**3,123**	3,719	3,719
Amortization of net actuarial loss	**52,858**	53,183	52,606
Total cost	**$ 41,358**	$ 50,331	$ 40,797

	PBOP Plans		
	Years Ended March 31,		
	2017	2016	2015
	(in thousands of dollars)		
Service cost	**$ 23,988**	$ 26,941	$ 20,687
Interest cost	**77,186**	75,551	76,608
Expected return on plan assets	**(77,556)**	(79,993)	(83,046)
Amortization of prior service cost, net	**(540)**	2,243	12,681
Amortization of net actuarial loss	**49,786**	46,142	27,888
Total cost	**$ 72,864**	$ 70,884	$ 54,818

Amounts Recognized in AOCI and Regulatory Assets

The following tables summarize other pre-tax changes in plan assets and benefit obligations recognized primarily in regulatory assets and accumulated other comprehensive income for the years ended March 31, 2017, 2016, and 2015:

	Pension Plans		
	Years Ended March 31,		
	2017	2016	2015
	(in thousands of dollars)		
Net actuarial (gain) loss	**$ (42,368)**	$ 48,807	$ 114,848
Amortization of net actuarial loss	**(52,858)**	(53,183)	(52,606)
Amortization of prior service cost, net	**(3,123)**	(3,719)	(3,719)
Total	**$ (98,349)**	$ (8,095)	$ 58,523
Included in regulatory assets	**$ (98,104)**	$ (7,976)	$ 58,285
Included in AOCI	**(245)**	(119)	238
Total	**$ (98,349)**	$ (8,095)	$ 58,523

	PBOP Plans		
	Years Ended March 31,		
	2017	2016	2015
	(in thousands of dollars)		
Net actuarial (gain) loss	**$ (258,040)**	$ (42,177)	$ 296,489
Amortization of net actuarial loss	**(49,786)**	(46,142)	(27,888)
Amortization of prior service cost, net	**540**	(2,243)	(12,681)
Total	**$ (307,286)**	$ (90,562)	$ 255,920
Included in regulatory assets	**$ (307,286)**	$ (90,562)	$ 255,920
Total	**$ (307,286)**	$ (90,562)	$ 255,920

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 accompanying balance sheets that have not yet been recognized as components of net actuarial loss at March 31, 2017, 2016, and 2015:

	Pension Plans		
	Years Ended March 31,		
	2017	2016	2015
		(in thousands of dollars)	
Net actuarial loss	**$ 160,578**	$ 255,804	$ 260,180
Prior service cost	**11,153**	14,276	17,995
Total	**$ 171,731**	$ 270,080	$ 278,175
Included in regulatory assets	**$ 170,494**	$ 268,598	$ 276,574
Included in AOCI	**1,237**	1,482	1,601
Total	**$ 171,731**	$ 270,080	$ 278,175

	PBOP Plans		
	Years Ended March 31,		
	2017	2016	2015
		(in thousands of dollars)	
Net actuarial loss	**$ 56,405**	$ 364,231	$ 452,550
Prior service cost	**(1,056)**	(1,596)	647
Total	**$ 55,349**	$ 362,635	$ 453,197
Included in regulatory assets	**$ 55,349**	$ 362,635	$ 453,197
Total	**$ 55,349**	$ 362,635	$ 453,197

The NYPSC's statement of policy requires that prior service costs and gains and losses be amortized over a ten-year period calculated on a vintage year basis. The amount of net actuarial loss and prior service cost to be amortized from regulatory assets during the year ending March 31, 2018 for the Pension Plans is $47.3 million and $3.1 million, respectively, and net actuarial loss and prior service benefit to be amortized from regulatory assets during the year ending March 31, 2018 for the PBOP Plans is $23.4 million and $(0.5) million, respectively.

Reconciliation of Funded Status to Amount Recognized

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2017	2016	**2017**	2016
	(in thousands of dollars)			
Change in benefit obligation:				
Benefit obligation as of the beginning of the year	**$ (1,555,120)**	$ (1,627,785)	**$ (1,951,979)**	$ (2,080,082)
Service cost	**(28,987)**	(31,324)	**(27,009)**	(31,290)
Interest cost	**(61,861)**	(62,608)	**(81,095)**	(80,190)
Net actuarial gain (loss)	**8,245**	41,356	**214,223**	168,860
Benefits paid	**107,509**	125,241	**81,622**	81,015
Employer group waiver plan subsidy received	**-**	-	**(8,651)**	(10,292)
Benefit obligation as of the end of the year	**(1,530,214)**	(1,555,120)	**(1,772,889)**	(1,951,979)
Change in plan assets:				
Fair value of plan assets as of the beginning of the year	**1,730,953**	1,803,758	**1,219,023**	1,273,363
Actual return (loss) on plan assets	**145,792**	2,402	**136,648**	(28,629)
Company contributions	**37,894**	50,034	**60,918**	55,304
Benefits paid	**(107,509)**	(125,241)	**(81,622)**	(81,015)
Fair value of plan assets as of the end of the year	**1,807,130**	1,730,953	**1,334,967**	1,219,023
Funded status	**$ 276,916**	$ 175,833	**$ (437,922)**	$ (732,956)

The accumulated benefit obligation for all defined benefit pension plans in which the Company participates was approximately $1.5 billion at March 31, 2017 and 2016.

Amounts Recognized on the Balance Sheet

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2017	2016	**2017**	2016
	(in thousands of dollars)			
Other non-current assets	**$ 299,554**	$ 211,726	**$ -**	$ -
Current liabilities	**(340)**	(376)	**(5,200)**	(5,000)
Other non-current liabilities	**(1,685)**	(2,129)	**(388,076)**	(674,050)
Total	**$ 297,529**	$ 209,221	**$ (393,276)**	$ (679,050)

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2017:

(in thousands of dollars) Years Ending March 31,	Pension Plans	PBOP Plans
2018	$ 169,584	$ 71,610
2019	159,385	74,951
2020	150,933	78,267
2021	143,957	81,757
2022	136,105	85,481
Thereafter	546,486	467,765
Total	$ 1,306,450	$ 859,831

Assumptions Used for Employee Benefits Accounting

	Pension Plans		
	Years Ended March 31,		
	2017	2016	2015
Benefit Obligations:			
Discount rate	**4.30%**	4.25%	4.10%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.25%**	6.25%	6.00%
Net Periodic Benefit Costs:			
Discount rate	**4.25%**	4.10%	4.80%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.25%**	6.00%	7.00%

	PBOP Plans		
	Years Ended March 31,		
	2017	2016	2015
Benefit Obligations:			
Discount rate	**4.30%**	4.25%	4.10%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.50%-6.75%**	6.25%-6.75%	6.25%-6.75%
Net Periodic Benefit Costs:			
Discount rate	**4.25%**	4.10%	4.80%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.25%-6.75%**	6.25%-6.75%	7.00%-7.25%

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,	
	2017	2016
Health care cost trend rate assumed for next year		
Pre 65	**7.00%**	7.50%
Post 65	**6.00%**	6.25%
Prescription	**10.25%**	11.00%
Rate to which the cost trend is assumed to decline (ultimate)	**4.50%**	4.50%
Year that rate reaches ultimate trend		
Pre 65	**2025**	2025
Post 65	**2024**	2024
Prescription	**2025**	2025

Sensitivity to Changes in Assumed Health Care Cost Trend Rates

(in thousands of dollars)	**March 31, 2017**
1% point increase	
Total of service cost plus interest cost	$ 23,399
Postretirement benefit obligation	306,287
1% point decrease	
Total of service cost plus interest cost	(18,903)
Postretirement benefit obligation	(260,970)

Plan Assets

NGUSA 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, 2017 and 2016 are as follows:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2017	2016	**2017**	2016
U.S. equities	**17%**	17%	**40%**	40%
Global equities (including U.S.)	**7%**	7%	**6%**	6%
Global tactical asset allocation	**10%**	10%	**9%**	9%
Non-U.S. equities	**6%**	6%	**20%**	20%
Fixed income securities	**50%**	50%	**25%**	25%
Private equity	**4%**	4%	**-**	-
Real estate	**4%**	4%	**-**	-
Infrastructure	**2%**	2%	**-**	-
	100%	100%	**100%**	100%

Fair Value Measurements

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

	March 31, 2017				
	Level 1	**Level 2**	**Level 3**	**Not categorized**	**Total**
			(in thousands of dollars)		
Pension Assets:					
Cash and cash equivalents	$ 1,244	$ 59,226	$ -	$ 1,196	$ 61,666
Accounts receivable	14,261	-	-	-	14,261
Accounts payable	(58,646)	-	-	-	(58,646)
Equity	208,341	-	-	435,492	643,833
Global tactical asset allocation	-	-	-	87,839	87,839
Fixed income securities	-	733,312	-	127,024	860,336
Preferred securities	-	6,713	-	-	6,713
Private equity	-	-	-	108,637	108,637
Real estate	-	-	-	82,430	82,430
Other	61	-	-		61
Total	**$ 165,261**	**$ 799,251**	**$ -**	**$ 842,618**	**$ 1,807,130**
PBOP Assets:					
Cash and cash equivalents	$ 20,345	$ -	$ -	$ 895	$ 21,240
Accounts receivable	1,815	-	-	-	1,815
Accounts payable	(135)	-	-	-	(135)
Equity	249,945	-	-	681,700	931,645
Global tactical asset allocation	36,188	-	-	79,310	115,498
Fixed income securities	-	264,872	-	-	264,872
Other	32	-	-	-	32
Total	**$ 308,190**	**$ 264,872**	**$ -**	**$ 761,905**	**$ 1,334,967**

	March 31, 2016				
	Level 1	Level 2	Level 3	Not categorized	Total
			(in thousands of dollars)		
Pension Assets:					
Cash and cash equivalents	$ 1,220	$ 40,741	$ -	$ 756	$ 42,717
Accounts receivable	16,532	-	-	-	16,532
Accounts payable	(37,180)	-	-	-	(37,180)
Convertible securities	-	919	-	-	919
Equity	144,802	55,545	-	410,283	610,630
Global tactical asset allocation	-	-	-	82,186	82,186
Fixed income securities	-	800,890	-	15,152	816,042
Preferred securities	-	10,447	-	-	10,447
Private equity	-	-	-	100,794	100,794
Real estate	-	-	-	87,781	87,781
Other	85	-	-	-	85
Total	$ 125,459	$ 908,542	$ -	$ 696,952	$ 1,730,953
PBOP Assets:					
Cash and cash equivalents	$ 18,788	$ 546	$ -	$ 715	$ 20,049
Accounts receivable	13,192	-	-	-	13,192
Accounts payable	(11,958)	-	-	-	(11,958)
Equity	165,750	49,181	-	620,104	835,035
Global tactical asset allocation	32,122	-	-	70,873	102,995
Fixed income securities	450	258,611	-	-	259,061
Other	(22)	671	-	-	649
Total	$ 218,322	$ 309,009	$ -	$ 691,692	$ 1,219,023

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 the Employee Benefit Temporary Investment Funds and JPMorgan Chase Bank Liquidity Funds are excluded from the fair value hierarchy. Such instruments are generally valued using a curve methodology that includes observable inputs such as money market rates for specific instruments, programs, currencies and maturity points obtained from a variety of market makers, reflective of current trading levels. The methodologies consider an instrument's days to final maturity to generate a yield based on the relevant curve for the instrument.

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. Investments that are not publicly traded and valued using unobservable inputs are classified as Level 3 investments. Commingled 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.

Global tactical asset allocation: Assets held in global tactical asset allocation funds are managed by investment managers who use both top-down and bottom-up valuation methodologies to value asset classes, countries, industrial sectors, and individual securities in order to allocate and invest assets opportunistically. If the inputs used to measure a financial instrument fall within different levels of the fair value hierarchy within the commingled fund, the categorization is based on the lowest level input that is significant to the measurement of that financial instrument. The assets invested through commingled funds are classified as Level 2. Those which are open ended mutual funds with observable pricing are classified as Level 1. However, the underlying Level 3 assets that makeup these funds are classified in the same category as the investments to which they relate. Investments 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. If prices are based on uncorroborated and unobservable inputs, then the investments are classified as Level 3 investments. Commingled 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, derived from the underlying securities' quoted prices in active markets, and are classified as Level 2 investments. Investments in commingled funds with redemption restrictions and that use NAV are excluded from the fair value hierarchy.

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

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

Other Benefits

At March 31, 2017 and 2016, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR") of $11.8 million and $13 million, respectively. IBNR reserves have been established for claims and/or events that have transpired, but have not yet been reported to the Company for payment.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table represents the changes in the Company's AOCI for the years ended March 31, 2017 and 2016:

	Unrealized Gain (Loss) on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Total
	(in thousands of dollars)		
Balance as of March 31, 2015	$ 2,655	$ (812)	$ 1,843
Other comprehensive (loss) income before reclassifications:			
Unrecognized net acturial loss (net of $4 tax benefit)	-	(5)	(5)
Loss on investment (net of $434 tax benefit)	(666)	-	(666)
Amounts reclassified from other comprehensive income (loss):			
Amortization of net actuarial loss (net of $51 tax expense)[1]	-	77	77
Gain on investment (net of $212 tax benefit)[1]	(318)	-	(318)
Net current period other comprehensive income (loss)	(984)	72	(912)
Balance as of March 31, 2016	**$ 1,671**	**$ (740)**	**$ 931**
Other comprehensive (loss) income before reclassifications:			
Unrecognized net acturial loss (net of $54 tax expense)	-	84	84
Loss on investment (net of $564 tax expense)	863	-	863
Amounts reclassified from other comprehensive income (loss):			
Amortization of net actuarial loss (net of $42 tax expense)[1]	-	65	65
Gain on investment (net of $209 tax benefit)[1]	(314)	-	(314)
Net current period other comprehensive (loss) income	549	149	698
Balance as of March 31, 2017	**$ 2,220**	**$ (591)**	**$ 1,629**

[1] Amounts are reported as other income, net in the accompanying statements of income.

10. CAPITALIZATION

As a result of retrospective adoption of ASU 2015-03, relating to the balance sheet presentation of debt issuance costs, the Company adjusted its long-term debt and other non-current assets by $19.5 million as of March 31, 2016. Debt issuance costs were $17.6 million at March 31, 2017

The aggregate maturities of long-term debt for the years subsequent to March 31, 2017 are as follows:

(in thousands of dollars) Years Ending March 31,	
2018	$ -
2019	-
2020	750,000
2021	-
2022	-
Thereafter	2,029,465
Total	$ 2,779,465

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

Debt Authorizations

Since January 12, 2015, the Company has approval from the FERC to issue up to $1 billion of short-term debt, including the intercompany money pool. The authorization, which was renewed with an effective date of January 11, 2017, is effective for a period of two years and expires on January 10, 2019.

On May 19, 2016, the NYPSC authorized the Company to issue up to $2.1 billion of incremental long-term debt in one or more transactions through March 31, 2020. The Company can issue up to $429.5 million of the total authorization to refinance existing auction rate debt.

State Authority Financing Bonds

The assets of the Company are subject to liens and other charges and are provided as collateral over borrowings of $429.5 million of State Authority Financing Bonds. These bonds were issued to secure a like amount of tax-exempt revenue bonds issued by the New York State Energy Research and Development Authority ("NYSERDA"). The bonds bear interest at short-term adjustable interest rates (with an option to convert to other rates, including a fixed interest rate) ranging from 1.08% to 2.46% for the year ended March 31, 2017. The bonds are currently in auction rate mode and are backed by bond insurance. These bonds cannot be put back to the Company and, in the case of a failed auction, the resulting interest rate on the bonds would revert to the maximum auction rate which depends on the current appropriate, short-term benchmark rate and the senior unsecured rating of the Company or the bond insurer, whichever is greater. The effect on interest expense has not been material in any of the years ended March 31, 2017, 2016, or 2015.

Dividend Restrictions

The Company's debt and credit arrangements contain various financial and other covenants as described below. The Company was in compliance with all such covenants during the years ended March 31, 2017, 2016, and 2015.

The indenture securing the Company's mortgage debt provides that retained earnings shall be reserved and held unavailable for the payment of dividends on common stock to the extent that expenditures for maintenance and repairs plus provisions for depreciation do not exceed 2.25% of depreciable property as defined therein. These provisions have never resulted in a restriction of the Company's retained earnings.

The Company is limited by the various rate plans, NYPSC orders, and FERC orders with respect to the amount of dividends the Company can pay. If the Company's total debt exceeds 55% of its total capital excluding goodwill but does not exceed 57%, then the Company will be permitted to pay dividends up to an amount equal to but no greater than 50% of its net income for the previous twelve months until its average total debt for the most recent six month period is less than or equal to 55%. If the Company's total capital exceeds 57% then the Company may not pay dividends until the average total debt for the most recent six months ending is less than or equal to 55%. As long as the bond ratings on the least secure forms of debt issued by the Company and National Grid plc remain investment grade and do not fall to the lowest investment grade rating (with one or more negative watch downgrade notices issued with respect to such debt), the Company is allowed to pay dividends.

Cumulative Preferred Stock

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

	Shares Outstanding		Amount		
	March 31,		March 31,		Call
Series	**2017**	2016	**2017**	2016	Price
	(in thousands of dollars, except per share and number of shares data)				
$100 par value -					
3.40% Series	**57,524**	57,524	**$ 5,753**	$ 5,753	$ 103.500
3.60% Series	**137,152**	137,152	**13,715**	13,715	104.850
3.90% Series	**95,171**	95,171	**9,517**	9,517	106.000
Golden Share	**1**	1	**-**	-	Non-callable
Total	**289,848**	289,848	**$ 28,985**	$ 28,985	

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

The Company did not redeem any preferred stock during the years ended March 31, 2017, 2016, or 2015. The annual dividend requirement for cumulative preferred stock was $1.1 million for each of the years ended March 31, 2017, 2016 and 2015.

11. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2017	2016	2015
	(in thousands of dollars)		
Current tax expense (benefit):			
Federal	**$ 83,337**	$ 8,555	$ (9,498)
State	**21,446**	15,777	11,869
Total current tax expense (benefit)	**104,783**	24,332	2,371
Deferred tax expense (benefit):			
Federal	**16,857**	89,257	77,491
State	**(1,344)**	5,977	12,101
Total deferred tax expense (benefit)	**15,513**	95,234	89,592
Amortized investment tax credits [1]	**(1,670)**	(2,564)	(1,936)
Total deferred tax expense (benefit)	**13,843**	92,670	87,656
Total income tax expense	**$ 118,626**	$ 117,002	$ 90,027

[1] Investment tax credits ("ITC") are being deferred and amortized over the depreciable life of the property giving rise to the credits.

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2017, 2016, and 2015 are 37.5%, 37.4%, and 34.7%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended March 31,		
	2017	2016	2015
		(in thousands of dollars)	
Computed tax	**$ 110,608**	$ 109,397	$ 90,723
Change in computed taxes resulting from:			
Allowance for equity funds used during construction	**(3,600)**	(3,487)	(3,722)
Investment tax credits	**(1,670)**	(2,564)	(1,936)
State income tax, net of federal benefit	**13,066**	14,140	15,579
Temporary differences flowed through	**1,295**	(834)	(5,053)
Other items, net	**(1,073)**	350	(5,564)
Total	**8,018**	7,605	(696)
Total income tax expense	**$ 118,626**	$ 117,002	$ 90,027

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

In December 2015, the Protecting Americans from Tax Hikes Act of 2015 was signed into law, extending bonus depreciation for qualifying property acquired and placed in service before January 1, 2020 (bonus depreciation rates will be 50% in 2015 to 2017, 40% in 2018, and 30% in 2019), with an additional year for certain longer lived assets. The Company will continue to claim bonus depreciation for qualifying property acquired and placed in service in accordance with this change in tax law.

Deferred Tax Components

	March 31,	
	2017	2016
	(in thousands of dollars)	
Deferred tax assets:		
Allowance for doubtful accounts	**$ 66,357**	$ 64,172
Environmental remediation costs	**151,274**	154,568
Future federal benefit on state taxes	**54,642**	53,046
Postretirement benefits and other employee benefits	**74,050**	228,550
Regulatory liabilities - other	**341,578**	247,668
Other items	**75,579**	97,991
Total deferred tax assets [(1)]	**763,480**	845,995
Deferred tax liabilities:		
Property related differences	**2,308,092**	2,208,179
Regulatory assets - environmental response costs	**126,426**	138,480
Regulatory assets - postretirement benefits	**79,314**	235,341
Other items	**123,836**	113,451
Total deferred tax liabilities	**2,637,668**	2,695,451
Net deferred income tax liabilities	**1,874,188**	1,849,456
Deferred investment tax credits	**15,803**	17,474
Deferred income tax liabilities, net	**$ 1,889,991**	$ 1,866,930

(1) The Company established a valuation allowance for deferred tax assets in the amount of $2 million and $1.5 million as of March 31, 2017 and 2016, respectively.

Unrecognized Tax Benefits

As of March 31, 2017, 2016, and 2015, the Company's unrecognized tax benefits totaled $150.4 million, $131 million, and $128.1 million, respectively, of which $6.7 million for each of the years would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities on the balance sheet.

The following table presents changes to the Company's unrecognized tax benefits:

	Years Ended March 31,		
	2017	2016	2015
		(in thousands of dollars)	
Balance as of the beginning of the year	**$ 130,966**	$ 128,105	$ 120,983
Gross increases - tax positions in prior periods	**15,071**	15	7,925
Gross decreases - tax positions in prior periods	**(158)**	(3,768)	(10,234)
Gross increases - current period tax positions	**5,379**	6,614	9,431
Gross decreases - current period tax positions	**(881)**	-	-
Balance as of the end of the year	**$ 150,377**	$ 130,966	$ 128,105

As of March 31, 2017 and 2016, the Company has accrued for interest related to unrecognized tax benefits of $20.8 million and $14.2 million, respectively. During the years ended March 31, 2017, 2016, and 2015, the Company recorded interest expense of $6.6 million, $3.4 million, and $3.4 million, respectively. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income,

net in the accompanying statements of income. No tax penalties were recognized during the years ended March 31, 2017, 2016, or 2015.

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 IRS related to the issues disputed in the examination cycles for the years ended March 31, 2008 and March 31, 2009. A settlement with the IRS is expected in the next fiscal year. The Company does not believe that the outcome of the settlement will have a material impact to its results of operations, financial position, or cash flows. The IRS continues its next examination cycle which includes income tax returns for the years ended March 31, 2010 through March 31, 2012. The examination is expected to conclude by the end of next fiscal year. The income tax returns for the years ended March 31, 2013 through March 31, 2017 remain subject to examination by the IRS.

The state of New York is in the process of examining the Company's income tax returns for the years ended March 31, 2009 through March 31, 2012. The income tax returns for the years ended March 31, 2013 through March 31, 2017 remain subject to examination by the state of New York.

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

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

12. ENVIRONMENTAL MATTERS

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

The United States Environmental Protection Agency ("EPA"), and the New York State Department of Environmental Conservation ("DEC"), as well as private entities, have alleged that the Company is a potentially responsible party under state or federal law for the remediation of numerous sites. The Company's most significant liabilities relate to former Manufactured Gas Plant ("MGP") facilities formerly owned or operated by the Company. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA and the DEC. Expenditures incurred for the years ended March 31, 2017, 2016, and 2015 were $21 million, $33.5 million, and $32.6 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $364.5 million and $372.5 million at March 31, 2017 and 2016, respectively. These costs are expected to be incurred over approximately 46 years, and these undiscounted amounts have been recorded as reserves on the balance sheet. 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 issued and effective March 15, 2013, the NYPSC has provided an annual rate allowance of $42 million ($35.7 million in electric base rates and $6.3 million in gas base rates). Any annual spend above the $42 million rate allowance is deferred for future recovery. Previous rate orders have provided for similar recovery mechanisms (with different rate

allowances and thresholds). Accordingly, as of March 31, 2017 and 2016, the Company has recorded environmental regulatory assets of $364.5 million and $372.5 million, respectively, and environmental regulatory liabilities of $59.9 million and $38.8 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.

13. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company has various operating leases relating to office space. Total rental expense for operating leases included in operations and maintenance expense in the accompanying statements of income was $4.7 million, $4.6 million, and $4.9 million for the years ended March 31, 2017, 2016, and 2015, respectively.

The future minimum lease payments for the years subsequent to March 31, 2017 are as follows:

(in thousands of dollars) Years Ending March 31,	
2018	$ 4,850
2019	4,850
2020	4,902
2021	4,963
2022	2,876
Thereafter	15,048
Total	$ 37,489

Purchase Commitments

The Company has several long-term contracts for the purchase of electric power. Substantially all of these contracts require power to be delivered before the Company is obligated to make payment. Additionally, 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, 2017 are summarized in the table below:

(in thousands of dollars) Years Ending March 31,	Energy Purchases	Capital Expenditures
2018	$ 165,396	$ 134,552
2019	147,912	897
2020	145,689	-
2021	144,947	-
2022	107,732	-
Thereafter	529,097	-
Total	$ 1,240,773	$ 135,449

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

Legal Matters

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

Nuclear Contingencies

As of March 31, 2017 and 2016, the Company had a liability of approximately $168 million, recorded in other non-current liabilities on the balance sheet, for the disposal of nuclear fuel irradiated prior to 1983. The Nuclear Waste Policy Act of 1982 provides three payment options for liquidating such liability and the Company has elected to delay payment, with interest, until the year in which Constellation Energy Group Inc., which purchased the Company's nuclear assets, initially plans to ship irradiated fuel to an approved Department of Energy ("DOE") disposal facility.

The 2010 Federal budget (which became effective October 1, 2009) eliminated almost all funding for the creation of the Yucca Mountain repository while the Obama Administration devised a new strategy for long-term spent nuclear fuel management. A Blue Ribbon Commission ("BRC") on America's Nuclear Future, appointed by the U.S. Energy Secretary, released a report on January 26, 2012, detailing comprehensive recommendations for creating a safe, long-term solution for managing and disposing of the nation's spent nuclear fuel and high-level radioactive waste.

In early 2013, the DOE issued an updated "Strategy for the Management and Disposal of Used Nuclear Fuel and High-Level Radioactive Waste" in response to the BRC recommendations. This strategy included a consolidated interim storage facility that was planned to be operational in 2025. However, due to continued delays on the part of the DOE, and the amount of time required for DOE to select a site location and develop the necessary infrastructure for long-term spent nuclear fuel storage, the Company cannot predict the date at which the DOE will begin accepting spent nuclear fuel.

14. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2017	2016	**2017**	2016
	(in thousands of dollars)			
Massachusetts Electric Company	**$ 9,883**	$ 9,714	**$ -**	$ -
National Grid Engineering Services, LLC	**6,092**	6,134	**-**	-
NGUSA	**-**	-	**6,912**	5,893
NGUSA Service Company	**-**	-	**80,925**	15,795
The Narragansett Electric Company	**1,099**	641	**-**	-
Other	**3,499**	2,072	**720**	729
Total	**$ 20,573**	$ 18,561	**$ 88,557**	$ 22,417

Advance from Affiliate

In June 2009, the Company received board authorization to borrow up to $500 million from NGUSA from time to time for working capital needs. The advance is non-interest bearing. At March 31, 2017 and 2016, the Company had no outstanding advance from affiliate.

In June 2009, the Company received board authorization to borrow up to $450 million from NMHI from time to time for working capital needs. At March 31, 2017 and 2016, the Company had no outstanding advance from affiliate.

Intercompany Money Pool

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

The Regulated Money Pool is funded by operating funds from participants. Collectively, NGUSA and its subsidiary, KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Regulated Money Pool, if necessary. The Company had short-term intercompany money pool investments of $574.2 million and $288.2 million at March 31, 2017 and 2016, respectively. The average interest rates for the intercompany money pool were 1.1%, 0.7%, and 0.3% for the years ended March 31, 2017, 2016, and 2015, 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, 2017, 2016, and 2015 were $495.6 million, $478.4 million, and $467 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the United Kingdom) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected in these financial statements. The estimated amount related to the Company would be $12.3 million, $9.6 million, and $14.1 million for the years ended March 31, 2017, 2016, and 2015, respectively.