nationalgrid

Massachusetts Electric Company

Financial Statements

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

MASSACHUSETTS ELECTRIC COMPANY

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

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Report of Independent Auditors

To the Board of Directors of
Massachusetts Electric Company

We have audited the accompanying financial statements of Massachusetts Electric Company, 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 Massachusetts Electric Company 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

August 25, 2017

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

	Years Ended March 31,		
	2017	2016	2015
Operating revenues	$ 2,143,690	$ 2,338,904	$ 2,584,205
Operating expenses:			
Purchased electricity	534,107	800,034	1,121,334
Operations and maintenance	1,242,160	1,260,997	1,182,821
Depreciation	135,408	129,287	122,944
Other taxes	73,528	70,815	69,042
Total operating expenses	1,985,203	2,261,133	2,496,141
Operating income	158,487	77,771	88,064
Other income and (deductions):			
Interest on long-term debt	(61,132)	(47,925)	(47,987)
Other interest, including affiliate interest	839	1,461	299
Other income, net	10,174	11,177	8,675
Total other deductions, net	(50,119)	(35,287)	(39,013)
Income before income taxes	108,368	42,484	49,051
Income tax expense	39,410	13,690	16,398
Net income	$ 68,958	$ 28,794	$ 32,653

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

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

	Years Ended March 31,		
	2017	2016	2015
Net income	**$ 68,958**	$ 28,794	$ 32,653
Other comprehensive income, net of taxes:			
Unrealized gains (losses) on securities	141	(80)	160
Change in pension and other postretirement obligations	6	17	(285)
Total other comprehensive income (loss)	147	(63)	(125)
Comprehensive income	$ 69,105	$ 28,731	$ 32,528
Related tax (expense) benefit:			
Unrealized (gains) losses on securities	$ (95)	$ 54	$ (108)
Change in pension and other postretirement obligations	(4)	(12)	192
Total tax (expense) benefit	$ (99)	$ 42	$ 84

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

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

	Years Ended March 31, 2017	2016	2015
Operating activities:			
Net income	$ 68,958	$ 28,794	$ 32,653
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	135,408	129,287	122,944
Provision for deferred income taxes	31,307	14,719	21,197
Bad debt expense	40,679	56,430	60,419
Allowance for equity funds used during construction	(7,571)	(7,388)	(6,068)
Amortization of debt discount and issuance costs	399	315	353
Net postretirement benefits expense	2,995	15,731	2,338
Net environmental remediation payments	(20,667)	(19,062)	(8,593)
Changes in operating assets and liabilities:			
Accounts receivable and other receivable, net, and unbilled revenues	(81,176)	77,052	(190,435)
Inventory	3,190	(2,731)	(5,481)
Regulatory assets and liabilities, net	30,079	(15,902)	(98,230)
Prepaid and accrued taxes	(4,531)	6,320	9,994
Accounts payable and other liabilities	22,904	(33,307)	62,883
Renewable energy certificate obligations, net	(21,299)	(38,835)	29,196
Other, net	(6,794)	10,178	24,589
Net cash provided by operating activities	193,881	221,601	57,759
Investing activities:			
Capital expenditures	(277,566)	(277,139)	(239,821)
Changes in restricted cash	20	79,951	3,120
Affiliated money pool investing and receivables/payables, net	(172,843)	1,049	156,367
Cost of removal	(26,574)	(27,548)	(21,191)
Other	(238)	(455)	(1,936)
Net cash used in investing activities	(477,201)	(224,142)	(103,461)
Financing activities:			
Preferred stock dividends	(100)	(100)	(100)
Payments on long-term debt	-	-	(20,000)
Proceeds from long-term debt	500,000	-	-
Payment of debt issuance costs	(3,889)	-	-
Repayment of Advance from affiliate	(375,000)	-	(75,000)
Equity infusion from Parent	160,300	-	135,000
Net cash provided by (used in) financing activities	281,311	(100)	39,900
Net decrease in cash and cash equivalents	(2,009)	(2,641)	(5,802)
Cash and cash equivalents, beginning of year	5,995	8,636	14,438
Cash and cash equivalents, end of year	$ 3,986	$ 5,995	$ 8,636
Supplemental disclosures:			
Interest paid	$ (55,523)	(46,190)	(46,698)
Income taxes refunded	100	6,029	9,400
Significant non-cash items:			
Capital-related accruals included in accounts payable	6,134	7,146	1,176

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

MASSACHUSETTS ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2017	March 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,986	$ 5,995
Restricted cash	-	20
Accounts receivable	472,119	421,707
Allowance for doubtful accounts	(112,977)	(100,516)
Accounts receivable from affiliates	72,444	42,148
Intercompany money pool	256,639	79,804
Unbilled revenues	82,395	79,849
Inventory	104,110	132,743
Regulatory assets	230,598	326,908
Other	11,244	2,778
Total current assets	1,120,558	991,436
Property, plant and equipment, net	3,051,177	2,867,655
Other non-current assets:		
Regulatory assets	618,900	611,870
Goodwill	1,008,244	1,008,244
Other	14,779	11,910
Total other non-current assets	1,641,923	1,632,024
Total assets	$ 5,813,658	$ 5,491,115

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

MASSACHUSETTS ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2017	March 31, 2016
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	$ 291,823	$ 284,467
Accounts payable to affiliates	91,866	57,578
Advance from affiliate	150,000	525,000
Interest accrued	20,607	18,039
Regulatory liabilities	10,829	3,916
Renewable energy certificate obligations	128,610	175,352
Other	55,718	53,216
Total current liabilities	749,453	1,117,568
Other non-current liabilities:		
Regulatory liabilities	320,448	310,332
Asset retirement obligations	2,450	2,370
Deferred income tax liabilities, net	696,669	654,993
Postretirement benefits	183,801	256,864
Environmental remediation costs	71,756	89,413
Other	41,030	37,340
Total other non-current liabilities	1,316,154	1,351,312
Capitalization:		
Shareholders' equity	2,458,977	2,229,672
Long-term debt	1,289,074	792,563
Total capitalization	3,748,051	3,022,235
Total liabilities and capitalization	$ 5,813,658	$ 5,491,115

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

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

			March 31,	
			2017	2016
Total shareholders' equity			$ 2,458,977	$ 2,229,672
Long-term debt:	Interest Rate	Maturity Date		
Senior Note	5.90%	Novemeber 15, 2039	800,000	800,000
Senior Note	4.00%	August 15, 2046	500,000	-
Total debt			1,300,000	800,000
Unamortized debt discount			(2,016)	(2,105)
Unamortized debt issuance costs			(8,910)	(5,332)
Long-term debt			1,289,074	792,563
Total capitalization			$ 3,748,051	$ 3,022,235

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

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

				Accumulated Other Comprehensive Income (Loss)				
	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Unrealized Gain (Loss) on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2014	$ 59,953	$ 2,259	$ 1,558,049	$ 752	$ 4,457	$ 5,209	$ 408,143	$ 2,033,613
Net income	-	-	-	-	-	-	32,653	32,653
Other comprehensive income (loss):								
Unrealized gains on securities, net of $108 tax expense	-	-	-	160	-	160	-	160
Change in pension and other postretirement obligations, net of $192 tax benefit	-	-	-	-	(285)	(285)	-	(285)
Total comprehensive income								32,528
Equity infusion from Parent	-	-	135,000	-	-	-	-	135,000
Other equity transactions with non-controlling interest	-	-	-	-	-	-	(100)	(100)
Balance as of March 31, 2015	$ 59,953	$ 2,259	$ 1,693,049	$ 912	$ 4,172	$ 5,084	$ 440,696	$ 2,201,041
Net income	-	-	-	-	-	-	28,794	28,794
Other comprehensive income (loss):								
Unrealized losses on securities, net of $54 tax benefit	-	-	-	(80)	-	(80)	-	(80)
Change in pension and other postretirement obligations, net of $12 tax expense	-	-	-	-	17	17	-	17
Total comprehensive income								28,731
Preferred stock dividends	-	-	-	-	-	-	(100)	(100)
Balance as of March 31, 2016	$ 59,953	$ 2,259	$ 1,693,049	$ 832	$ 4,189	$ 5,021	$ 469,390	$ 2,229,672
Net income	-	-	-	-	-	-	68,958	68,958
Other comprehensive income (loss):								
Unrealized gains on securities, net of $95 tax expense	-	-	-	141	-	141	-	141
Change in pension and other postretirement obligations, net of $4 tax expense	-	-	-	-	6	6	-	6
Total comprehensive income								69,105
Equity infusion from Parent	-	-	160,300	-	-	-	-	160,300
Preferred stock dividends	-	-	-	-	-	-	(100)	(100)
Balance as of March 31, 2017	$ 59,953	$ 2,259	$ 1,853,349	$ 973	$ 4,195	$ 5,168	$ 538,248	$ 2,458,977

The Company had 2,398,111 shares of common stock authorized, issued and outstanding, with a par value of $25 per share and 22,585 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2017 and 2016.

The accompanying notes are an integral part of these financial statements

MASSACHUSETTS ELECTRIC COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

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

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

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

The Company has evaluated subsequent events and transactions through August 25, 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 DPU regulate the rates the Company charges its customers. In certain cases, the rate actions of the FERC and DPU can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. Regulatory assets and liabilities are reflected in the 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 DPU, the Company is allowed to pass through commodity-related costs to customers and also bills for approved rate adjustment mechanisms. In addition, the Company has an electric revenue decoupling mechanism ("RDM") which allows for an annual adjustment to the Company's delivery rates as a result of the reconciliation between annual target revenue and actual billed distribution revenue. Any difference between the annual target revenue and actual billed distribution revenue is recorded as a regulatory asset or regulatory liability.

Other Taxes

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

The Company's policy is to accrue for property taxes on a calendar year basis, taking into account the assessment period. The Company had accrued for property taxes of $0.4 million and $0.7 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.

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 and 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.

The Company had materials and supplies of $24.4 million and $27.6 million, and purchased renewable energy certificates ("RECs") of $79.7 million and $105.1 million at March 31, 2017 and 2016, respectively. (See Renewable Energy Certificates below for more information on RECs).

Renewable Energy Certificates Obligation

RECs are stated at cost and are used to comply with renewable energy standards. RECs are held primarily for consumption. At March 31, 2017 and 2016 the Company recorded purchased RECs of $79.7 million and $105.1 million within inventory and a compliance liability based on retail electricity sales of $128.6 million and $175.4 million.

Power Purchase Arrangements

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

Fair Value Measurements

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data; and
- Level 3: unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs.

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

Property, Plant and Equipment

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

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

	2017	2016	2015
Composite rates	**3.3%**	3.2%	3.2%

Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of $261 million and $252.8 million at March 31, 2017 and 2016, respectively.

Allowance for Funds Used During Construction

The Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the statements of income as non-cash income in other income, net and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $7.6 million, $7.4 million, and $6.1 million and AFUDC related to debt of $3.0 million, $3.1 million, and $2.5 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 8.4%, 8.5%, and 8.4%, respectively.

Impairment of Long-Lived Assets

The Company tests the impairment of long-lived assets annually or when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The recoverability of an asset is determined by comparing its carrying value to the future undiscounted cash flows that the asset is expected to generate. If the comparison indicates that the carrying value is not recoverable, an impairment loss is recognized for the excess of the carrying value over the estimated fair value. For the years ended March 31, 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.

Employee Benefits

The Company participates with other subsidiaries in defined benefit pension plans and postretirement benefit other than pension ("PBOP") plans for its employees, administered by NGUSA. The Company recognizes its portion of the pension and PBOP plans' funded status in the balance sheets as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The pension and PBOP plans' assets are commingled and cannot be allocated to an individual company. 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.

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 9, "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.

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.

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 its 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 its operations, cash flows, and financial position.

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 its operations, cash flows, and financial position.

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 if any.

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 prior year financial statements to conform prior year's data to the current year's presentation. These reclassifications had no effect on the Company's financial position, results of operations or cash flows. The primary reclassification is a result of the retrospective adoption of ASU 2015-03. Refer to Note 9 "Capitalization".

3. REGULATORY ASSETS AND LIABILITIES

The Company records regulatory assets and liabilities that result from the ratemaking process. As a result of the rate order effective October 1, 2016 (See note 4), certain regulatory assets and liabilities have been established or have been broken out separately, including the net metering deferral, residential assistance adjustment factor, and solar generation program. The following table presents the regulatory assets and regulatory liabilities recorded on the balance sheets:

	March 31, 2017	March 31, 2016
	(in thousands of dollars)	
Regulatory assets:		
Current:		
Energy efficiency	$ 47,016	$ 59,431
Rate adjustment mechanisms	54,398	50,322
Renewable energy certificates	48,908	70,207
Revenue decoupling mechanism	67,087	85,501
Transmission service	12,675	49,982
Other	515	11,465
Total	230,598	326,908
Non-current:		
Environmental response costs	71,950	88,530
Postretirement benefits	294,484	379,157
Storm costs	80,110	115,739
Rate adjustment mechanisms	36,547	-
Net Metering Deferral	83,878	-
Other	51,931	28,444
Total	618,900	611,870
Regulatory liabilities:		
Current:		
Residential assistance adjustment factor	5,361	-
Rate adjustment mechanisms	672	3,916
Solar generation program	4,796	-
Total	10,829	3,916
Non-current:		
Cost of removal	261,034	252,769
Environmental response costs	31,410	45,022
Postretirement benefits	8,578	12,541
Other	19,426	-
Total	320,448	310,332
Net regulatory (liabilities) assets	$ 518,222	$ 624,530

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

Energy efficiency ("EE"): Represents the difference between revenue collected from customers through the Company's EE charge and the costs of the Company's EE programs as approved by the DPU.

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, 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.

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

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

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

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

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

Revenue decoupling mechanism: As approved by the DPU, 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.

Storm costs: The Company's rate order allows for the operation of a storm fund whereby the Company collects through rates an amount meant to offset incurred storm costs. The Company may use money in the fund for incremental storm costs that exceed a $1.25 million threshold per event, subject to the DPU reviewing the costs and determining that they have been reasonably and prudently incurred. 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 asset represents the cumulative costs incurred for qualified storm events.

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

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

4. RATE MATTERS

In November 2015, the Company, together with its affiliate, Nantucket Electric Company ("Nantucket Electric"), filed an application for new base distribution rates to become effective October 1, 2016. The DPU approved an overall increase in base distribution revenue of approximately $170 million based upon a 9.9% return on equity and an overall capital structure of 50.69% equity, 49.22% long-term debt and 0.09% preferred stock. This increase in revenue includes returns on capital and solar assets placed in service after the last rate case test year of December 2008 and previously collected through separate factors. The order also allows recovery over five years of the aggregate test-year balance of protected customer accounts receivable outstanding for more than 365 days of $40.6 million. As a result of the order, the Company recorded an increase to net income of approximately $33 million, which was the amount of the protected accounts previously charged to expense through the bad debt reserve. Storm recovery allowed in base rates increased from $4.3 million to $10.5 million and deferred storm costs as of September 30, 2016 remain subject to carrying charges at the Weighted Average Cost of Capital (WACC), however, deferred storm costs incurred after October 1, 2016 will accrue carrying charges at the prime rate. Additionally, the DPU approved the extension of the recovery factor for costs associated with 16 storm events between February 2010 and March 2013 through August 2019, as further explained below.

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

Storm Cost Recovery

The Company and Nantucket Electric have deferred incremental storm costs to respond to and restore power associated with several major weather events occurring since January 2010, pending ultimate approval by the DPU to charge its deferred costs to the Company's Storm Contingency Fund. The deferred incremental storm cost and carrying cost amounts have been reduced to reflect the impact of actual and estimated billings to Verizon for vegetation management costs as a result of the DPU's order regarding the December 2008 ice storm. On May 3, 2013, following a request by the Company and Nantucket Electric for accelerated funding for the Company's Storm Contingency Fund, the DPU approved a Storm Fund Replenishment Factor ("SFRF") of $40 million annually for up to three years, or $120 million. This is in addition to $4.3 million that the Company recovered annually in base rates for the Storm Contingency Fund pursuant to the Company's previous general rate case. In its ruling, the DPU also directed the Company and Nantucket Electric to submit two filings of all documentation supporting its storm costs for DPU review and approval. The first filing for $128 million of costs relating to qualifying storms that occurred during calendar years 2010 and 2011 was made on May 31, 2013 (later updated to exclude vegetation management costs billed to Verizon – see below), with the second filing for $94 million of storm costs (net of vegetation management costs billable to Verizon) related to storm events that occurred during calendar year 2012 through March 2013 was made on September 30, 2014. In its September 30, 2014 filing, the Company also requested an extension of the SFRF through June 2018 to eliminate the deficit in the Storm Contingency Fund created by storm events experienced through March 2013. On April 13, 2016, the DPU extended the SFRF for three additional months until August 4, 2016, unless otherwise ordered, while its prudency review is ongoing. Similarly, on August 1, 2016, the DPU further extended the SFRF until the issuance of the final order. On September 30, 2016, the DPU issued its order relative to the Company's request to recover costs related to the 2010 through March 2013 storm events. In its order, the Department disallowed approximately $5 million of the $213 million of requested costs primarily on the basis of unclear and/or insufficient documentation. As a result, the Company recorded a reduction to the regulatory asset for the disallowance with a corresponding charge to net income during the year ended March 31, 2017.

The DPU's disallowance of vegetation management costs attributable to Verizon resulted in an over-recovery of costs related to the December 2008 ice storm as of April 30, 2014. Consequently, on May 14, 2014, the Company and Nantucket Electric proposed to terminate the recovery related to the December 2008 ice storm in its current form effective July 1, 2014 and to combine approximately $7 million it has been recovering annually with the $40 million of SFRF recovery through the remainder of the three-year period. The DPU approved the Company's request on June 30, 2014. In addition, on August 29, 2014, the Company and Nantucket Electric submitted a final reconciliation of the December 2008 ice storm recoveries, which resulted in an over-recovery of $1.6 million at June 30, 2014. The Company and Nantucket Electric proposed to credit the Storm Contingency Fund for the $1.6 million balance, which the DPU approved on March 11, 2015.

As part of the 2015 Base Rate Case Filing, the Company proposed a further extension of the approximately $47 million in total SFRF recoveries to August 2019, or fourteen months beyond the June 2018 date proposed and approved in the storm cost proceeding. This requested was approved in the rate case order on September 30, 2016.

The Company and Verizon jointly own utility poles in Massachusetts under the terms of a Joint Ownership Agreement (JOA) entered into by the parties. In December 2014, the Company filed a civil action against Verizon in Massachusetts Superior Court, alleging that Verizon breached the terms of Joint Ownership Agreement relating to the jointly owned poles by failing to pay half of the tree-trimming and vegetation management costs the Company incurred to restore service following multiple storms occurring between 2008 and 2013, as indicated previously.

On May 11, 2017, the Company and Verizon entered into an agreement to resolve the dispute between the parties. The settlement provides for cash payments and future bill credits for telecommunication services to National Grid USA Service

Company. The Company is guaranteed recovery of the credits from National Grid USA Service Company. The Company has concluded that the settlement is a Type I subsequent event that should be recorded in the financial statements for the year-ended March 31, 2017. The Company had previously fully reserved for the outstanding receivable balance associated with these invoices. Therefore, the Company reversed the previously established reserve balance and realized a pre-tax benefit of $12.1 million, which has been recorded as reduction to operations and maintenance expense in the March 31, 2017 Statement of Income. The Company had not previously recovered these amounts from ratepayers.

Recovery of Transmission Costs

New England Power (NEP) a company affiliate operates the transmission facilities of its New England affiliates as a single integrated system and reimburses the Company for the cost of its transmission facilities, including a return on those facilities under NEP's Tariff No. 1. In turn, these costs are allocated among transmission customers in New England in accordance with the ISO New England Open Access Transmission Tariff ("ISO-NE OATT"). The Company is compensated for its actual monthly transmission costs with its authorized maximum return on equity ("ROE") of 11.74% on certain transmission assets. The amounts reimbursed to the Company by NEP for the twelve months ended March 31, 2017, 2016, and 2015 were $18 million, $16.5 million and $18.4 million, respectively, which are included within operations and maintenance expense in the accompanying statements of income.

On October 16, 2014, the FERC issued an order, Opinion No. 531-A, resetting the base ROE applicable to transmission assets under the ISO-NE OATT from 11.14% to 10.57% effective as of October 16, 2014 and establishing a maximum ROE of 11.74%. On March 3, 2015, the FERC issued an Order on Rehearing, Opinion No. 531-B, affirming the 10.57% base ROE and clarifying that the 11.74% maximum ROE applies to all individual transmission projects with ROE incentives previously granted by the FERC. On April 14, 2017, the U.S. Court of Appeals for the D.C. Circuit (Court of Appeals) vacated and remanded FERC's Opinion No. 531 (and successor orders), through which FERC had lowered New England Transmission Owners (NETO) return on equity from 11.14% to 10.57% and capped the total incentives at 11.74%. Due to this *vacatur*, on June 5, 2017, the New England Transmission Owners made a filing with FERC to reinstate the base ROE of 11.14% effective June 6, 2017. The procedural posture of the ROE complaints is unclear at this time.

Gas Transportation and Storage Contracts

On January 15, 2016, the Company and Nantucket Electric Company filed petitions with the Department of Public Utilities (the "Department") for approval of: (1) two long-term gas transportation and storage services agreements with Algonquin Gas Transmission, LLC ("Algonquin") on the proposed Access Northeast pipeline (together, the "ANE Contracts"); (2) two long-term transportation agreements with Tennessee Gas Pipeline, LLC ("Tennessee") on the proposed Northeast Energy Direct pipeline (together, the "NED Contracts"); (3) an Electric Reliability Service Program ("ERSP") to set parameters for the release of capacity and sale of LNG supply available by virtue of the ANE and NED Contracts; and (4) Long-Term Gas Transportation and Storage Contracts ("LGTSC") tariffs, which would allow for recovery of the costs associated with the agreements executed by National Grid for the provision of interstate pipeline transportation and gas storage services to electric generation facilities in the ISO-NE region, as well as an innovation incentive for the Company equal to 2.75 percent of the annual fixed contract payments under the proposed Contracts. Both pipelines were designed to provide increased natural gas deliverability to the New England markets. However on April 21, 2016, Tennessee notified the Company that it was suspending work on the NED pipeline, and on April 27 the Department granted the Company's motion to withdraw its petition to approve the NED contracts. Hearings before the Department on the ANE contracts began in August 2016. However on August 17, 2016, the Massachusetts Supreme Judicial Court (SJC) issued a decision holding that (1) the Department does not have the authority under current state law to approve electric distribution company contracts for gas pipeline capacity, and (2) approving such contracts would violate Massachusetts' 1997 Restructuring Act, which moved Massachusetts from a regulated electricity supply market to an open and competitive market for power. In light of this decision, on August 22, 2016, the Company filed a motion to withdraw its petition to approve the ANE contracts, without prejudice, but reserved its rights to seek DPU approval of the same or similar agreements in the future if there is a change in the Department's legal authority to approve such agreements. On October 7, 2016, the Department granted the Company's motion to withdraw its petition without prejudice, which would allow the Company to re-file a similar petition if the law changes.

5. PROPERTY, PLANT AND EQUIPMENT

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

	March 31, 2017	March 31, 2016
	(in thousands of dollars)	
Plant and machinery	$ 4,139,642	$ 3,925,854
Land and buildings	204,155	198,952
Assets in construction	148,258	133,326
Total property, plant and equipment	4,492,055	4,258,132
Accumulated depreciation and amortization	(1,440,878)	(1,390,477)
Property, plant and equipment, net	$ 3,051,177	$ 2,867,655

6. FAIR VALUE MEASUREMENTS

The following tables present available-for-sale securities measured and recorded at fair value on the balance sheets 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:				
Available-for-sale securities	$ 3,472	$ 4,564	$ -	$ 8,036

March 31, 2016	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Available-for-sale securities	$ 3,301	$ 4,167	$ -	$ 7,468

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

Other Fair Value Measurements

The Company's balance 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 $1.5 billion and $1 billion, respectively.

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

7. EMPLOYEE BENEFITS

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

The Pension Plan is a defined benefit plan which provides union employees, as well as non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental nonqualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. The PBOP Plan provides health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage.

During the years ended March 31, 2017, 2016, and 2015, the Company made contributions of approximately $22.9 million, $15.1 million, and $10.3 million, respectively, to the Plan.

Plan assets are commingled and cannot be allocated to an individual company. The Plan's costs are first directly charged to the Company based on the Company's employees that participate in the Plan. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. The Company applies deferral accounting for pension and PBOP expenses associated with its regulated electric operations. Any differences between actual pension costs and amounts used to establish rates are deferred and collected from, or refunded to customers in subsequent periods. Pension and PBOP expense are included within operations and maintenance expense in the accompanying statements of income.

The unfunded obligations, for the pension plan and PBOP plan in which the Company participates, at March 31, 2017 and 2016 are as follows:

	March 31,	
	2017	2016
	(in thousands of dollars)	
Pension	$ 481,066	$ 591,400
PBOP	336,314	468,020
	$ 817,380	$ 1,059,420

The Company's net pension and PBOP expenses directly charged and allocated from affiliated service companies, net of capital, for the years ended March 31, 2017, 2016, and 2015 are as follows:

	Years Ended March 31,		
	2017	2016	2015
		(in thousands of dollars)	
Pension	$ 27,387	$ 31,818	$ 23,078
PBOP	8,871	9,563	5,955
	$ 36,258	$ 41,381	$ 29,033

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 $3.9 million, $3.9 million, and $3.6 million, respectively, for matching contributions.

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 $7.1million and $5.9 million, respectively. IBNR reserves have been established for claims and/or events that have transpired, but have not yet been reported to the Company for payment.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table represents the changes in the Company's accumulated other comprehensive income 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	$ 912	$ 4,172	$ 5,084
Other comprehensive income (loss) before reclassifications:			
Unrecognized net acturial loss (net of $17 tax benefit)	-	(26)	(26)
Gain on investment (net of $81 tax expense)	120	-	120
Amounts reclassified from other comprehensive income:			
Amortization of net actuarial loss (net of $29 tax expense) [1]	-	43	43
Gain on investment (net of $135 tax benefit) [1]	(200)	-	(200)
Net prior period other comprehensive income (loss)	(80)	17	(63)
Balance as of March 31, 2016	$ 832	$ 4,189	$ 5,021
Other comprehensive income (loss) before reclassifications:			
Unrecognized net acturial loss (net of $ 26 tax benefit)		(38)	(38)
Gain on investment (net of $ 134 tax benefit)	(199)	-	(199)
Amounts reclassified from other comprehensive income:			
Amortization of net actuarial loss (net of $ 29 tax expense) [1]	-	44	44
Gain on investment (net of $ 229 tax expense) [1]	340	-	340
Net current period other comprehensive (loss) income	141	6	147
Balance as of March 31, 2017	$ 973	$ 4,195	$ 5,168

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

9. 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 $5.3 million as of March 31, 2016. Debt issuance costs were $8.9 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	-
2021	-
2022	-
Thereafter	1,300,000
Total	$ 1,300,000

The Company's debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants such as restrictions on the level of indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the Company's debt and may restrict the Company's ability to draw upon its facilities or access the capital markets. During the years ended March 31, 2017 and 2016, the Company was in compliance with all such covenants.

Debt Authorizations

The Company had regulatory approval from the FERC to issue up to $750 million of short-term debt, which expired on November 30, 2013. Effective April 25, 2014, the Company entered into an Equity Contribution Agreement ("ECA") with the Parent which provides the Company with the ability to call upon the Parent for contributions to the Company's capital, in an aggregate amount equal to the short-term borrowing limit, until such time as regulatory approval for short-term borrowing is regained. The Company has received $25 million under this ECA during fiscal year 2017. Total contributions under the ECA were $160 million at March 31, 2017. The Company records these contributions as an increase to Additional Paid-In Capital.

In addition, the NGUSA board approved for additional capital contributions to the Company of up to $150 million dollars. On August 30, 2016, MECO received $135.3 million under this authority. The Company records these contributions as an increase to Additional Paid-In Capital.

On April 13, 2016, MADPU granted multi-year authority to issue up to $784 million in new long-term debt securities through the period ending March 31, 2018.

Senior Note

On August 2, 2016, the Company issued $500 million of unsecured long-term debt at 4.004% with a maturity date of August 15, 2046. In addition, the Company has $800 million of unsecured long-term debt at 5.9% with a maturity date of November 15, 2039.

Dividend Restrictions

Pursuant to the preferred stock arrangement, as long as any preferred stock is outstanding, certain restrictions on payment of common stock dividends would come into effect if the common stock equity was, or by reason of payment of such dividends became, less than 25% of total capitalization. Common stock equity at March 31, 2017 and March 31, 2016 was approximately 65% and 73.7%, respectively, of total capitalization. Accordingly, the Company was not restricted as to the payment of common stock dividends under the foregoing provisions at March 31, 2017 or March 31, 2016.

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 -					
4.44% Series	22,585	22,585	$ 2,259	$ 2,259	$ 104.068

The Company did not redeem any preferred stock during the years ended March 31, 2017, 2016, or 2015. The annual dividend requirement for cumulative preferred stock was $0.1 million for each of the years ended March 31, 2017, 2016, and 2015.

10. INCOME TAXES

Components of Income Tax Expense

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

	Years Ended March 31,		
	2017	2016	2015
	(in thousands of dollars)		
Current tax expense (benefit):			
Federal	$ 5,598	$ 1,502	$ (6,507)
State	2,505	(2,531)	1,708
Total current tax expense (benefit)	8,103	(1,029)	(4,799)
Deferred tax expense (benefit):			
Federal	25,944	10,202	19,167
State	5,930	5,168	2,755
Total deferred tax expense (benefit)	31,874	15,370	21,922
Amortized investment tax credits [1]	(567)	(651)	(725)
Total deferred tax expense (benefit)	31,307	14,719	21,197
Total income tax expense	$ 39,410	$ 13,690	$ 16,398

[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 36.3%, 32.2%, and 33.4%, 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	$ 37,929	$ 14,869	$ 17,168
Change in computed taxes resulting from:			
Allowance for equity funds used during construction	(2,385)	(2,391)	(1,991)
Investment tax credits	(567)	(651)	(725)
State income tax, net of federal benefit	5,482	1,714	2,901
Other items, net	(1,049)	149	(955)
Total	1,481	(1,179)	(770)
Total income tax expense	$ 39,410	$ 13,690	$ 16,398

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

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	March 31, 2016
	(in thousands of dollars)	
Deferred tax assets:		
Allowance for doubtful accounts	$ 48,580	$ 43,222
Environmental remediation costs	32,675	40,267
Future federal benefit on state taxes	41,375	38,597
Net operating losses	117,371	99,301
Postretirement benefits and other employee benefits	90,766	121,631
Regulatory liabilities - other	42,570	27,786
Renewable energy certificate obligations	55,302	75,402
Other items	10,845	17,780
Total deferred tax assets (1)	439,484	463,986
Deferred tax liabilities:		
Property related differences	737,043	700,078
Regulatory assets - postretirement benefits	122,940	157,645
Regulatory assets - storm costs	52,077	66,310
Regulatory assets - other	199,142	176,740
Other items	15,562	11,218
Total deferred tax liabilities	1,126,764	1,111,991
Net deferred income tax liabilities	687,280	648,005
Deferred investment tax credits	9,389	6,988
Deferred income tax liabilities, net	$ 696,669	$ 654,993

(1) The company established a valuation allowance for deferred tax assets related to expiring charitable contribution carryforwards in the amounts of $1.2 million and $0.9 million as of March 31, 2017 and March 31, 2016 respectively.

Net Operating Losses

The following table presents the amounts and expiration dates of net operating losses as of March 31, 2017:

Expiration of net operating losses:	Federal	State of Massachusetts
	(in thousands of dollars)	
3/31/2029	$ 32,913	$ -
3/31/2030	6,769	-
3/31/2032	17,897	-
3/31/2033	63,272	-
3/31/2034	54,883	-
3/31/2035	114,448	42,381
3/31/2036	96,491	13,259
3/31/2037	44,566	-

Unrecognized Tax Benefits

As of March 31, 2017, 2016, and 2015, the Company's unrecognized tax benefits totaled $44.3 million, $39.5 million, and $38.2 million, respectively, of which $6 million in each of the years would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying balance sheets.

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	$ 39,456	$ 38,225	$ 45,704
Gross increases - tax positions in prior periods	3,968	-	1,655
Gross decreases - tax positions in prior periods	(465)	(972)	(11,585)
Gross increases - current period tax positions	1,296	2,203	2,451
Balance as of the end of the year	$ 44,255	$ 39,456	$ 38,225

As of March 31, 2017 and 2016, the Company has accrued for interest related to unrecognized tax benefits of $1.3 million and $1 million, respectively. During the years ended March 31, 2017, 2016, and 2015, the Company recorded interest expense of $0.3 million, $0.3 million, and $0.2 million, respectively. The Company recognizes interest related to unrecognized tax benefits in other interest expense, including affiliate interest and related penalties, if applicable, in other deductions, 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 Internal Revenue Service ("IRS") related to the issues disputed in the examination cycles for the years ended March 31, 2008 and March 31, 2009. The Company is expecting to reach a settlement with the IRS in the next fiscal year. The Company does not believe that the outcome of the settlement will have a material impact to its results of operations, financial position, or cash flows. The IRS continues its examination of the next cycle which includes income tax returns for the years ended March 31, 2010 through March 31, 2012. The examination is expected to conclude in the 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 Massachusetts unitary state income tax returns for the years ended March 31, 2010 through March 31, 2017 remain subject to examination by the Massachusetts Department of Revenue.

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

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

11. ENVIRONMENTAL MATTERS

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

The United States Environmental Protection Agency ("EPA") and the Massachusetts Department of Environmental Protection ("DEP"), as well as private entities, have alleged that the Company is a potentially responsible party under state or federal law for the remediation of numerous sites. The Company's most significant liabilities relate to former Manufactured Gas Plant ("MGP") facilities. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA and DEP. Expenditures incurred for the years ended March 31, 2017, 2016, and 2015 were $20.7 million, $19.6 million, and $9.1 million, respectively.

At March 31, 2017 and 2016, the Company had total reserves for environmental remediation costs of $71.8 million and $89.4 million, respectively, which include reserves established in connection with the Company's hazardous waste fund referred to below. These costs are expected to be incurred over the next 34 years. However, remediation costs for each site may be materially higher than estimated, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

The DPU has approved a settlement agreement that provides for rate recovery of remediation costs of former MGP sites and certain other hazardous waste sites located in Massachusetts. Under that agreement, qualified costs related to these sites are paid out of a special fund established as a regulatory liability in the accompanying balance sheets. Rate-recoverable contributions of approximately $4.0 million are made along with interest, lease payments, and any recoveries from insurance carriers and other third-parties. Accordingly, as of March 31, 2017 and March 31, 2016, the Company has recorded environmental regulatory assets of $71.9 million and $88.5 million, respectively, and environmental regulatory liabilities of $31.4 million and $45.0 million, respectively.

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

12. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company has various operating leases relating to office space. Total rental expense for operating leases included in operations and maintenance expense in the accompanying statements of income was $ 0.2 million, $ 0.1 the million, and $ 0.1 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	$ 162
2019	165
2020	166
2021	167
2022	76
Thereafter	32
Total	$ 768

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. 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	$ 406,513	$ 40,756
2019	17,827	2,386
2020	-	-
2021	-	-
2022	-	-
Thereafter	-	-
Total	$ 424,340	$ 43,142

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

Financial Guarantees

The Company unconditionally guarantees the full and prompt payment of the principal, premium, if any, and interest on certain tax-exempt bonds issued by the Massachusetts Development Finance Agency in connection with Nantucket Electric's financing of its first and second underground and submarine cable projects. The Company would be required to make any principal, interest or premium payments if Nantucket Electric failed to pay. The carrying value of the debt guaranteed is approximately $51.3 million at March 31, 2017 and has maturities extending through 2042. This guarantee is absolute and unconditional. As of the date of this report, the Company has not had a claim made against it for this guarantee and has no reason to believe that Nantucket with default on its obligations.

Legal Matters

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

13. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2017	2016	2017	2016
	(in thousands of dollars)			
Nantucket Electric	$ 15,786	$ 15,381	$ -	$ -
National Grid Engineering Services, LLC	3,118	3,120	-	-
New England Power Company	-	-	8,916	9,876
NGUSA Service Company	-	-	71,868	36,054
Niagara Mohawk Power Corporation	-	-	9,883	9,714
The Narragansett Electric Company	53,278	20,843	-	-
Other	262	2,804	1,199	1,934
Total	$ 72,444	$ 42,148	$ 91,866	$ 57,578

Advance from Affiliate

The Company has an agreement with NGUSA whereby the Company can borrow up to $600 million from time to time for working capital needs. The advance is non-interest bearing. During 2017 the Company repaid $375 million of previous advances and at March 31, 2017 and 2016, the Company had an outstanding advance from affiliate of $150 million and $525 million, respectively.

Intercompany Money Pool

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

The Regulated Money Pool is funded by operating funds from participants. Collectively, NGUSA and its subsidiary, KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the

Regulated Money Pool, if necessary. The Company had short-term intercompany money pool investments of $256.6 million and $79.8 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 and 2016, and 2015, respectively.

Related Party Reimbursement

In accordance with the Credit and Operating Support Agreement dated March 26, 1996, the Company will reimburse Nantucket Electric an amount equal to the difference between Nantucket Electric's actual net income for the year and the net income necessary for Nantucket Electric to earn its DPU approved Return on Equity ("ROE") for the fiscal year, currently 10.35% from April 2016 through September 2016 and 9.9% from October 2016 through March 2017 as of year ended March 31, 2017. This reimbursement shall constitute additional revenue to Nantucket Electric and expense to the Company. To the extent Nantucket Electric's actual ROE for the year exceeds its allowed ROE, there will be no reimbursement. For the years ended March 31, 2017, 2016, and 2015, the Company reimbursed Nantucket Electric $7.5 million, $7.7 million, and $6 million, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, and total transmission and distribution expenditures. Lastly, 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 $385 million, $371 million, and $317.7 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 $8.7 million, $6.1 million, and $8.2 million for the years ended March 31, 2017, 2016, and 2015, respectively.