nationalgrid

Nantucket Electric Company

Financial Statements

For the years ended March 31, 2017 and 2016

NANTUCKET ELECTRIC COMPANY

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Report of Independent Auditors

To the Board of Directors of
Nantucket Electric Company

We have audited the accompanying financial statements of Nantucket Electric Company, which comprise the balance sheets as of March 31, 2017 and 2016, and the related statements of income, comprehensive income, cash flows, capitalization, and changes in shareholder's equity for the years then ended.

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 Nantucket Electric Company as of March 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

August 25, 2017

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

	Years Ended March 31,	
	2017	2016
Operating revenues	$ 30,595	$ 32,297
Operating expenses:		
Purchased electricity	7,693	10,130
Operations and maintenance	12,161	11,827
Depreciation	3,619	3,921
Other taxes	617	575
Total operating expenses	24,090	26,453
Operating income	6,505	5,844
Other income and (deductions):		
Interest on long-term debt	(652)	(416)
Other interest, including affiliate interest	(171)	(243)
Other income, net	576	362
Total other deductions, net	(247)	(297)
Income before income taxes	6,258	5,547
Income tax expense	2,464	2,172
Net income	$ 3,794	$ 3,375

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

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

	Years Ended March 31,	
	2017	2016
Net income	$ 3,794	$ 3,375
Other comprehensive income, net of taxes:		
Unrealized gains (losses) on securities	18	(9)
Total other comprehensive income (loss)	18	(9)
Comprehensive income	$ 3,812	$ 3,366
Related tax (expense) benefit:		
Unrealized (gains) losses on securities	(12)	7
Total tax (expense) benefit	$ (12)	$ 7

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

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

	Years Ended March 31,	
	2017	2016
Operating activities:		
Net income	$ 3,794	$ 3,375
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,619	3,921
Benefit from deferred income taxes	(960)	(192)
Bad debt expense	51	85
Amortization of debt discount and issuance costs	120	103
Net postretirement benefits expense	106	67
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenues	156	1,257
Inventory	81	(68)
Regulatory assets and liabilities, net	3,055	3,386
Prepaid and accrued taxes	1,493	(554)
Accounts payable and other liabilities	154	(970)
Other, net	(70)	(84)
Net cash provided by operating activities	11,599	10,326
Investing activities:		
Capital expenditures	(3,354)	(3,323)
Affiliated money pool investing and receivables/payables, net	(9,796)	(8,162)
Cost of removal	(245)	(685)
Other	(37)	(41)
Net cash used in investing activities	(13,432)	(12,211)
Financing activities:		
Payments on long-term debt	-	(365)
Parent loss tax allocation	1,819	1,228
Other	(57)	(51)
Net cash provided by financing activities	1,762	812
Net decrease in cash and cash equivalents	(71)	(1,073)
Cash and cash equivalents, beginning of year	111	1,184
Cash and cash equivalents, end of year	$ 40	$ 111
Supplemental disclosures:		
Interest paid	$ (150)	$ (641)
Income taxes (paid) refunded	(1)	1,628
Significant non-cash items:		
Capital-related accruals included in accounts payable	94	38

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

NANTUCKET ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 40	$ 111
Accounts receivable	1,859	2,060
Allowance for doubtful accounts	(160)	(198)
Accounts receivable from affiliates	12,379	9,785
Intercompany money pool	60,335	52,848
Unbilled revenues	1,085	1,129
Inventory	160	241
Regulatory assets	366	2,164
Other	98	102
Total current assets	76,162	68,242
Property, plant and equipment, net	70,426	70,216
Other non-current assets:		
Regulatory assets	4,763	6,335
Goodwill	15,706	15,706
Other	1,077	1,074
Total other non-current assets	21,546	23,115
Total assets	$ 168,134	$ 161,573

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

NANTUCKET ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2017	2016
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	$ 1,715	$ 1,726
Accounts payable to affiliates	16,125	15,840
Regulatory liabilities	21,216	19,315
Other	4,674	3,164
Total current liabilities	43,730	40,045
Other non-current liabilities:		
Regulatory liabilities	1,625	3,030
Deferred income tax liabilities, net	8,470	9,445
Postretirement benefits	5,110	5,630
Other	2,095	1,927
Total other non-current liabilities	17,300	20,032
Commitments and contingencies (Note 11)		
Capitalization:		
Shareholders' equity	56,597	51,023
Long-term debt	50,507	50,473
Total capitalization	107,104	101,496
Total liabilities and capitalization	$ 168,134	$ 161,573

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

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

			March 31,	
			2017	2016
Total shareholders' equity			$ 56,597	$ 51,023
Long-term debt:	Interest Rate	Maturity Date		
Electric Revenue Bonds:				
2004 $10 million MIFA tax-exempt	Variable	March 1, 2039	10,000	10,000
2005 $28 million MIFA tax-exempt	Variable	December 1, 2040	28,000	28,000
2007 $13.3 million 1996 MDFA tax-exer	Variable	August 1, 2042	13,300	13,300
Total debt			51,300	51,300
Unamortized debt issuance costs			(793)	(827)
Long-term debt			50,507	50,473
Total capitalization			$ 107,104	$ 101,496

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

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

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)		Retained Earnings	Total
			Unrealized Gain (Loss) on Available-For-Sale Securities	Total Accumulated Other Comprehensive Income (Loss)		
Balance as of March 31, 2015	$ -	$ 25,112	$ 92	$ 92	$ 21,276	$ 46,480
Net income	-	-	-	-	3,375	3,375
Other comprehensive income (loss):						
Unrealized losses on securities, net of $7 tax benefit	-	-	(9)	(9)	-	(9)
Total comprehensive income						3,366
Parent loss tax allocation	-	1,228	-	-	-	1,228
Tax-sharing agreement allocation	-	-	-	-	(51)	(51)
Balance as of March 31, 2016	$ -	$ 26,340	$ 83	$ 83	$ 24,600	$ 51,023
Net income	-	-	-	-	3,794	3,794
Other comprehensive income (loss):						
Unrealized gains on securities, net of $12 tax expense	-	-	18	18	-	18
Total comprehensive income						3,812
Parent loss tax allocation	-	1,819	-	-	-	1,819
Tax-sharing agreement allocation	-	-	-	-	(57)	(57)
Balance as of March 31, 2017	$ -	$ 28,159	$ 101	$ 101	$ 28,337	$ 56,597

The Company had 1,201 shares of common stock authorized, with 1 share issued and outstanding at a par value of $1 per share at March 31, 2017 and 2016.

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

NANTUCKET ELECTRIC COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nantucket Electric Company ("the Company") is a retail distribution company providing electric service to approximately 13,500 customers on the Island of Nantucket.

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 Company in 1996 approved by the Massachusetts Department of Public Utilities ("DPU"), the Company is considered, along with its affiliate Massachusetts Electric Company ("Massachusetts 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 Company'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 Massachusetts Electric. The Company'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 12, "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 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).

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

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 or 2016.

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 DPU. The average composite rates for the years ended March 31, 2017 and 2016 were 4.6% and 5.0%, respectively.

Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of $1.1 million and $1.0 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.

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 and 2016, there were no impairment losses recognized for long-lived assets.

Goodwill

The Company tests goodwill for impairment annually on January 1, and when events occur or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. 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. Asset Retirement Obligations are recorded in other non-current liabilities on the balance sheet. 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 NGUSA subsidiaries in defined benefit pension plans administered by the Parent and has postretirement benefit other than pension ("PBOP") plans for its employees. The Company recognizes its portion of the Pension and PBOP plans' funded status on the balance sheet as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The pension and PBOP plans' assets are commingled and 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.

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 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.

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 the prior year's data to the current year's presentation. These reclassifications had no effect on the Company's results of operations or cash flows. 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. 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:			
	Rate adjustment mechanisms	$ 351	$ 2,164
	Other	15	-
	Total	366	2,164
Non-current:			
	Postretirement benefits	4,394	5,895
	Regulatory deferred tax asset	365	371
	Other	4	69
	Total	4,763	6,335
Regulatory liabilities			
Current:			
	Energy efficiency	5,902	6,107
	Rate adjustment mechanisms	14,264	12,684
	Other	1,050	524
	Total	21,216	19,315
Non-current:			
	Cost of removal	1,148	989
	Second cable deferral	406	1,999
	Other	71	42
	Total	1,625	3,030
	Net regulatory liabilities	$ (17,712)	$ (13,846)

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

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

Postretirement benefits: The regulatory asset represents the Company's deferral related to the underfunded status of its pension and PBOP plans.

Regulatory deferred tax asset and liability: Represents unrecovered or over recovered 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.

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.

Second cable deferral: Represents the recoveries of costs associated with the second undersea cable to the island of Nantucket, which was placed in service on April 18, 2006. The recovery mechanism was intended to mitigate the immediate customer rate impact by accruing costs in the first several years and remitting such accruals in later years.

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

As described in Note 1, "Nature of Operations and Basis of Presentation", the Company and Massachusetts Electric are considered as one regulated entity for the purpose of recovering its costs and establishing its rates assessed to its customers. For certain regulatory assets, including incremental storm costs of qualifying storm events, site investigation and remediation costs, solar generation costs, and any other costs incurred by the companies when taken as a single entity, the funding of the recovery is from the customers of both companies, with a single regulatory asset recorded on the balance sheet of Massachusetts Electric. As discussed in the "Related Party Reimbursement" section in Note 12, "Related Party Transactions" the Company's share of such costs and recoveries are reflected through the DPU-approved return on equity mechanism between the Company and Massachusetts Electric.

The Company records its own regulatory assets and liabilities associated with items that are specific to the Company such as but not limited to energy efficiency, postretirement benefits, rate adjustment mechanisms and regulatory deferred tax asset.

Electric Rate Case Filing

In November 2015, the Company, together with its affiliate, Massachusetts Electric, filed an application for new base distribution rates to become effective October 1, 2016. On September 30, 2016, the DPU issued a final order approving 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 capital and solar assets placed in service after the last rate case test year of December 2008 and previously collected through separate factors

Gas Transportation and Storage Contracts

On January 15, 2016, the Company and Massachusetts Electric filed petitions with the DPU 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 DPU granted the Company's motion to withdraw its petition to approve the NED contracts. Hearings before the DPU 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 DPU 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 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 DPU's legal authority to approve such agreements. On October 7, 2016, the DPU 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	2016
	(in thousands of dollars)	
Plant and machinery	$ 115,181	$ 113,313
Land and buildings	4,531	4,491
Assets in construction	1,229	227
Total property, plant and equipment	120,941	118,031
Accumulated depreciation and amortization	(50,515)	(47,815)
Property, plant and equipment, net	$ 70,426	$ 70,216

6. 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:				
Available-for-sale securities	$ 434	$ 569	$ -	$ 1,003

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Available-for-sale securities	$ 412	$ 520	$ -	$ 932

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

Other Fair Value Measurements

The Company's balance 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 $51.3 million.

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

7. EMPLOYEE BENEFITS

The Company participates with other NGUSA subsidiaries in a qualified and non-qualified non-contributory defined benefit plan (the "Pension 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 non-qualified, 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 and 2016, the Company made contributions of approximately $0.2 million 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 and 2016 are as follows:

	Years Ended March 31,	
	2017	2016
	(in thousands of dollars)	
Pension	$ 430	$ 519
PBOP	226	205
	$ 656	$ 724

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2017 and 2016, the Company recognized an expense in the accompanying statements of income of $42 thousand and $39 thousand, 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 $35 thousand and $192 thousand, respectively. IBNR reserves have been established for claims and/or events that have transpired, but have not yet been reported to the Company for payment.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Unrealized Gain (Loss) on Available-For-Sale Securities
	(in thousands of dollars)
Balance as of March 31, 2015	$ 92
Other comprehensive income before reclassifications:	
Gain on investment (net of $10 tax expense)	15
Amounts reclassified from other comprehensive income:	
Gain on investment (net of $17 tax benefit) [1]	(24)
Net current period other comprehensive income	(9)
Balance as of March 31, 2016	$ 83
Other comprehensive income before reclassifications:	
Gain on investment (net of $ tax expense)	43
Amounts reclassified from other comprehensive income:	
Gain on investment (net of $ tax benefit) [1]	(25)
Net current period other comprehensive loss	18
Balance as of March 31, 2017	$ 101

[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 $0.8 million as of March 31, 2016. Debt issuance costs were $0.8 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	51,300
Total	$ 51,300

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 had regulatory approval from the FERC to issue up to $15 million of short-term debt. The authorization was renewed and is effective for a period of two years that expires on January 10, 2019. The Company had no short-term debt outstanding as of March 31, 2017 and March 31, 2016.

Electric Revenue Bonds

At March 31, 2017, the Company had $51.3 million outstanding of Electric Revenue Bonds in tax-exempt commercial paper mode with maturity dates ranging from 2039 through 2042. The debt is remarketed at periods of 1-270 days and had variable interest rates ranging from for 0.45% and 1.10% and from 0.25% and 0.63% for the period ended March 31, 2017 and 2016, respectively. The bonds were issued by the Massachusetts Development Finance Agency in connection with the Company's financing of its first and second underground and submarine cable projects.

The Company has a Standby Bond Purchase Agreement ("SBPA") of $51.3 million, which expires on November 20, 2019. The SBPA is available to provide liquidity support for $51.3 million of the Company's long-term bonds in tax-exempt commercial paper mode. The Company has classified this debt as long-term due to its intent and ability to refinance the debt on a long-term basis if it is not able to remarket it. At March 31, 2017 and 2016, there were no bond purchases made by the banks participating in this agreement.

Massachusetts Electric unconditionally guarantees the full and prompt payment of the principal, premium, if any, and interest on the tax-exempt bonds issued by the Massachusetts Development Finance Agency in connection with the Company's financing of its first and second underground and submarine cable projects. Massachusetts Electric would be required to make any principal, premium, or interest payments if the Company failed to pay.

Dividend Restrictions

Pursuant to provisions in connection with the prior mergers, payment of dividends on common stock are not permitted if, after giving effect to such payment of dividends, common equity becomes less than 30% of total capitalization. At March 31, 2017 and March 31, 2016 common equity was 52% and 50% of total capitalization, respectively. Under these provisions, none of the Company's retained earnings at March 31, 2017 and March 31, 2016 were restricted as to common dividends.

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2017	2016
	(in thousands of dollars)	
Current tax expense (benefit) :		
Federal	$ 2,707	$ 1,803
State	717	561
Total current tax expense (benefit)	3,424	2,364
Deferred tax expense (benefit):		
Federal	(754)	(76)
State	(206)	(116)
Total deferred tax expense (benefit)	(960)	(192)
Total income tax expense	$ 2,464	$ 2,172

Statutory Rate Reconciliation

The Company's effective tax rate for the years ended March 31, 2017 and 2016 is 39.4% and 39.0% for each respective period. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 34% to the actual tax expense:

	Years Ended March 31,	
	2017	2016
	(in thousands of dollars)	
Computed tax	$ 2,128	$ 1,886
Change in computed taxes resulting from:		
State income tax, net of federal benefit	337	294
Adjustments related to prior year, federal and state	14	1
Other items, net	(15)	(9)
Total	336	286
Total income tax expense	$ 2,464	$ 2,172

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

	Years Ended March 31,	
	2017	2016
	(in thousands of dollars)	
Deferred tax assets:		
Future federal benefit on state taxes	$ 516	$ 585
Postretirement benefits and other employee benefits	2,404	2,601
Regulatory liabilities - other	9,318	9,183
Other items	253	319
Total deferred tax assets [1]	12,491	12,688
Deferred tax liabilities:		
Property related differences	18,709	18,429
Regulatory assets - postretirement benefits	300	1,091
Regulatory assets - other	1,890	2,535
Other items	62	78
Total deferred tax liabilities	20,961	22,133
Deferred income tax liabilities, net	$ 8,470	$ 9,445

(1) The company established a valuation allowance for deferred tax assets related to expiring charitable contribution carryforwards in the amounts of $18 thousand and $15 thousand as of March 31, 2017 and March 31, 2016 respectively.

Unrecognized Tax Benefits

As of March 31, 2017 and 2016, the Company's unrecognized tax benefits totaled $1.7 million and $1.6 million respectively, of which none would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying balance sheet.

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

	Years Ended March 31,	
	2017	2016
	(in thousands of dollars)	
Balance as of the beginning of the year	$ 1,632	$ 1,600
Gross increases - tax positions in prior periods	34	-
Gross decreases - tax positions in prior periods	-	(6)
Gross increases - current period tax positions	21	38
Balance as of the end of the year	$ 1,687	$ 1,632

As of March 31, 2017 and 2016, the Company has accrued for interest related to unrecognized tax benefits of $264 thousand and $185 thousand, respectively. During years ended March 31, 2017 and 2016, the Company recorded interest expense of $79 thousand and $53 thousand, respectively. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other deductions, net, in the accompanying statements of income. No tax penalties were recognized during the years ended March 31, 2017 or 2016.

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

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

Capital Expenditure Commitments

The Company has various capital commitments related to the construction of plant, property and equipment. The Company's commitments under these contracts subsequent to March 31, 2017 are $2.0 million, which are due to be spent within one year.

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.

12. 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	$	-	$	-	$	15,786	$	15,471
NGUSA Service Company		12,259		9,664		-		-
Other		120		121		339		369
Total	$	12,379	$	9,785	$	16,125	$	15,840

Advance from Affiliate

Since January 2015, the Company had FERC and board authorization to borrow up to $10 million from NGUSA from time to time for working capital needs. The advance is non-interest bearing. At March 31, 2017 and 2016, respectively, 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 $60.3 million and $52.8 million at March 31, 2017 and March 31, 2016, respectively. The average interest rates for the intercompany money pool were 1.07% and 0.70% for the years ended March 31, 2017 and March 31, 2016, respectively.

Related Party Reimbursement

In accordance with the Credit and Operating Support Agreement dated March 26, 1996, Massachusetts Electric will reimburse the Company an amount equal to the difference between the Company's actual net income for the year and the net income necessary for the Company to earn its DPU approved Return on Equity (ROE) for the fiscal year, currently 9.90%. This reimbursement shall constitute additional revenue to the Company and expense to Massachusetts Electric. If the Company's actual ROE for the year exceeds the Company's allowed ROE, the Company reimburses to Massachusetts Electric the excess amount of the earnings. For the years ended March 31, 2017 and 2016, Massachusetts Electric reimbursed the Company $7.6 million and $7.6 million, respectively, which is reflected in revenues and the intercompany balances on the accompanying financial statements.

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 from and to the service companies of NGUSA including but not limited to non-power goods and services for the years ended March 31, 2017 and 2016 were $5.1 million and $5.3 million, respectively.