New England Power Company

Financial Statements

For the years ended March 31, 2016 and 2015

NEW ENGLAND POWER COMPANY

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Independent Auditor's Report

To the Board of Directors
of New England Power Company

We have audited the accompanying financial statements of New England Power Company (the Company), which comprise the balance sheets as of March 31, 2016 and 2015, and the related statements of income, cash flows, capitalization, and changes in shareholders' 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.

Auditor's 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 New England Power Company at March 31, 2016 and 2015, 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

July 29, 2016

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NEW ENGLAND POWER COMPANY
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31, 2016	2015
Operating revenues	**$ 425,127**	$ 455,468
Operating expenses:		
Purchased electricity	**58,859**	63,059
Operations and maintenance	**117,114**	119,845
Depreciation and amortization	**50,453**	47,628
Other taxes	**44,689**	38,382
Total operating expenses	**271,115**	268,914
Operating income	**154,012**	186,554
Other income and (deductions):		
Interest on long-term debt	**(2,520)**	(2,302)
Other interest, including affiliate interest	**(10,602)**	(9,338)
Other (deductions) income, net	**(939)**	362
Total other deductions, net	**(14,061)**	(11,278)
Income before income taxes	**139,951**	175,276
Income tax expense	**56,243**	70,834
Net income	**$ 83,708**	$ 104,442

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

NEW ENGLAND POWER COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2016	2015
Net income	**$ 83,708**	$ 104,442
Other comprehensive income (loss):		
Unrealized (losses) gains on securities	**(108)**	213
Total other comprehensive (loss) income	**(108)**	213
Comprehensive income	**$ 83,600**	$ 104,655
Related tax (expense) benefit:		
Unrealized losses (gains) on securities	**$ 71**	$ (140)
Total tax benefit (expense)	**$ 71**	$ (140)

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

NEW ENGLAND POWER COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,	
	2016	2015
Operating activities:		
Net income	**$ 83,708**	$ 104,442
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**50,453**	47,628
Provision for deferred income taxes	**61,565**	55,569
Income from equity investments, net of dividends received	**(93)**	(140)
Amortization of debt discount and issuance costs	**749**	985
Net postretirement benefits (contributions) expense	**(1,993)**	620
Net environmental remediation payments	**(217)**	(140)
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenues	**2,962**	50,627
Inventory	**(1,904)**	591
Regulatory assets and liabilities, net	**(61,469)**	3,296
Prepaid and accrued taxes	**(42,404)**	(11,818)
Accounts payable and other liabilities	**18,683**	(4,885)
Accrued Yankee nuclear plant costs	**2,315**	(5,717)
Other, net	**(5,675)**	(2,616)
Net cash provided by operating activities	**106,680**	238,442
Investing activities:		
Capital expenditures	**(193,326)**	(192,262)
Affiliated money pool investing and receivables/payables, net	**-**	238,718
Cost of removal and other	**(12,718)**	(9,606)
Net cash (used in) provided by investing activities	**(206,044)**	36,850
Financing activities:		
Common stock dividends to Parent	**(180,000)**	(225,000)
Preferred stock dividends	**(67)**	(67)
Payments on long-term debt	**(38,500)**	-
Affiliated money pool borrowing and receivables/payables, net	**277,868**	299,686
Advance from affiliate	**-**	(375,000)
Equity infusion from Parent	**20,000**	-
Parent loss tax allocation	**18,523**	25,915
Net cash provided by (used in) financing activities	**97,824**	(274,466)
Net (decrease) increase in cash and cash equivalents	**(1,540)**	826
Cash and cash equivalents, beginning of year	**1,541**	715
Cash and cash equivalents, end of year	**$ 1**	$ 1,541
Supplemental disclosures:		
Interest paid	**$ (1,649)**	(4,120)
Income taxes paid	**(17,956)**	(4,463)
Significant non-cash items:		
Capital-related accruals included in accounts payable	**24,838**	28,473

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

NEW ENGLAND POWER COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2016	March 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1**	$ 1,541
Accounts receivable	**64,698**	67,660
Accounts receivable from affiliates	**14,899**	19,147
Inventory	**4,435**	2,531
Other	**2,973**	137
Total current assets	**87,006**	91,016
Equity investments	**2,089**	1,996
Property, plant and equipment, net	**2,118,952**	1,964,026
Other non-current assets:		
Regulatory assets	**133,774**	139,573
Goodwill	**337,614**	337,614
Other	**18,168**	12,722
Total other non-current assets	**489,556**	489,909
Total assets	**$ 2,697,603**	$ 2,546,947

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

NEW ENGLAND POWER COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2016	March 31, 2015
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 36,392**	$ 36,156
Accounts payable to affiliates	**23,646**	29,978
Current portion of long-term debt	**-**	38,500
Taxes accrued	**2,089**	42,170
Intercompany money pool	**568,807**	288,855
Other	**25,353**	4,638
Total current liabilities	**656,771**	440,297
Other non-current liabilities:		
Regulatory liabilities	**39,471**	107,028
Accrued Yankee nuclear plant costs	**29,364**	26,835
Deferred income tax liabilities, net	**522,407**	464,367
Postretirement benefits	**12,613**	17,705
Environmental remediation costs	**10,023**	9,043
Other	**15,728**	12,502
Total other non-current liabilities	**629,606**	637,480
Commitments and contingencies (Note 13)		
Capitalization:		
Shareholders' equity	**1,039,376**	1,097,320
Long-term debt	**371,850**	371,850
Total capitalization	**1,411,226**	1,469,170
Total liabilities and capitalization	**$ 2,697,603**	$ 2,546,947

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

NEW ENGLAND POWER COMPANY
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

	Interest Rate	Maturity Date	March 31, 2016	March 31, 2015
Total shareholders' equity			**$ 1,039,376**	$ 1,097,320
Long-term debt:				
Pollution Control Revenue Bonds:				
Connecticut Development Authority	Variable	October 15, 2015	**-**	38,500
Massachusetts Development Finance Agency 1	Variable	March 1, 2018	**79,250**	79,250
Business Finance Authority of the State of New Hampshire	Variable	November 1, 2020	**135,850**	135,850
Business Finance Authority of the State of New Hampshire	Variable	November 1, 2020	**50,600**	50,600
Massachusetts Development Finance Agency 2	Variable	October 1, 2022	**106,150**	106,150
Total debt			**371,850**	410,350
Current portion of long-term debt			**-**	38,500
Long-term debt			**371,850**	371,850
Total capitalization			**$ 1,411,226**	$ 1,469,170

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

NEW ENGLAND POWER COMPANY
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Available-For-Sale Securities	Accumulated Other Comprehensive Income (Loss): Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2014	**$ 72,398**	**$ 1,112**	**$ 738,072**	**$ 838**	**$ 838**	**$ 379,397**	**$ 1,191,817**
Net income	-	-	-	-	-	104,442	104,442
Other comprehensive income:							
Unrealized gains on securities, net of $140 tax expense	-	-	-	213	213	-	213
Total comprehensive income							104,655
Parent loss tax allocation	-	-	25,915	-	-	-	25,915
Common stock dividends to Parent	-	-	-	-	-	(225,000)	(225,000)
Preferred stock dividends	-	-	-	-	-	(67)	(67)
Balance as of March 31, 2015	**$ 72,398**	**$ 1,112**	**$ 763,987**	**$ 1,051**	**$ 1,051**	**$ 258,772**	**$ 1,097,320**
Net income	-	-	-	-	-	83,708	83,708
Other comprehensive income:							
Unrealized losses on securities, net of $71 tax benefit	-	-	-	(108)	(108)	-	(108)
Total comprehensive income							83,600
Equity infusion from Parent	-	-	20,000	-	-	-	20,000
Parent loss tax allocation	-	-	18,523	-	-	-	18,523
Common stock dividends to Parent	-	-	-	-	-	(180,000)	(180,000)
Preferred stock dividends	-	-	-	-	-	(67)	(67)
Balance as of March 31, 2016	**$ 72,398**	**$ 1,112**	**$ 802,510**	**$ 943**	**$ 943**	**$ 162,413**	**$ 1,039,376**

The Company had 3,619,896 shares of common stock authorized, issued and outstanding, with a par value of $20 per share and 11,117 shares of preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2016 and 2015.

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

NEW ENGLAND POWER COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

New England Power Company ("the Company") operates electric transmission facilities in Massachusetts, New Hampshire, Rhode Island, Maine, and Vermont. 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.

The Company also owns non-controlling interests in three companies (the "Yankees") which own nuclear generating facilities that are permanently retired and are being decommissioned (refer to Note 6, "Equity Investments" and the "Decommissioning Nuclear Units" section in Note 13, "Commitments and Contingencies").

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.

During fiscal year 2016 and 2015, management recorded out-of-period adjustments that resulted in a net decrease to net income of $3.8 million and a net increase to net income of $1.5 million, respectively. The adjustments primarily related to the correction of an error in the estimate of rate base for calendar years 2015 and 2014 impacting operating revenues. In addition, management identified an error of $4.2 million of capital-related accruals included in accounts payable, which resulted in an overstatement in net cash provided by operating activities and an understatement in net cash provided by investing activities for the year ended March 31, 2015. Management concluded that the impact of recording these items was not material to the current fiscal year or any prior period.

The Company has evaluated subsequent events and transactions through July 29, 2016, 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, 2016.

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") regulates the rates the Company charges its customers. In certain cases, the rate actions of the FERC or the regulatory Commissions of Massachusetts, New Hampshire, Rhode Island, Maine, and Vermont 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

The Company has two primary sources of revenue: transmission and stranded cost recovery. Transmission revenues are based on a formula rate that recovers the Company's actual costs plus a return on investment. Stranded cost recovery revenues are collected through a contract termination charge ("CTC"), which is billed to former wholesale customers of the Company (affiliated companies Massachusetts Electric Company ("MECO") and The Narragansett Electric Company ("NECO"), Liberty Utilities, and the Towns of Merrimac, Groveland, and Littleton) in connection with the Company's divestiture of its electricity generation investments.

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.

Inventory

Inventory is comprised of materials and supplies. Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2016 or 2015.

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 federal and state regulatory bodies. The average composite rate for each of the years ended March 31, 2016 and 2015 was 2.3%. The average service life for each of the years ended March 31, 2016 and 2015 was 30 years.

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 $3.6 million and $9.3 million at March 31, 2016 and 2015, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the statements of income as non-cash income in other (deductions) income, net and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $0.2 million and $1.3 million and AFUDC related to debt of $0.7 million and $0.1 million for the years ended March 31, 2016 and 2015, respectively. The average AFUDC rates for the years ended March 31, 2016 and 2015 were 0.7% and 6.7%, respectively.

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, 2016 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, 2016 or 2015.

Available-For-Sale Securities

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 in the accompanying balance sheets. Changes in the fair value of these assets are recorded within other comprehensive income.

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 accompanying 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 2016

The new accounting guidance that was adopted for fiscal year 2016 had no material impact on the results of operations, cash flows, or financial position of the Company.

Presentation of Financial Statements – Balance Sheet Classification of Deferred Taxes

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, "Balance Sheet Classification of Deferred Taxes." The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance be classified as non-current in the balance sheets; the new guidance does not change the existing requirement of prohibiting the offsetting of deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The Company early adopted this guidance, retrospectively, effective April 1, 2015.

Accounting Guidance Not Yet Adopted

The Company is currently evaluating the impact of recently issued accounting guidance on the presentation, results of operations, cash flows, and financial position of the Company.

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 non-public entities, the new standard is effective for periods beginning after December 15, 2019, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients.

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. The new guidance is effective for non-public entities for periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2017.

Revenue Recognition

In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers – Deferral of the Effective Date." The new standard defers by one year the effective date of ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)." 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. The new guidance must be adopted using either a full retrospective approach or a modified retrospective approach. For non-public entities, the new guidance is effective for periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2016.

Further, in March 2016, the FASB issued ASU 2016-08, which clarifies the implementation guidance on principal versus agent considerations. In May 2016, the FASB issued ASU 2016-12, providing additional clarity on various aspects of Topic 606, including a) Assessing the Collectibility Criterion and Accounting for Contracts That Do Not Meet the Criteria for Step 1, b) Presentation of Sales Taxes and Other Similar Taxes Collected from Customers, c) Noncash Consideration, d) Contract Modifications at Transition, e) Completed Contracts at Transition, and f) Technical Correction. The effective date and transition requirements for the amendments in these updates are the same as the effective date and transition requirements of ASU 2014-09.

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 and net realizable value (other than inventory measured using "last-in, first out" and the "retail inventory method"). The new guidance, which must be applied prospectively, is effective for non-public entities for periods beginning after December 15, 2016, with early adoption permitted.

Intangibles – Goodwill and Other – Internal-Use Software, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued ASU 2015-05 "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The amendments provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. In addition, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. For non-public entities, the new guidance is effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016, with early adoption permitted.

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 new guidance, which requires retrospective application, is effective for periods beginning after December 15, 2015, with early adoption permitted.

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. The amendments are effective for the annual reporting period ending after December 15, 2016 and interim periods thereafter.

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 in the accompanying balance sheets:

	March 31,	
	2016	2015
	(in thousands of dollars)	
Regulatory assets		
Non-current:		
Environmental response costs	**$ 9,338**	$ 9,137
Postretirement benefits	**82,070**	86,716
Regulatory deferred tax asset	**12,787**	16,441
Yankee nuclear decomissioning costs	**29,512**	27,197
Other	**67**	82
Total	**133,774**	139,573
Regulatory liabilities		
Non-current:		
Cost of removal	**3,558**	9,294
CTC charges	**27,017**	86,810
Postretirement benefits	**4,757**	6,371
Other	**4,139**	4,553
Total	**39,471**	107,028
Net regulatory assets	**$ 94,303**	$ 32,545

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.

CTC charges: Stranded cost recovery revenues are collected through a CTC, which is billed to former wholesale customers of the Company in connection with the Company's divestiture of its electricity generation investments. CTC related liabilities consist of obligations to customers that resulted from the sale of certain stranded assets. These amounts are being refunded to customers as determined per rate filings.

Environmental response costs: 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 believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Postretirement benefits: The regulatory asset represents the non-cash accrual of net actuarial gains and losses.

As a result of the fiscal year 2000 merger of the Company with NGUSA and the fiscal year 2001 acquisition of Montaup Electric Co., the Company revalued its pension and other postretirement benefit plans and recognized previously unrecognized net gains in these benefit plans. These gains were deferred as a regulatory liability which is being returned to customers over a 15-year period.

Regulatory deferred tax asset: Represents unrecovered federal 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. In 2014, the Company recorded an increase in the regulatory deferred tax asset as a result of the increase in deferred tax liabilities stemming from a Massachusetts state income tax rate change.

Yankee nuclear decommissioning costs: The Yankees operated nuclear generating units which have been permanently decommissioned. Spent nuclear fuel remains on each site, awaiting fulfillment by the U.S. Department of Energy (“DOE”) of its statutory obligation to remove it. In addition, groundwater monitoring is ongoing at each site. The Company has recorded a regulatory asset reflecting the estimated future decommissioning billings and the remaining asset retirement obligation from the Yankees.

The Company records carrying charges on all regulatory balances (with the exception of environmental response costs and postretirement benefits), 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

Stranded Cost Recovery

Under settlement agreements approved by state commissions and the FERC, the Company is permitted to recover stranded costs (those costs associated with its former generating investments (nuclear and non-nuclear) and related contractual commitments that were not recovered through the sale of those investments). The Company earns a return on equity (“ROE”) of approximately 11% on stranded cost recovery. The Company will recover its remaining non-nuclear stranded costs through 2020. See the “Decommissioning Nuclear Units” section in Note 13, “Commitments and Contingencies” for a discussion of ongoing costs associated with decommissioned nuclear units.

Transmission Return on Equity

The Company’s transmission rates applicable to transmission service through October 15, 2014 reflect a base ROE of 11.14% applicable to the Company’s transmission facilities, plus an additional 0.5% Regional Transmission Organization (“RTO”) participation adder applicable to transmission facilities included under the Regional Network Service (“RNS”) rate. Approximately 70% of the Company’s transmission facilities are included under RNS rates. The Company earns an additional 1% ROE incentive adder on RNS-related transmission facilities approved under the RTO’s Regional System Plan and placed in service on or before December 31, 2008. It also earns a 1.25% ROE incentive on its portion of New England East-West Solution (“NEEWS”) as described below. Starting on October 16, 2014, the FERC issued a series of orders as the result of three ROE complaint cases (see the “FERC ROE Complaints” section in Note 13, “Commitments and Contingencies”) reducing the Company’s base ROE to 10.57%. The FERC also established a maximum ROE such that the aforementioned incentives, taken together, may not exceed a cap of 11.74%.

Recovery of Transmission Costs

In conformance with the terms of NEP's Tariff No. 1, on November 17, 2014, NEP submitted a filing to the FERC under Section 205 of the Federal Power Act ("FPA") proposing to reduce the ROE under its Tariff No. 1 formula rates so that they were consistent with those applied under the Independent System Operator New England ("ISO-NE") Open Access Transmission Tariff pursuant to the FERC's Opinion Nos. 531 and 531-A. Under the integrated facilities provisions of Tariff No. 1, NEP supports the cost of transmission facilities owned by its distribution affiliates, MECO and NECO, and makes these facilities available for open access transmission service on an integrated basis. The FERC rejected NEP's filing on April 16, 2015, finding that it was inconsistent with the FERC's clarifications issued in its Order on Rehearing in Opinion No. 531-B (see the "FERC ROE Complaints" section in Note 13, "Commitments and Contingencies"). On January 21, 2016, NEP re-filed proposed amendments to its Tariff No. 1 formula rates for integrated facilities to be consistent with Opinion No.531-B among other proposed changes. On March 8, 2016, the FERC accepted the filing approving an effective date of October 16, 2014 for the ROE components. NEP has reduced its compensation to its distribution affiliates in accordance with the Order.

New England East-West Solution

In September 2008, the Company, its affiliate NECO, and Northeast Utilities jointly filed an application with the FERC to recover financial incentives for the NEEWS project, pursuant to the FERC's Transmission Pricing Policy Order No. 679. NEEWS consists of a series of inter-related transmission upgrades identified in the New England Regional System Plan and is being undertaken to address a number of reliability problems in Connecticut, Massachusetts, and Rhode Island. Effective November 18, 2008, the FERC granted (1) an incentive ROE of 12.89% (125 basis points above the approved base ROE of 11.64%), (2) 100% construction work in progress in rate base, and (3) recovery of plant abandoned for reasons beyond the companies' control. As discussed in the preceding section, effective October 16, 2014, the FERC issued a series of orders establishing a maximum ROE of 11.74% that effectively caps the NEEWS incentive ROE at that level.

5. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2016	2015
	(in thousands of dollars)	
Plant and machinery	**$ 2,242,646**	$ 2,087,649
Land and buildings	**104,143**	94,673
Assets in construction	**204,319**	193,273
Software and other intangibles	**2,548**	266
Total property, plant and equipment	**2,553,656**	2,375,861
Accumulated depreciation and amortization	**(434,704)**	(411,835)
Property, plant and equipment, net	**$ 2,118,952**	$ 1,964,026

6. EQUITY INVESTMENTS

Yankee Nuclear Power Companies

The Company has non-controlling interests in Yankee Atomic (34.5%), Connecticut Yankee (19.5%), and Maine Yankee (24%), which own nuclear generating units that have been permanently decommissioned. Spent nuclear fuel remains on each site, awaiting fulfillment by the DOE of its statutory obligation to remove it. In addition, groundwater monitoring is ongoing at each site. The Company has power contracts with each of the Yankees that require the Company to pay an amount equal to its share of total fixed and operating costs of the plant plus a return on equity.

Summarized statement of income and balance sheet data for the Yankees are as follows:

	As of and for the Years Ended March 31,	
	2016	2015
	(in thousands of dollars)	
Operating revenue	**$ 1,555**	$ 3,152
Operating expenses	**1,496**	2,859
Other income (deductions), net	**112**	(167)
Total expenses	**1,384**	3,026
Net income	**$ 171**	$ 126
Assets		
Current assets	**$ 882**	$ 882
Property, plant and equipment	**13,217**	18,057
Other non-current assets	**961,096**	1,000,548
Total assets	**$ 975,195**	$ 1,019,487
Liabilities and equity		
Current liabilities	**$ 2,153**	$ 1,575
Other non-current liabilities	**967,270**	1,012,311
Equity	**5,772**	5,601
Total liabilities and equity	**$ 975,195**	$ 1,019,487

7. FAIR VALUE MEASUREMENTS

The following tables present available-for-sale securities measured and recorded at fair value in the accompanying balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2016 and 2015:

	March 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Assets:				
Available-for-sale securities	$ 4,389	$ 5,539	$ -	$ 9,928

	March 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Assets:				
Available-for-sale securities	$ 4,151	$ 5,451	$ -	$ 9,602

Available-for-sale securities are included in other non-current assets in the accompanying 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, 2016 and 2015 was $371.9 million and $410.4 million, respectively.

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

8. EMPLOYEE BENEFITS

The Company participates with other 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, 2016 and 2015, the Company made contributions of approximately $4.4 million and $38 thousand, 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.

NGUSA's unfunded obligations at March 31, 2016 and 2015 are as follows:

	March 31,	
	2016	2015
	(in thousands of dollars)	
Pension	**$ 591,400**	$ 602,142
PBOP	**468,020**	447,780
	$ 1,059,420	$ 1,049,922

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, 2016 and 2015 are as follows:

	Years Ended March 31,			
	2016		2015	
	(in thousands of dollars)			
Pension	**$**	**9,854**	$	6,177
PBOP		**1,748**		1,391
	$	**11,602**	$	7,568

Other Benefits

At March 31, 2016 and 2015, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported of $6.2 million and $4.9 million, respectively.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table represents the changes in the Company's accumulated other comprehensive income for the years ended March 31, 2016 and 2015:

	Unrealized Gain (Loss) on Available-For-Sale Securities	
	(in thousands of dollars)	
Balance as of March 31, 2014	**$**	**838**
Other comprehensive income before reclassifications:		
Gain on investment (net of $326 tax expense)		495
Amounts reclassified from other comprehensive income:		
Gain on investment (net of $186 tax benefit) [1]		(282)
Net current period other comprehensive income		213
Balance as of March 31, 2015	**$**	**1,051**
Other comprehensive income before reclassifications:		
Gain on investment (net of $102 tax expense)		155
Amounts reclassified from other comprehensive income:		
Gain on investment (net of $173 tax benefit) [1]		(263)
Net current period other comprehensive loss		(108)
Balance as of March 31, 2016	**$**	**943**

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

10. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to March 31, 2016 are as follows:

(in thousands of dollars)		
Years Ending March 31,		
2017	$	-
2018		79,250
2019		-
2020		-
2021		186,450
Thereafter		106,150
Total	$	371,850

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, 2016 and 2015, 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 $750 million of short-term debt. The authorization is effective for a period of two years and expires on January 11, 2017. The Company had no short-term debt outstanding to third-parties as of March 31, 2016 or 2015.

Pollution Control Revenue Bonds

At March 31, 2016, the Company had $371.9 million outstanding of Pollution Control Revenue Bonds in tax-exempt commercial paper mode with maturity dates ranging from March 2018 to October 2022. The debt is remarketed at periods of 1-270 days.

The Company has a Standby Bond Purchase Agreement ("SBPA") of $371.9 million. The SBPA was renewed in November 2014 and expires on November 20, 2019. This agreement is available to provide liquidity support for $371.9 million of the Company's Pollution Control Revenue Bonds. 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, 2016 and 2015, there were no bond purchases made by the banks participating in this agreement.

Dividend Restrictions

Pursuant to provisions in connection with the New England Electric System and Eastern Utilities Associates merger, 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, 2016 and 2015 common equity was 73.6% and 74.6% of total capitalization, respectively. Under these provisions, none of the Company's retained earnings at March 31, 2016 and 2015 were restricted as to common dividends.

Cumulative Preferred Stock

The Company has 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, and the stock is non-callable. A summary of cumulative preferred stock is as follows:

	Shares Outstanding		Amount	
	March 31,		March 31,	
Series	**2016**	2015	**2016**	2015
	(in thousands of dollars, except per share and number of shares data)			
$100 par value - 6.00% Series	**11,117**	11,117	**$ 1,112**	$ 1,112

The Company did not redeem any preferred stock during the years ended March 31, 2016 or 2015. The annual dividend requirement for cumulative preferred stock was $0.07 million for each of the years ended March 31, 2016 and 2015.

11. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2016	2015
	(in thousands of dollars)	
Current tax expense (benefit):		
Federal	**$ (5,053)**	$ 9,541
State	**(269)**	5,724
Total current tax expense (benefit)	**(5,322)**	15,265
Deferred tax expense (benefit):		
Federal	**52,764**	53,794
State	**9,173**	2,148
Total deferred tax expense (benefit)	**61,937**	55,942
Amortized investment tax credits (1)	**(372)**	(373)
Total deferred tax expense (benefit)	**61,565**	55,569
Total income tax expense	**$ 56,243**	$ 70,834

(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, 2016 and 2015 are 40.2% and 40.4%, 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,	
	2016	2015
	(in thousands of dollars)	
Computed tax	**$ 48,983**	$ 61,348
Change in computed taxes resulting from:		
Investment tax credits	**(372)**	(373)
State income tax, net of federal benefit	**5,788**	5,117
Other items, net	**1,844**	4,742
Total	**7,260**	9,486
Total income tax expense	**$ 56,243**	$ 70,834

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.

Deferred Tax Components

	March 31,			
	2016		2015	
	(in thousands of dollars)			
Deferred tax assets:				
Environmental remediation costs	**$**	**4,031**	$	3,646
Future federal benefit on state taxes		**24,012**		21,474
Net operating losses		**7,679**		-
Postretirement benefits and other employee benefits		**5,812**		7,990
Regular liabilities - other		**20,556**		38,582
Reserve - nuclear and decommissioning		**12,375**		11,485
Other items		**3,548**		2,233
Total deferred tax assets [1]		**78,013**		85,410
Deferred tax liabilities:				
Property related differences		**533,525**		490,166
Regulatory assets - postretirement benefits		**32,417**		33,930
Regulatory assets - other		**28,150**		18,583
Other items		**3,259**		3,657
Total deferred tax liabilities		**597,351**		546,336
Net deferred income tax liabilities		**519,338**		460,926
Deferred investment tax credits		**3,069**		3,441
Deferred income tax liabilities, net	**$**	**522,407**	$	464,367

[1] The Company established a valuation allowance for deferred tax assets in the amount of $4 thousand related to expiring charitable contribution carryforwards at March 31, 2016. There was no valuation allowance for deferred tax assets at March 31, 2015.

As a result of retrospective adoption of ASU 2015-17, the Company adjusted its current portion of deferred income tax liabilities and non-current deferred income tax liabilities, net by $2.3 million as of March 31, 2015.

Net Operating Losses

The following table presents the amounts and expiration dates of net operating losses as of March 31, 2016:

Expiration of net operating losses:	Federal	
	(in thousands of dollars)	
3/31/2034	$	926
3/31/2036		22,514

Unrecognized Tax Benefits

As of March 31, 2016 and 2015, the Company's unrecognized tax benefits totaled $9.4 million and $8.8 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 sheets.

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

	Years Ended March 31,	
	2016	2015
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 8,833**	$ 8,794
Gross increases - tax positions in prior periods	**250**	195
Gross decreases - tax positions in prior periods	**-**	(383)
Gross increases - current period tax positions	**283**	227
Balance as of the end of the year	**$ 9,366**	$ 8,833

As of March 31, 2016 and 2015, the Company has accrued for interest related to unrecognized tax benefits of $1 million and $0.7 million, respectively. During the years ended March 31, 2016 and 2015, the Company recorded interest expense of $0.3 million and $0.9 million, respectively. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other deductions (income), net in the accompanying statements of income. No tax penalties were recognized during the years ended March 31, 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. During the period the IRS commenced its next examination cycle which includes income tax returns for the years ended March 31, 2010 through March 31, 2012. The examination is not expected to conclude until December 2017. The income tax returns for the years ended March 31, 2013 through March 31, 2016 remain subject to examination by the IRS.

The Massachusetts unitary state income tax returns for the years ended March 31, 2010 through March 31, 2016 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
New Hampshire	March 31, 2013

12. ENVIRONMENTAL MATTERS

The normal ongoing operations and historic activities of the Company are subject to various federal, state, and local environmental laws and regulations. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without regard to fault, even if the activities were lawful when they occurred. The Company is currently investigating and remediating, as necessary, those Manufactured Gas Plant sites and certain other properties under agreements with the Environmental Protection Agency. Expenditures incurred for the years ended March 31, 2016 and 2015, were $0.2 million and $0.1 million, respectively.

At March 31, 2016 and 2015, the Company had total reserves for environmental remediation costs of $10 million and $9 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 approximately 34 years, and these undiscounted amounts have been recorded as reserves in the accompanying balance sheets. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

As of March 31, 2016 and 2015, the Company has recorded environmental regulatory assets of $9.3 million and $9.1 million, respectively.

The Company is currently conducting a program to investigate and remediate, as necessary to meet current environmental standards, certain properties which the Company has learned may be contaminated with industrial waste as to which it may be determined that the Company has contributed. The Company has also been advised that various federal, state, or local agencies believe certain properties require investigation and has prioritized the sites based on available information in order to enhance the management of investigation and remediation, if necessary.

The Company believes that obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position.

13. COMMITMENTS AND CONTINGENCIES

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, 2016 are summarized in the table below:

(in thousands of dollars) Years Ending March 31,	Energy Purchases	Capital Expenditures
2017	$ 38,077	$ 43,397
2018	18,978	1,330
2019	-	-
2020	-	-
2021	-	-
Thereafter	-	-
Total	$ 57,055	$ 44,727

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

Legal Matters

The Company is subject to various legal proceedings, primarily injury claims, 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.

FERC ROE Complaints

On September 30, 2011, several state and municipal parties in New England, ("Complainants"), filed a complaint against certain New England Transmission Owners, ("NETOs") including the Company, to lower the base ROE for transmission rates in New England from 11.14% to 9.2 %. On August 6, 2013, a FERC Administrative Law Judge ("ALJ") issued an Initial Decision finding that the base ROE for the refund period and the prospective period should be 10.6% and 9.7%, respectively, prior to any adjustments in a final FERC order. The refund period is the 15-month period from October 1, 2011 through December 31, 2012; the prospective period begins when the FERC issues its final order. In response to the ALJ's Initial Decision, the Company recorded an estimated reduction to revenues of $7.1 million and an increase to interest expense of $0.2 million for the year ended March 31, 2013, reflecting an effective ROE of 10.6% for the portion that would be refunded to transmission customers for the refund period. On June 19, 2014, the FERC issued Opinion No. 531, an initial order modifying the ALJ's findings and its previous methodology for establishing ROE. The FERC tentatively set the ROE at 10.57% and capped the ROE for incentive rates of return to 11.74% subject to further proceedings to establish and quantify growth rates applicable to the ROE. In response, the Company recorded an additional reduction to revenues of $1.2 million and an increase of $0.2 million to interest expense for the fiscal year ended March 31, 2014.

On October 16, 2014, the FERC issued a final order in Opinion No. 531-A establishing a 10.57% base ROE for the NETOs effective as of October 16, 2014 and capped the ROE, including incentives, at 11.74%. The FERC also directed that refunds be issued to transmission customers taking service during the 15-month refund period from October 1, 2011 through December 31, 2012 to reflect these reductions. 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 July 18, 2015, the FERC approved an amended tariff compliance filing submitted by the NETOs in response to Opinion No. 531-B. This order constitutes final FERC action on the first ROE complaint. By December 31, 2015, the Company's total refund obligation of approximately $9.2 million for the periods October 1, 2011 through December 31, 2012, and October 16, 2014 through December 31, 2014, was returned to customers, followed by refund compliance reports submitted to the FERC. The NETOs, including the Company, have appealed certain aspects of the FERC's orders in the first ROE complaint to the U.S. Court of Appeals for the DC Circuit. At this time, the Company is unable to predict the outcome of the appeal.

On December 27, 2012, a second ROE complaint was filed against the NETOs by a coalition of consumers seeking to lower the base ROE for New England transmission rates to 8.7% effective as of December 27, 2012. On June 19, 2014, the FERC issued an order setting the complaint for investigation and a trial-type, evidentiary hearing. The FERC stated that it expects parties to present evidence and any discounted cash flow analyses, as guided by the rulings found in FERC's June 19 order on the first complaint. The FERC's order also established a 15-month refund period for the second complaint beginning on December 27, 2012. In its order setting the complaint for hearing, the FERC noted that, if the case is fully litigated, the FERC expected to issue its final decision no earlier than April 30, 2016.

On July 31, 2014, a third ROE complaint was filed against the NETOs by complainants seeking to lower the base ROE for New England transmission rates to 8.84% effective as of July 31, 2014. On November 24, 2014, the FERC issued an order consolidating this complaint with the second ROE complaint discussed above, setting both matters for investigation and a trial-type, evidentiary hearing on a consolidated basis. The FERC's order established a 15-month refund period for the third ROE complaint beginning on July 31, 2014 and determined that it would be appropriate for the parties to litigate a separate ROE for the two separate refund periods established by each of the complaints. In its order consolidating the complaints and setting them for hearing, the FERC noted that, if the case is fully litigated, the FERC expects to issue its final decision by September 30, 2016. Hearings in this proceeding were held in February 2016. On March 25, 2016, an Administrative Law Judge ("ALJ") released his decision on the second and third ROE complaints. The ALJ found that the NETOs base ROE should be reduced to 9.59% for the first period at issue (December 27, 2012 through March 26, 2014), but the ROE should be increased to 10.90% for the second period (July 31, 2014 through October 30, 2015, and prospectively after the FERC issues an order on this decision). The new ROEs resulting from the second and third ROE complaints will not go into effect until the FERC issues an order addressing the ALJ's decision.

On April 29, 2016, a group of Massachusetts municipal customers filed a fourth ROE complaint at the FERC arguing that the FERC should reduce the NETOs base ROE to 8.61% and should cap the NETOs' total ROE, including any ROE incentives, at 11.24%. On June 3, 2016, the NETOs filed an answer to this complaint. The FERC has not yet acted on the fourth ROE complaint.

FERC 206 Proceeding on Rate Transparency

On December 28, 2015, the FERC initiated a proceeding under Section 206 of the FPA. The FERC found that the ISO-NE Transmission, Markets, and Services Tariff is unjust, unreasonable, and unduly discriminatory or preferential. The FERC found that ISO-NE's Tariff lacks adequate transparency and challenge procedures with regard to the formula rates for ISO-NE Participating Transmission Owners ("PTOs"). In addition, the FERC found that the ISO-NE PTOs', including the Company's, current RNS and Local Network Service ("LNS") formula rates appear to be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful. The FERC explained that the formula rates appear to lack sufficient detail in order to determine how certain costs are derived and recovered in the formula rates. Accordingly, the FERC established hearing and settlement judge procedures to develop just and reasonable formula rate protocols to be included in the ISO-NE Tariff and to examine the justness and reasonableness of the RNS and LNS rates. The matter is currently in settlement procedures. At this time, the Company is unable to predict and estimate any impact to earnings.

Decommissioning Nuclear Units

The Company is a minority equity owner of, and former purchaser of, electricity from the Yankees. The Yankees have been permanently shut down and physically decommissioned. Spent nuclear fuel remains on each site awaiting fulfillment by the DOE of its statutory and contractual obligation to remove it. Future estimated billings, which are included in accrued Yankee nuclear plant costs and other current liabilities in the accompanying balance sheets, are as follows:

(in thousands of dollars)	The Company's Investment as of March 31, 2016			Future Estimated Billings to the Company
Unit	%	Amount	Date Retired	Amount
Yankee Atomic	34.5	$ 512	Feb 1992	$ 5,819
Connecticut Yankee	19.5	331	Dec 1996	17,165
Maine Yankee	24.0	621	Aug 1997	6,528

The Yankees are periodically required to file rate cases for FERC review, which present the Yankees' estimated future decommissioning costs. The Yankees collect the approved costs from their purchasers, including the Company. Future estimated billings from the Yankees are based on cost estimates. These estimates include the projections of groundwater monitoring, security, liability and property insurance, and other costs. They also include costs for interim spent fuel storage facilities which the Yankees have constructed while they await removal of the fuel by the DOE as required by the Nuclear Waste Policy Act of 1982 and contracts between DOE and each of the Yankees. The Company has recorded a liability and a regulatory asset reflecting the estimated future decommissioning billings from the Yankees.

In 2013, the FERC accepted settlements establishing rate mechanisms by which each of the Yankees maintains funding for operations and decommissioning and credits to its purchasers, including the Company, any net proceeds in excess of funding costs received as part of the DOE litigation proceedings discussed below.

Each of the Yankees brought litigation against the DOE for failure to remove their respective nuclear fuel stores as required by the Nuclear Waste Policy Act and contracts. Following a trial at the U.S. Court of Claims ("Claims Court") to determine the level of damages, on October 4, 2006, the Claims Court awarded the three companies an aggregate of $143 million for spent fuel storage costs that had been incurred through 2001 and 2002 (the "Phase I Litigation"). The Yankees had requested $176.3 million. The DOE appealed to the U.S. Court of Appeals for the Federal Circuit, which rendered an opinion generally supporting the Claims Court's decision and remanded the matter to it for further proceedings. In September, 2010, the Claims Court again awarded the companies an aggregate of approximately $143 million. The DOE again appealed and the Yankees cross-appealed. On May 18, 2012, the U.S. Court of Appeals for the Federal Circuit again ruled in favor of the Yankees, awarding them an aggregate of approximately $160 million. The DOE sought reconsideration but, on September 5, 2012, the U.S. Court of Appeals for the Federal Circuit denied the petition for rehearing. The DOE elected not to file a petition for writ of certiorari seeking review by the U.S. Supreme Court and in January 2013 the awards were paid to the Yankees. As of March 31, 2016 total net proceeds of $25.6 million have been refunded to the Company by Connecticut Yankee and Maine Yankee. Yankee Atomic did not provide a refund, but reduced monthly billing effective June 1, 2013. The Company refunds its share to its customers through the CTCs. The remaining amount to be refunded is included within regulatory liabilities in the accompanying balance sheets.

On December 14, 2007, the Yankees brought further litigation in the Claims Court to recover subsequent damages incurred through 2008 (the “Phase II Litigation”). A Claims Court trial took place in October 2011. On November 1, 2013, the judge awarded the Yankees an aggregate of $235.4 million in damages for the Phase II Litigation. The DOE elected not to seek appellate review and the awards were paid to the Yankees. In March 2014, Maine Yankee and Yankee Atomic received 100% of the DOE Phase II proceeds expected ($35.8 million and $73.3 million, respectively). Connecticut Yankee received a partial payment of $90 million of the expected $126.3 million. The balance was received in April 2014.

On April 29, 2014, the Yankees submitted informational filings to the FERC in order to flow through the DOE Phase II Litigation proceeds to their Sponsor companies, including the Company, in accordance with financial analyses that were performed earlier that year and supported by stakeholders from Connecticut, Massachusetts, and Maine. The filings allowed for the flow through of the proceeds to the Sponsors, including the Company, with a rate effective date of June 1, 2014. As of March 31, 2016, total net proceeds of $57.8 million have been refunded to the Company by the Yankees. The Company refunds its share of the net proceeds to its customers through the CTCs.

On August 15, 2013 the Yankees brought further litigation (the “Phase III Litigation”) in the Claims Court to recover damages incurred from 2009 through 2012. On March 25, 2016, the judge awarded the Yankees an aggregate of $76.8 million in damages for the Phase III Litigation which is about 98.6% of the damages sought. The DOE elected not to seek appellate review.

The U.S. Congress and the DOE have effectively terminated budgetary support for the proposed long-term spent fuel storage facility at Yucca Mountain in Nevada, and the DOE took actions designed to prevent its construction. However, on August 12, 2013 the U.S. Court of Appeals for the DC Circuit (“DC Circuit Court”) directed the Nuclear Regulatory Commission (“NRC”) to resume the Yucca Mountain licensing process despite insufficient funding to complete it. On October 28, 2013, the DC Circuit Court denied the NRC’s petition for rehearing. On November 18, 2013, NRC ordered its staff to resume work on its Yucca Mountain safety report. A Blue Ribbon Commission (“BRC”) charged with advising the DOE regarding alternatives to disposal at Yucca Mountain issued its final report on January 26, 2012. In the report, the BRC recommended that priority be given to removal of spent fuel from shutdown reactor sites. It is impossible to predict when the DOE will fulfill its obligation to take possession of the Yankees’ spent fuel. The decommissioning costs that are actually incurred by the Yankees may substantially exceed the estimated amounts.

14. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2016	2015	**2016**	2015
	(in thousands of dollars)			
Massachusetts Electric Company	**$ 9,872**	$ 13,006	**$ -**	$ -
National Grid Generation LLC	**2,116**	2,116	**-**	-
NGUSA	**2,544**	3,176	**-**	-
NGUSA Service Company	**-**	-	**6,299**	4,701
The Narragansett Electric Company	**-**	-	**16,673**	23,588
Other	**367**	849	**674**	1,689
Total	**$ 14,899**	$ 19,147	**$ 23,646**	$ 29,978

Approximately 81% of the Company's local transmission service was provided to MECO, NECO, and Nantucket for each of the years ended March 31, 2016 and 2015.

Advance from Affiliate

In December 2008, the Company entered into an agreement with NGUSA whereby the Company can borrow up to $400 million from time to time for working capital needs. The advance is non-interest bearing. At March 31, 2016 and 2015, 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 borrowings of $568.8 million and $288.9 million at March 31, 2016 and 2015, respectively. The average interest rates for the intercompany money pool were 0.7% and 0.3% for the years ended March 31, 2016 and 2015, respectively.

Service Company Charges

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

Net charges from the service companies of NGUSA to the Company for the years ended March 31, 2016 and 2015 were $111.4 million and $116.6 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 effect on net income would be $1.6 million and $2.2 million before taxes and $1 million and $1.3 million after taxes, for the years ended March 31, 2016 and 2015, respectively, if these amounts were allocated to the Company.