nationalgrid

Massachusetts Electric Company

Financial Statements

For the years ended March 31, 2016, 2015, and 2014

MASSACHUSETTS ELECTRIC COMPANY

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Independent Auditor's Report

To the Board of Directors
of Massachusetts Electric Company

We have audited the accompanying financial statements of Massachusetts Electric Company (the Company), which comprise the balance sheets as of March 31, 2016 and 2015, and the related statements of income, comprehensive income, cash flows, capitalization, and changes in shareholders' equity for each of the three years in the period ended March 31, 2016.

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 Massachusetts Electric Company at March 31, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 2 to the financial statements, the Company has restated its fiscal 2015 and 2014 financial statements to correct errors. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

July 29, 2016

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

	Years Ended March 31,		
	2016	2015	2014
		(Restated)	(Restated)
Operating revenues	**$ 2,338,904**	$ 2,584,205	$ 2,354,011
Operating expenses:			
Purchased electricity	**800,034**	1,121,334	973,056
Operations and maintenance	**1,260,997**	1,182,821	1,122,532
Depreciation and amortization	**129,287**	122,944	116,924
Other taxes	**70,815**	69,042	63,670
Total operating expenses	**2,261,133**	2,496,141	2,276,182
Operating income	**77,771**	88,064	77,829
Other income and (deductions):			
Interest on long-term debt	**(47,925)**	(47,987)	(48,231)
Other interest, including affiliate interest	**1,461**	299	(2,137)
Other income, net	**11,177**	8,675	894
Total other deductions, net	**(35,287)**	(39,013)	(49,474)
Income before income taxes	**42,484**	49,051	28,355
Income tax expense	**13,690**	16,398	11,926
Net income	**$ 28,794**	$ 32,653	$ 16,429

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

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

	Years Ended March 31,		
	2016	2015 (Restated)	2014 (Restated)
Net income	**$ 28,794**	$ 32,653	$ 16,429
Other comprehensive income (loss):			
Unrealized (losses) gains on securities	**(80)**	160	53
Change in pension and other postretirement obligations	**17**	(285)	35
Total other comprehensive (loss) income	**(63)**	(125)	88
Comprehensive income	**$ 28,731**	$ 32,528	$ 16,517
Related tax (expense) benefit:			
Unrealized losses (gains) on securities	**$ 54**	$ (108)	$ (34)
Change in pension and other postretirement obligations	**(12)**	192	(23)
Total tax benefit (expense)	**$ 42**	$ 84	$ (57)

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

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

	Years Ended March 31,		
	2016	2015 (Restated)	2014 (Restated)
Operating activities:			
Net income	**$ 28,794**	$ 32,653	$ 16,429
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**129,287**	122,944	116,924
Provision for deferred income taxes	**14,719**	21,197	17,606
Bad debt expense	**56,430**	60,419	35,535
Allowance for equity funds used during construction	**(7,388)**	(6,068)	(1,571)
Amortization of debt discount and issuance costs	**315**	353	459
Net postretirement benefits expense (contributions)	**15,731**	2,338	(10,775)
Net environmental remediation payments	**(19,062)**	(8,593)	(8,076)
Changes in operating assets and liabilities:			
Accounts receivable and other receivable, net, and unbilled revenues	**77,052**	(190,435)	(107,376)
Inventory	**(2,731)**	(5,481)	650
Regulatory assets and liabilities, net	**(15,902)**	(98,230)	8,588
Prepaid and accrued taxes	**6,320**	9,994	(4,967)
Accounts payable and other liabilities	**(33,307)**	62,883	16,640
Renewable energy certificate obligations, net	**(38,835)**	29,196	14,340
Customer deposits	**1,260**	13,672	1,791
Other, net	**8,918**	10,917	(1,220)
Net cash provided by operating activities	**221,601**	57,759	94,977
Investing activities:			
Capital expenditures	**(277,139)**	(239,821)	(201,649)
Changes in restricted cash and special deposits	**79,951**	3,120	(11,200)
Affiliated money pool investing and receivables/payables, net	**1,049**	156,367	(221,790)
Cost of removal	**(27,548)**	(21,191)	(15,554)
Other	**(455)**	(1,936)	(121)
Net cash used in investing activities	**(224,142)**	(103,461)	(450,314)
Financing activities:			
Preferred stock dividends	**(100)**	(100)	(100)
Payments on long-term debt	**-**	(20,000)	-
Affiliated money pool borrowing and receivables/payables, net	**-**	-	(231,983)
Advance from affiliate	**-**	(75,000)	600,000
Equity infusion from Parent	**-**	135,000	-
Net cash (used in) provided by financing activities	**(100)**	39,900	367,917
Net (decrease) increase in cash and cash equivalents	**(2,641)**	(5,802)	12,580
Cash and cash equivalents, beginning of year	**8,636**	14,438	1,858
Cash and cash equivalents, end of year	**$ 5,995**	$ 8,636	$ 14,438
Supplemental disclosures:			
Interest paid	**$ (48,292)**	$ (47,236)	(48,712)
Income taxes refunded	**6,029**	9,400	31,848
Significant non-cash items:			
Capital-related accruals included in accounts payable	**7,146**	1,176	1,826

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

MASSACHUSETTS ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2016	2015
		(Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 5,995**	$ 8,636
Restricted cash	**20**	79,971
Accounts receivable	**421,707**	514,690
Allowance for doubtful accounts	**(100,516)**	(84,412)
Accounts receivable from affiliates	**42,148**	18,747
Intercompany money pool	**79,804**	95,917
Unbilled revenues	**79,849**	104,244
Inventory	**132,743**	60,184
Regulatory assets	**326,908**	290,548
Other	**2,778**	7,908
Total current assets	**991,436**	1,096,433
Property, plant and equipment, net	**2,867,655**	2,672,849
Other non-current assets:		
Regulatory assets	**611,870**	659,323
Goodwill	**1,008,244**	1,008,244
Other	**17,242**	13,925
Total other non-current assets	**1,637,356**	1,681,492
Total assets	**$ 5,496,447**	$ 5,450,774

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

MASSACHUSETTS ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2016	2015
		(Restated)
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 284,467**	$ 300,969
Accounts payable to affiliates	**57,578**	49,241
Advance from affiliate	**525,000**	525,000
Interest accrued	**18,039**	18,015
Regulatory liabilities	**3,916**	35,803
Renewable energy certificate obligations	**175,352**	144,359
Other	**59,319**	55,166
Total current liabilities	**1,123,671**	1,128,553
Other non-current liabilities:		
Regulatory liabilities	**310,332**	324,612
Deferred income tax liabilities, net	**654,993**	629,931
Postretirement benefits	**256,864**	226,197
Environmental remediation costs	**89,413**	104,230
Other	**33,607**	38,404
Total other non-current liabilities	**1,345,209**	1,323,374
Commitments and contingencies (Note 12)		
Capitalization:		
Shareholders' equity	**2,229,672**	2,201,041
Long-term debt	**797,895**	797,806
Total capitalization	**3,027,567**	2,998,847
Total liabilities and capitalization	**$ 5,496,447**	$ 5,450,774

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

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

			March 31,	
			2016	2015
				(Restated)
Total shareholders' equity			**$ 2,229,672**	$ 2,201,041
Long-term debt:	Interest Rate	Maturity Date		
Senior Note	5.90%	November 15, 2039	**800,000**	800,000
Total debt			**800,000**	800,000
Unamortized debt discount			**(2,105)**	(2,194)
Long-term debt			**797,895**	797,806
Total capitalization			**$ 3,027,567**	$ 2,998,847

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

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

				Accumulated Other Comprehensive Income (Loss)				
	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Unrealized Gain (Loss) on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2013 - restated	**$ 59,953**	**$ 2,259**	**$ 1,558,049**	**$ 699**	**$ 4,422**	**$ 5,121**	**$ 391,814**	**$ 2,017,196**
Net income	-	-	-	-	-	-	16,429	16,429
Other comprehensive income (loss):								
Unrealized gains on securities, net of $34 tax expense	-	-	-	53	-	53	-	53
Change in pension and other postretirement obligations, net of $23 tax expense	-	-	-	-	35	35	-	35
Total comprehensive income								16,517
Preferred stock dividends	-	-	-	-	-	-	(100)	(100)
Balance as of March 31, 2014 - restated	**$ 59,953**	**$ 2,259**	**$ 1,558,049**	**$ 752**	**$ 4,457**	**$ 5,209**	**$ 408,143**	**$ 2,033,613**
Net income	-	-	-	-		-	32,653	32,653
Other comprehensive income (loss):								
Unrealized gains on securities, net of $108 tax expense	-	-	-	160	-	160	-	160
Change in pension and other postretirement obligations, net of $192 tax benefit	-	-	-	-	(285)	(285)	-	(285)
Unrealized gains on securities from equity investments,								
Total comprehensive income								32,528
Equity infusion from Parent	-	-	135,000	-	-	-	-	135,000
Preferred stock dividends	-	-	-	-	-	-	(100)	(100)
Balance as of March 31, 2015 - restated	**$ 59,953**	**$ 2,259**	**$ 1,693,049**	**$ 912**	**$ 4,172**	**$ 5,084**	**$ 440,696**	**$ 2,201,041**
Net income	-	-	-	-		-	28,794	28,794
Other comprehensive income (loss):								
Unrealized losses on securities, net of $54 tax benefit	-	-	-	(80)	-	(80)	-	(80)
Change in pension and other postretirement obligations, net of $12 tax expense	-	-	-	-	17	17	-	17
Total comprehensive income								28,731
Preferred stock dividends	-	-	-	-	-	-	(100)	(100)
Balance as of March 31, 2016	**$ 59,953**	**$ 2,259**	**$ 1,693,049**	**$ 832**	**$ 4,189**	**$ 5,021**	**$ 469,390**	**$ 2,229,672**

The Company had 2,398,111 shares of common stock authorized, issued and outstanding, with a par value of $25 per share and 22,585 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2016 and 2015.

The accompanying notes are an integral part of these financial statements

MASSACHUSETTS ELECTRIC COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

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

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

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 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, except as described in Note 14, "Subsequent Events.".

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 to 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 separate 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.

Restricted Cash

Restricted cash primarily consists of deposits held by ISO New England, Inc. ("ISO-NE"). The Company had restricted cash of zero and $80 million at March 31, 2016 and 2015, respectively.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. The collectability of receivables is

continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies and renewable energy certificates ("RECs"). 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. RECs are stated at cost and are used to measure compliance with renewable energy standards. RECs are held primarily for consumption.

At March 31, 2016 and 2015 the Company had materials and supplies of $27.6 million and $24.9 million and purchased RECs of $105.1 million and $35.3 million, respectively.

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 rate for each of the years ended March 31, 2016, 2015, and 2014 was 3.2%. The average service life for each of the years ended March 31, 2016, 2015, and 2014 was 44 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 of removal recovered in excess of costs incurred of $252.8 million and $247.1 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 income, net and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $7.4 million, $6.1 million, and $1.6 million and AFUDC related to debt of $3.1 million, $2.5 million, and $1.3 million for the years ended March 31, 2016, 2015, and 2014, respectively. The average AFUDC rates for the years ended March 31, 2016, 2015, and 2014 were 8.5%, 8.4%, and 3.4%, 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.

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 and are included in other non-current liabilities in the accompanying balance sheets. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value.

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

	Years Ended March 31,	
	2016	2015
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 1,802**	$ 1,817
Accretion expense	**64**	85
Liabilities settled	**(117)**	(100)
Revaluations of present value of estimated cashflows	**621**	-
Balance as of the end of the year	**$ 2,370**	$ 1,802

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

Accretion expense is deferred as part of the Company's asset retirement obligation regulatory asset as management believes it is probable that such amounts will be collected in future rates.

Employee Benefits

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

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2016

The new accounting guidance that was adopted for fiscal year 2016 had no material impact on the presentation, 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. The Company is currently evaluating the impact of the new guidance on its financial position, results of operations and cash flows.

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 Collectability Criterion and Accounting for Contracts That Do Not Meet the Criteria for Step 1, b) Presentation of Sales Taxes and Other Similar Taxes Collected from Customers, c) Noncash Consideration, d) Contract Modifications at Transition, e) Completed Contracts at Transition, and f) Technical Correction. 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.

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.

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 – 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.

Financial Statement Restatement

During 2016, management determined that certain accounting transactions were not properly recorded in the Company's previously issued financial statements. The Company corrected the accounting by restating the prior period financial statements, the impacts of which are described below.

Management determined that it had incorrectly accounted for the de-recognition of the equity component related to the carrying charges on its storm costs regulatory asset for the year ended March 31, 2015. An adjustment of $5.7 million (net of income taxes) was recorded as a decrease to net income with the correction recorded within other income, net for the year ended March 31, 2015.

In addition, during a review of the Company's open work orders sitting within capital work in progress, management identified charges that were inappropriately classified as capital instead of expense. A cumulative adjustment of $6.2 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2015, of which $2.4 was recorded as a decrease to opening retained earnings (as of March 31, 2013) and $1.9 million and $1.9 million were recorded as a decrease to net income with the correction recorded within operations and maintenance expense for the years ended March 31, 2015 and 2014, respectively.

Further, management also identified an error in the amount 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 of $16.6 million and $12.6 million for the years ended March 31, 2015 and 2014, respectively. These errors were partially offset by the cash flow impacts of the work order review noted above.

Finally, the Company has corrected other immaterial adjustments. A cumulative adjustment of $0.5 million (net of income taxes) was recorded, of which $0.7 was recorded as an increase to opening retained earnings (as of March 31, 2013) and $2.4 million was recorded as a decrease to net income for the year ended March 31, 2015 and $2.2 million was recorded as an increase to net income for the year ended March 31, 2014.

The following table shows the amounts previously reported as restated:

	As Previously Reported [1]	Adjustments	As Restated
		(in thousands of dollars)	
Statement of Income	**March 2015**		**March 2015**
Operating revenues	$ 2,586,622	$ (2,417)	$ 2,584,205
Total operating expenses	2,491,327	4,814	2,496,141
Operating income	95,295	(7,231)	88,064
Total other deductions, net	(29,506)	(9,507)	(39,013)
Income before income taxes	65,789	(16,738)	49,051
Income tax expense	23,127	(6,729)	16,398
Net income	42,662	(10,009)	32,653
Statement of Income	**March 2014**		**March 2014**
Operating revenues	$ 2,352,062	$ 1,949	$ 2,354,011
Total operating expenses	2,274,822	1,360	2,276,182
Operating income	77,240	589	77,829
Income before income taxes	27,766	589	28,355
Income tax expense	11,689	237	11,926
Net income	16,077	352	16,429
Statement of Cash Flows	**March 2015**		**March 2015**
Net cash provided by operating activities	$ 48,143	$ 9,616	$ 57,759
Net cash used in investing activities	(93,845)	(9,616)	(103,461)
Statement of Cash Flows	**March 2014**		**March 2014**
Net cash provided by operating activities	$ 82,282	$ 12,695	$ 94,977
Net cash used in investing activities	(437,619)	(12,695)	(450,314)

	As Previously Reported [1]	Adjustments	As Restated
		(in thousands of dollars)	
Balance Sheet	**March 2015**		**March 2015**
Property, plant, and equipment, net	$ 2,683,179	$ (10,330)	$ 2,672,849
Total other non-current assets	1,695,235	(13,743)	1,681,492
Total current liabilities	1,129,333	(780)	1,128,553
Total other non-current liabilities	1,335,247	(11,873)	1,323,374
Retained Earnings			
March 31, 2015	452,116	(11,420)	440,696
March 31, 2014	409,554	(1,411)	408,143
March 31, 2013	393,577	(1,763)	391,814
Shareholders' equity			
March 31, 2015	2,212,461	(11,420)	2,201,041
March 31, 2014	2,035,024	(1,411)	2,033,613
March 31, 2013	2,018,959	(1,763)	2,017,196

[1] During 2016, the Company early adopted ASU 2015-17 "Balance Sheet Classification of Deferred Taxes" retrospectively (as discussed in Note 10, "Income Taxes"). This change in policy resulted in reclassification of balances reported at March 31, 2015.

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		
Current:		
Energy efficiency	**$ 59,431**	$ 54,794
Rate adjustment mechanisms	**50,322**	8,538
Renewable energy certificates	**70,207**	109,042
Revenue decoupling mechanism	**85,501**	57,020
Transmission service	**49,982**	61,154
Other	**11,465**	-
Total	**326,908**	290,548
Non-current:		
Environmental response costs	**88,530**	104,381
Postretirement benefits	**379,157**	355,759
Storm costs	**115,739**	151,200
Other	**28,444**	47,983
Total	**611,870**	659,323
Regulatory liabilities		
Current:		
Rate adjustment mechanisms	**3,916**	34,076
Other	**-**	1,727
Total	**3,916**	35,803
Non-current:		
Cost of removal	**252,769**	247,086
Environmental response costs	**45,022**	60,698
Postretirement benefits	**12,541**	16,828
Total	**310,332**	324,612
Net regulatory assets	**$ 624,530**	$ 589,456

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.

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's rate plans provide for specific rate allowances for these costs, with variances deferred for future recovery from, or return to, customers. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

The regulatory liability represents the amount of customer contributions and insurance proceeds recovered to pay for costs to investigate and perform certain remediation activities at sites with which it may be associated.

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

As a result of NGUSA's fiscal year 2000 acquisition of New England Electric System and fiscal year 2001 acquisition of Eastern Utilities Associates, 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 the average remaining service lives of the participants in the plan at the time of the acquisitions.

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.

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

Revenue decoupling mechanism: As approved by the DPU, the Company has a 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.

Storm costs: The Company's rate order allows for the operation of a storm fund whereby the Company collects through rates an amount meant to offset incurred storm costs. The Company may use money in the fund for incremental storm costs that exceed a $1.25 million threshold per event, subject to the DPU reviewing the costs and determining that they have been reasonably and prudently incurred. The regulatory asset recorded represents the excess of incremental operation and maintenance costs which have been incurred by the Company to restore power to customers resulting from major storms above the amount collected in the storm fund.

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

The Company records carrying charges on regulatory balances related to rate adjustment mechanisms, storm costs, environmental response costs, postretirement benefits, and renewable energy certificates for which cash expenditures have been made and are subject to recovery, or for which cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made.

4. RATE MATTERS

Electric Rate Case Filing

On November 6, 2015, the Company together with Nantucket, filed a one-year rate plan, requesting an increase in base distribution revenue of approximately $211.3 million to take effect from October 1, 2016, which was updated to $205.5 million on April 29, 2016, $202.8 million on June 3, 2016 and $201.9 million on July 25, 2016. The updated rate case filing requests an annualized net increase in distribution revenue of approximately $133.2 million. Approximately $28 million of the increase is associated with higher personal property taxes, and $10 million of the increase to increase funding to the Company's Storm Contingency Fund to more adequately address mobilization and restoration activities incurred in

connection with responding to significant weather events experienced by the Company since its last rate case in 2009. The increase also reflects the impact of net plant additions since December 31, 2008, the end of the test year in the Company's last general rate case, as well as its investment in five solar generating facilities placed into service since that time; however, the Company has been recovering a portion of its investments through recovery mechanisms outside of base distribution rates, and such recovery shall end when recovery commences through base distribution rates, as approved by the DPU. The Company has also requested revisions to its capital investment recovery mechanism to better align the eligible capital investment with its recent and future plans for capital investment in its distribution system to ensure safe and reliable service to its customers. The Company cannot currently predict the outcome of this case.

Recovery of Transmission Costs

NEP operates the transmission facilities of its New England affiliates as a single integrated system and reimburses the Company for the cost of its transmission facilities, including a return on those facilities under NEP's Tariff No. 1. In turn, these costs are allocated among transmission customers in New England in accordance with the ISO New England Open Access Transmission Tariff ("ISO-NE OATT"). The Company is compensated for its actual monthly transmission costs with its authorized return on equity ("ROE") ranging from a base of 11.14% to 12.64%. The amounts reimbursed to the Company by NEP for the years ended March 31, 2016 and 2015 were $16.5 million and $18.4 million, respectively, which are included within operations and maintenance expense in the accompanying statements of income. To the extent that the FERC modifies the ROE generally applicable to transmission assets under the ISO-NE OATT, NEP's Tariff No. 1 directs that the ROE earned by the Company will also be modified to the same levels pursuant to a FERC filing under Section 205 of the Federal Power Act ("FPA"). On October 16, 2014, the FERC issued an order, Opinion No. 531-A, resetting the base ROE applicable to transmission assets under the ISO-NE OATT from 11.14% to 10.57% effective as of October 16, 2014 and establishing a maximum ROE of 11.74%. On March 3, 2015, the FERC issued an Order on Rehearing, Opinion No. 531-B, affirming the 10.57% base ROE and clarifying that the 11.74% maximum ROE applies to all individual transmission projects with ROE incentives previously granted by the FERC.

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 FPA proposing to reduce the ROE under its Tariff No. 1 formula rates so that they were consistent with those applied under the ISO-NE OATT pursuant to the FERC's Opinion Nos. 531 and 531-A. 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. 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 will reduce its compensation to the Company in accordance with the Order.

2009 Capital Investment Audit

The DPU approved an RDM arising from the 2009 distribution rate case filed by the Company and its affiliate, Nantucket Electric. As part of its RDM provision, the Company files a report by July 1 of each year on its capital investment for the prior calendar year. In connection with the Company's first capital expenditure ("CapEx") filing made in July 2010, the DPU opened a proceeding in March 2011, as requested by the Massachusetts Office of the Attorney General ("Attorney General"), for an independent audit of the Company's 2009 capital investments which, in part, formed the basis for the Company's RDM rate. The auditor issued its Final Audit Report on August 5, 2015, certifying that the CapEx filing and supporting documentation demonstrated that the costs requested for recovery were supported by source documents and were properly allocable to the Company. On February 28, 2016, the DPU issued an order generally accepting the auditor's audit report and certification and directing the Company to implement the following recommendations: (1) perform a review of work orders on equipment energized in 2008 but recorded as in-service in 2009 for accounting purposes; (2) develop a detailed written policy describing the process of data extraction, the categorizing of projects, and any other steps used in producing the CapEx Filing, including documentation of key controls, checkpoints and approvals; and (3) eliminate the lag time between energizing equipment and recording it in the Company's accounting system as in-service and to correct the Company's accounts for errors associated with manual adjustments associated with in-service dates of assets. The Company has completed the first recommendation and is currently on track to implement the remaining recommendations by January 2017.

Storm Management Audit

In the December 11, 2012 order, the DPU ordered a management audit of the Company and Nantucket Electric's emergency planning, outage management, and restoration. The auditors submitted their Final Report to the DPU on July 9, 2014. The DPU adopted the auditor's thirty recommendations, which include items such as improving emergency response training and tracking of training, designating additional personnel for storm roles, and considering the expanded use of technology and communication tools. The Company has already implemented some of the recommendations and is in the process of implementing the remaining recommendations.

Storm Cost Recovery

The Company and Nantucket Electric have deferred incremental storm costs to respond to and restore power associated with several major weather events occurring since January 2010, pending ultimate approval by the DPU to charge its deferred costs to the Company's Storm Contingency Fund. The deferred incremental storm cost and carrying cost amounts have been reduced to reflect the impact of actual and estimated billings to Verizon for vegetation management costs as a result of the DPU's order regarding the December 2008 ice storm. On May 3, 2013, following a request by the Company and Nantucket Electric for accelerated funding for the Company's Storm Contingency Fund, the DPU approved a Storm Fund Replenishment Factor ("SFRF") of $40 million annually for up to three years, or $120 million. This is in addition to $4.3 million that the Company recovers annually in base rates for the Storm Contingency Fund. In its ruling, the DPU also directed the Company and Nantucket Electric to submit two filings of all documentation supporting its storm costs for DPU review and approval. The first filing for $128 million of costs relating to qualifying storms that occurred during calendar years 2010 and 2011 was made on May 31, 2013 (later updated to exclude vegetation management costs billed to Verizon), with the second filing for $94 million of storm costs (net of vegetation management costs billable to Verizon) related to storm events that occurred during calendar year 2012 through March 2013 was made on September 30, 2014. In its September 30, 2014 filing, the Company also requested an extension of the SFRF through June 2018 to eliminate the deficit in the Storm Contingency Fund created by storm events experienced through March 2013. On April 13, 2016, the DPU extended the SFRF for three additional months until August 4, 2016, unless otherwise ordered, while its prudency review is ongoing. The Company cannot currently predict the outcome of any proceedings related to storm recovery.

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

As part of the November 2015 Electric Rate Case Filing, the Company proposed a further extension of the approximately $47 million in total SFRF recoveries to August 2019, or fourteen months beyond the June 2018 date proposed in the pending storm cost proceeding.

Gas Transportation and Storage Contracts

On January 15, 2016, the Company and Nantucket Electric filed petitions with the DPU for approval of: (1) two long-term gas transportation and storage services agreements with Algonquin Gas Transmission, LLC on the proposed Access Northeast pipeline (together, the "ANE Contracts"); (2) two long-term transportation agreements with Tennessee Gas Pipeline, LLC 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 tariffs, which would allow for recovery of the costs associated with the agreements executed by the Company for the provision of interstate pipeline transportation and gas storage services to electric generation facilities in the region, as well as an innovation incentive for the Company equal to 2.75% of the annual fixed contract payments under the proposed ANE and NED Contracts. Both pipelines are designed to provide increased natural gas deliverability to the New England markets. If approved by the DPU, the Company would release its capacity on these pipelines to the electric market in accordance with an Electric Reliability Service tariff, which is subject to approval by the FERC, and in accordance with the state-approved ERSP, in order to improve the reliability and cost of electric supply for its electric retail customers. As a result of receiving an April 21, 2016 termination notice on the NED Contracts from Tennessee Gas Pipeline, LLC, on April 26, 2016, the Company submitted a motion to withdraw its request for DPU approval of the NED Contracts, which the DPU granted on April 27, 2016. The estimated estimates levelized annual net benefits from the ANE project by itself are $1.1 billion per year from 2019 through 2038 for electric customers in New England under normal weather conditions. There will be DPU hearings on the contracts, with a decision expected by the fall of 2016.

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	**$ 3,925,854**	$ 3,740,262
Land and buildings	**198,952**	191,238
Assets in construction	**133,326**	126,039
Total property, plant and equipment	**4,258,132**	4,057,539
Accumulated depreciation and amortization	**(1,390,477)**	(1,384,690)
Property, plant and equipment, net	**$ 2,867,655**	$ 2,672,849

6. 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	$ 3,301	$ 4,167	$ -	$ 7,468

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Available-for-sale securities	$ 3,141	$ 4,125	$ -	$ 7,266

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 $1 billion and $1.1 billion, 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.

7. EMPLOYEE BENEFITS

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

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

During the years ended March 31, 2016, 2015, and 2014, the Company made contributions of approximately $15.1 million, $10.3 million, and $31.4 million, respectively, to the Plan.

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

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, 2015, and 2014 are as follows:

	Years Ended March 31,		
	2016	2015	2014
		(in thousands of dollars)	
Pension	**$ 31,818**	$ 23,078	$ 25,492
PBOP	**9,563**	5,955	8,758
	$ 41,381	$ 29,033	$ 34,250

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2016, 2015, and 2014, the Company recognized an expense in the accompanying statements of income of $3.9 million, $3.6 million, and $3.4 million, respectively, for matching contributions.

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 $5.9 million and $2.8 million, respectively.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Unrealized Gain (Loss) on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Total
	(in thousands of dollars)		
Balance as of March 31, 2014	$ 752	$ 4,457	$ 5,209
Other comprehensive income (loss) before reclassifications:			
Unrecognized net acturial loss (net of $219 tax benefit)	-	(326)	(326)
Gain on investment (net of $251 tax expense)	373	-	373
Amounts reclassified from other comprehensive income:			
Amortization of net actuarial loss (net of $27 tax expense) [1]	-	41	41
Gain on investment (net of $143 tax benefit) [1]	(213)	-	(213)
Net prior period other comprehensive income (loss)	160	(285)	(125)
Balance as of March 31, 2015	**$ 912**	**$ 4,172**	**$ 5,084**
Other comprehensive income (loss) before reclassifications:			
Unrecognized net acturial loss (net of $17 tax benefit)		(26)	(26)
Gain on investment (net of $81 tax expense)	120	-	120
Amounts reclassified from other comprehensive income:			
Amortization of net actuarial loss (net of $29 tax expense)[1]	-	43	43
Gain on investment (net of $135 tax benefit) [1]	(200)	-	(200)
Net current period other comprehensive (loss) income	(80)	17	(63)
Balance as of March 31, 2016	**$ 832**	**$ 4,189**	**$ 5,021**

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

9. 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	-
2019	-
2020	-
2021	-
Thereafter	800,000
Total	$ 800,000

The Company's debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants such as restrictions on the level of indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the Company's debt and may restrict the Company's ability to draw upon its facilities or access the capital markets. During the years ended March 31, 2016 and 2015, the Company was in compliance with all such covenants.

Debt Authorizations

The Company had regulatory approval from the FERC to issue up to $750 million of short-term debt, which expired on November 30, 2013. Effective April 25, 2014, the Company entered into an Equity Contribution Agreement ("ECA") with the Parent which provides the Company with the ability to call upon the Parent for contributions to the Company's capital, in an aggregate amount equal to the short-term borrowing limit, until such time as regulatory approval for short-term borrowing is regained. The Company has received $135 million under this ECA. The Company had no short-term debt outstanding to third-parties as of March 31, 2016 or 2015.

Senior Note

In November 2009, the Company issued $800 million of unsecured long-term debt at 5.9% with a maturity date of November 15, 2039. In conjunction with this debt issuance, the Company incurred debt issuance costs of $6.8 million which are being amortized over the life of the debt.

Dividend Restrictions

Pursuant to the preferred stock arrangement, as long as any preferred stock is outstanding, certain restrictions on payment of common stock dividends would come into effect if the common stock equity was, or by reason of payment of such dividends became, less than 25% of total capitalization. Common stock equity at March 31, 2016 and 2015 was approximately 73.7% and 73.4%, respectively, of total capitalization. Accordingly, the Company was not restricted as to the payment of common stock dividends under the foregoing provisions at March 31, 2016 or 2015.

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. A summary of cumulative preferred stock is as follows:

	Shares Outstanding		Amount		
	March 31,		March 31,		Call
Series	**2016**	2015	**2016**	2015	Price
	(in thousands of dollars, except per share and number of shares data)				
$100 par value - 4.44% Series	**22,585**	22,585	**$ 2,259**	$ 2,259	$ 104.068

The Company did not redeem any preferred stock during the years ended March 31, 2016, 2015, or 2014. The annual dividend requirement for cumulative preferred stock was $0.1 million for each of the years ended March 31, 2016, 2015, and 2014.

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2016	2015	2014
		(in thousands of dollars)	
Current tax expense (benefit):			
Federal	**$ 1,502**	$ (6,507)	$ (8,824)
State	**(2,531)**	1,708	3,144
Total current tax expense (benefit)	**(1,029)**	(4,799)	(5,680)
Deferred tax expense (benefit):			
Federal	**10,202**	19,167	16,047
State	**5,168**	2,755	2,367
Total deferred tax expense (benefit)	**15,370**	21,922	18,414
Amortized investment tax credits (1)	**(651)**	(725)	(808)
Total deferred tax expense (benefit)	**14,719**	21,197	17,606
Total income tax expense	**$ 13,690**	$ 16,398	$ 11,926

(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, 2015, and 2014 are 32.2%, 33.4%, and 42.1%, 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	2014
		(in thousands of dollars)	
Computed tax	**$ 14,869**	$ 17,168	$ 9,924
Change in computed taxes resulting from:			
Allowance for equity funds used during construction	**(2,391)**	(1,991)	(507)
Investment tax credits	**(651)**	(725)	(808)
State income tax, net of federal benefit	**1,714**	2,901	3,582
Other items, net	**149**	(955)	(265)
Total	**(1,179)**	(770)	2,002
Total income tax expense	**$ 13,690**	$ 16,398	$ 11,926

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:		
Allowance for doubtful accounts	**$ 43,222**	$ 36,297
Environmental remediation costs	**40,267**	46,639
Future federal benefit on state taxes	**38,597**	36,289
Net operating losses	**99,301**	78,943
Postretirement benefits and other employee benefits	**121,631**	107,339
Regulatory liabilities - other	**27,786**	25,799
Renewable energy certificate obligations	**75,402**	62,074
Other items	**17,780**	19,545
Total deferred tax assets [1]	**463,986**	412,925
Deferred tax liabilities:		
Property related differences	**700,078**	643,516
Regulatory assets - postretirement benefits	**157,645**	145,740
Regulatory assets - storm costs	**66,310**	77,852
Regulatory assets - other	**176,740**	156,519
Other items	**11,218**	11,588
Total deferred tax liabilities	**1,111,991**	1,035,215
Net deferred income tax liabilities	**648,005**	622,290
Deferred investment tax credits	**6,988**	7,640
Deferred income tax liabilities, net	**$ 654,993**	$ 629,930

[1] The company established a valuation allowance for deferred tax assets in the amount of $0.9 million 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 by $10.3 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	State of Massachusetts
	(in thousands of dollars)	
3/31/2029	$ 32,913	$ -
3/31/2030	6,769	-
3/31/2032	17,897	-
3/31/2033	63,272	-
3/31/2034	54,883	-
3/31/2035	114,448	42,381
3/31/2036	73,003	25,757

Unrecognized Tax Benefits

As of March 31, 2016, 2015, and 2014, the Company's unrecognized tax benefits totaled $39.5 million, $38.2 million, and $45.7 million, respectively, of which $6 million in each of the years would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying balance sheets.

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

	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Balance as of the beginning of the year	**$ 38,225**	$ 45,704	$ 37,877
Gross increases - tax positions in prior periods	**-**	1,655	11,147
Gross decreases - tax positions in prior periods	**(972)**	(11,585)	(4,279)
Gross increases - current period tax positions	**2,203**	2,451	959
Balance as of the end of the year	**$ 39,456**	$ 38,225	$ 45,704

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, 2015, and 2014, the Company recorded interest expense of $0.3 million, $0.2 million, and interest income of $0.8 million, respectively. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income, net in the accompanying statements of income. No tax penalties were recognized during the years ended March 31, 2016, 2015, or 2014.

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

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

11. ENVIRONMENTAL MATTERS

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

The United States Environmental Protection Agency ("EPA") and the Massachusetts Department of Environmental Protection ("DEP"), as well as private entities, have alleged that the Company is a potentially responsible party under state or federal law for a number of sites at which hazardous waste is alleged to have been disposed. The Company's most

significant liabilities relate to former Manufactured Gas Plant ("MGP") facilities. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA and DEP. Expenditures incurred for the years ended March 31, 2016, 2015, and 2014 were $19.6 million, $9.1 million, and $8.1 million, respectively.

At March 31, 2016 and 2015, the Company had total reserves for environmental remediation costs of $89.4 million and $104.2 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 36 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.

The DPU has approved a settlement agreement that provides for rate recovery of remediation costs of former MGP sites and certain other hazardous waste sites located in Massachusetts. Under that agreement, qualified costs related to these sites are paid out of a special fund established as a regulatory liability in the accompanying balance sheets. Rate-recoverable contributions of approximately $4 million are made along with interest, lease payments, and any recoveries from insurance carriers and other third-parties. Accordingly, as of March 31, 2016 and 2015, the Company has recorded environmental regulatory assets of $88.5 million and $104.4 million, respectively, and environmental regulatory liabilities of $45 million and $60.7 million, respectively.

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

12. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has 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	$ 415,127	$ 88,211
2018	16,144	12,374
2019	-	905
2020	-	-
2021	-	-
Thereafter	-	-
Total	$ 431,271	$ 101,490

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

Financial Guarantees

The Company unconditionally guarantees the full and prompt payment of the principal, premium, if any, and interest on certain tax-exempt bonds issued by the Massachusetts Development Finance Agency in connection with Nantucket Electric's financing of its first and second underground and submarine cable projects. The Company would be requir ed to make any principal, interest or premium payments if Nantucket Electric failed to pay. The carrying value of the debt guaranteed is approximately $51.3 million at March 31, 2016 and has maturities extending through 2042. This guarantee is absolute and unconditional. As of the date of this report, the Company has not had a claim made against it for this guarantee and has no reason to believe that Nantucket with default on its obligations.

Legal Matters

The Company is subject to various legal proceedings, 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.

13. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

NGUSA and its affiliates provide various services to the Company, including executive and admini strative, 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)			
Nantucket Electric	**$ 15,381**	$ 12,975	**$ -**	$ -
National Grid Engineering Services, LLC	**3,120**	-	**-**	7,430
New England Power Company	**-**	-	**9,872**	12,781
NGUSA Service Company	**-**	-	**36,054**	20,424
Niagara Mohawk Power Corporation	**-**	-	**9,714**	8,057
The Narragansett Electric Company	**20,843**	5,062	**-**	-
Other	**2,804**	710	**1,938**	549
Total	**$ 42,148**	$ 18,747	**$ 57,578**	$ 49,241

Advance from Affiliate

The Company has an agreement with NGUSA whereby the Company can borrow up to $600 million from time to time for working capital needs. The advance is non-interest bearing. At March 31, 2016 and 2015, the Company had an outstanding advance from affiliate of $525 million.

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 $79.8 million and $95.9 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.

Related Party Reimbursement

In accordance with the Credit and Operating Support Agreement dated March 26, 1996, the Company will reimburse Nantucket Electric an amount equal to the difference between Nantucket Electric's actual net income for the year and the net income necessary for Nantucket Electric to earn an ROE equivalent to Nantucket Electric's DPU approved ROE for the fiscal year, currently 10.35%. This reimbursement shall constitute additional revenue to Nantucket Electric and expense to the Company. To the extent Nantucket Electric's actual ROE for the year exceeds its allowed ROE, there will be no reimbursement. For the years ended March 31, 2016, 2015, and 2014, the Company reimbursed Nantucket Electric $7.7 million, $6 million, and $5.8 million, respectively.

Service Company Charges

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

Net charges from the service companies of NGUSA to the Company for the years ended March 31, 2016, 2015, and 2014 were $371 million, $317.7 million, and $305.2 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 $6.1 million, $8.2 million, and $8.7 million before taxes and $3.7 million, $4.9 million, and $5.2 million after taxes, for the years ended March 31, 2016, 2015, and 2014, respectively, if these amounts were allocated to the Company.

14. SUBSEQUENT EVENTS

Subsequent to March 31, 2016, the Company received a $25 million equity infusion from NGUSA.