



# **National Grid USA and Subsidiaries**

Consolidated Financial Statements

For the years ended March 31, 2020 and 2019

**NATIONAL GRID USA AND SUBSIDIARIES**

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

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
National Grid USA and Subsidiaries

We have audited the accompanying consolidated financial statements of National Grid USA and Subsidiaries (the "Company"), which comprise the consolidated balance sheets and statements of capitalization as of March 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive income, cash flows, and changes in shareholders' equity for each of the two years in the period ended March 31, 2020, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Grid USA and Subsidiaries as of March 31, 2020 and 2019, and the results of their operations and their cash flows for each of the two years in the period ended March 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

August 5, 2020

**NATIONAL GRID USA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
*(in millions of dollars)*

	Years Ended March 31,	
	2020	2019
<b>Operating revenues</b>	\$ 12,211	\$ 12,815
<b>Operating expenses:</b>		
Purchased electricity	1,713	1,914
Purchased gas	1,662	2,276
Operations and maintenance	4,375	4,662
Depreciation and amortization	1,230	1,173
Other taxes	1,308	1,251
Total operating expenses	<u>10,288</u>	<u>11,276</u>
<b>Operating income</b>	1,923	1,539
<b>Other income (deductions):</b>		
Interest on long-term debt, net	(538)	(502)
Other interest, including affiliate interest, net	(71)	(110)
Income from equity method investments	-	51
Other income, net	88	18
Total other income (deductions)	<u>(521)</u>	<u>(543)</u>
<b>Income before income taxes</b>	1,402	996
<b>Income tax expense</b>	358	211
<b>Income from continuing operations</b>	1,044	785
Income from discontinued operations, net of taxes	-	6
<b>Net income</b>	1,044	791
Net income attributed to non-controlling interests	(3)	(2)
Dividends on preferred stock	(592)	(592)
<b>Net income attributed to common shareholders</b>	<u>\$ 449</u>	<u>\$ 197</u>
<b>Other comprehensive income, net of taxes:</b>		
Unrealized gains on securities, net of tax expense (benefit) of \$3 and \$0 in 2020 and 2019, respectively	8	-
Change in pension and other postretirement obligations, net of tax expense (benefit) of (\$52) and \$6 in 2020 and 2019, respectively	(127)	14
<b>Total other comprehensive income</b>	<u>(119)</u>	<u>14</u>
<b>Comprehensive income</b>	<u>\$ 925</u>	<u>\$ 805</u>
Less: Comprehensive income attributed to non-controlling interest	(3)	(2)
<b>Comprehensive income attributed to common shareholders</b>	<u>\$ 922</u>	<u>\$ 803</u>

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

**NATIONAL GRID USA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(in millions of dollars)*

	Years Ended March 31,	
	2020	2019
<b>Operating activities:</b>		
Net income	\$ 1,044	\$ 791
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,230	1,173
Regulatory amortizations	24	22
Deferred income tax expense and amortization of investment tax credits	323	200
Bad debt expense	279	188
Losses (gains) from financial investments	43	(30)
Allowance for equity funds used during construction	(52)	(62)
Other, net	37	31
Pension and postretirement benefit expenses, net	138	235
Pension and postretirement benefits contributions	(192)	(294)
Environmental remediation payments	(103)	(50)
Changes in operating assets and liabilities:		
Accounts receivable and unbilled revenues, net	144	(48)
Accounts receivable from/payable to affiliates, net	(2)	(8)
Inventory	(82)	(21)
Regulatory assets and liabilities, net	(446)	345
Derivative instruments	169	(46)
Prepaid and accrued taxes	(95)	86
Accounts payable and other liabilities	(78)	35
Other, net	(91)	15
Net cash provided by operating activities	<u>2,290</u>	<u>2,562</u>
<b>Investing activities:</b>		
Capital expenditures	(3,845)	(3,113)
Cost of removal	(287)	(245)
Proceeds from sales of property, plant and equipment	61	-
Intercompany Money Pool	(300)	-
Contributions to equity method investments	-	(163)
Purchases of financial investments	(69)	(88)
Proceeds from sales of financial investments	73	89
Other, net	4	24
Net cash used in investing activities	<u>(4,363)</u>	<u>(3,496)</u>
<b>Financing activities:</b>		
Preferred stock dividends	(592)	(592)
Payments on long-term debt	(1,026)	(59)
Proceeds from long-term debt	600	1,850
Payment of debt issuance costs	(2)	(13)
Commercial paper issued	5,911	8,032
Commercial paper paid	(6,255)	(7,178)
Intercompany Money Pool	43	-
Advances from affiliates	3,454	(927)
Payment under sale and leaseback arrangement	-	(27)
Net cash provided by financing activities	<u>2,133</u>	<u>1,086</u>
Net increase in cash, cash equivalents, restricted cash and special deposits	60	152
Net cashflow from discontinued operations - operating	-	(1)
Cash, cash equivalents, restricted cash and special deposits, beginning of year	586	435
Cash, cash equivalents, restricted cash and special deposits, end of year	<u>\$ 646</u>	<u>\$ 586</u>
<b>Supplemental disclosures:</b>		
Interest paid	\$ (581)	\$ (487)
Income taxes paid	(98)	35
<b>Significant non-cash items:</b>		
Capital-related accruals included in accounts payable	202	299
Parent tax loss (income) allocation	(29)	40
Distribution of interests in affiliated entities to National Grid North America	298	-
ROU assets obtained in exchange for operating lease liabilities	869	-

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

**NATIONAL GRID USA AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
*(in millions of dollars)*

	March 31,	
	2020	2019
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 592	\$ 543
Restricted cash and special deposits	54	43
Accounts receivable	2,259	2,517
Allowance for doubtful accounts	(551)	(445)
Accounts receivable from affiliates	117	9
Intercompany Money Pool	594	-
Unbilled revenues	491	556
Inventory	526	394
Regulatory assets	607	359
Derivative instruments	15	33
Prepaid taxes	212	186
Other	151	123
Total current assets	5,067	4,318
<b>Equity method investments</b>	2	406
<b>Property, plant and equipment, net</b>	37,854	34,299
<b>Non-current assets:</b>		
Regulatory assets	6,254	5,136
Goodwill	7,129	7,129
Derivative instruments	2	13
Postretirement benefits	377	382
Financial investments	572	667
Other	189	168
Total non-current assets	14,523	13,495
<b>Total assets</b>	\$ 57,446	\$ 52,518

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**NATIONAL GRID USA AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
*(in millions of dollars)*

	March 31,	
	2020	2019
<b>LIABILITIES AND CAPITALIZATION</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 1,575	\$ 1,741
Accounts payable to affiliates	138	27
Advances from affiliates	6,608	3,154
Commercial paper	811	1,144
Current portion of long-term debt	221	1,026
Taxes accrued	156	210
Customer deposits	102	106
Interest accrued	134	152
Regulatory liabilities	868	1,065
Intercompany Money Pool	168	-
Derivative instruments	117	51
Renewable energy certificate obligations	264	221
Payroll and benefits accruals	331	339
Other	645	380
Total current liabilities	12,138	9,616
<b>Non-current liabilities:</b>		
Regulatory liabilities	6,226	6,276
Asset retirement obligations	105	99
Deferred income tax liabilities, net	3,699	3,386
Postretirement benefits	2,615	1,837
Environmental remediation costs	2,219	1,902
Derivative instruments	86	12
Operating lease liabilities	654	-
Other	658	748
Total non-current liabilities	16,262	14,260
<b>Commitments and contingencies (Note 15)</b>		
<b>Capitalization:</b>		
Common and preferred stock	14,052	14,381
Retained earnings	3,184	2,689
Accumulated other comprehensive loss	(205)	(17)
Total shareholders' equity	17,031	17,053
Non-controlling interests	63	25
Total equity	17,094	17,078
Long-term debt	11,952	11,564
<b>Total capitalization</b>	<b>29,046</b>	<b>28,642</b>
<b>Total liabilities and capitalization</b>	<b>\$ 57,446</b>	<b>\$ 52,518</b>

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

**NATIONAL GRID USA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CAPITALIZATION**  
*(in millions of dollars)*

			<b>March 31,</b>	
			<b>2020</b>	<b>2019</b>
<b>Common and preferred equity</b>			<b>\$ 17,031</b>	<b>\$ 17,053</b>
<b>Non-controlling interests</b>			<b>63</b>	<b>25</b>
<b>Long-term debt:</b>	<u>Interest Rate</u>	<u>Maturity Date</u>		
Notes Payable <sup>(1)</sup>	2.72% - 9.75%	December 2020 – March 2049	<b>11,033</b>	11,540
Promissory Notes to National Grid North America Inc. <sup>(2)</sup>	3.13% - 3.25%	June 2027 - April 2028	<b>156</b>	174
First Mortgage Bonds	6.90% - 9.63%	May 2020 – April 2028	<b>104</b>	105
State Authority Financing Bonds	3.23% - 3.48%	December 2023 – July 2029	<b>424</b>	424
State Authority Financing Bonds	Variable	November 2020 – August 2042	<b>410</b>	410
Term Loan	Variable	March 2022	<b>100</b>	-
<b>Total debt</b>			<b>12,227</b>	12,653
Unamortized debt issuance costs			<b>(54)</b>	(63)
Current portion of long-term debt			<b>(221)</b>	(1,026)
<b>Total long-term debt</b>			<b>11,952</b>	11,564
<b>Total capitalization</b>			<b>\$ 29,046</b>	<b>\$ 28,642</b>

<sup>(1)</sup> See Note 11, "Capitalization" under "Notes Payable" for additional details.

<sup>(2)</sup> See Note 16, "Related Party Transactions".

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



**NATIONAL GRID USA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
*(in millions of dollars)*

	Accumulated Other Comprehensive Income (Loss)									Total
	Common Stock <sup>(1)</sup>	Cumulative Preferred Stock <sup>(2)</sup>	Additional Paid-in Capital	Unrealized Gain (Loss) on Securities	Pension and Other Postretirement Benefits	Hedging Activity	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non- controlling Interest <sup>(3)</sup>	
<b>Balance as of March 31, 2018</b>	\$ -	\$ 35	\$ 14,287	\$ 14	\$ (22)	\$ (2)	\$ (10)	\$ 2,471	\$ 23	\$ 16,806
Net income	-	-	-	-	-	-	-	789	2	791
Other comprehensive income (loss):										
Change in pension and other postretirement obligations, net of \$6 tax expense	-	-	-	-	14	-	14	-	-	14
Total comprehensive income										805
Parent tax loss allocation	-	-	40	-	-	-	-	-	-	40
Impact of adoption of the recognition and measurement of financial assets and liabilities standard	-	-	-	(8)	-	(13)	(21)	21	-	-
Stock-based compensation	-	-	19	-	-	-	-	-	-	19
Preferred stock dividends	-	-	-	-	-	-	-	(592)	-	(592)
<b>Balance as of March 31, 2019</b>	<b>\$ -</b>	<b>\$ 35</b>	<b>\$ 14,346</b>	<b>\$ 6</b>	<b>\$ (8)</b>	<b>\$ (15)</b>	<b>\$ (17)</b>	<b>\$ 2,689</b>	<b>\$ 25</b>	<b>\$ 17,078</b>
Net income	-	-	-	-	-	-	-	1,041	3	1,044
Other comprehensive income (loss):										
Unrealized losses on securities, net of \$3 tax expense (benefit)	-	-	-	8	-	-	8	-	-	8
Change in pension and other postretirement obligations, net of (\$52) tax expense (benefit)	-	-	-	-	(127)	-	(127)	-	-	(127)
Total comprehensive income										925
Other transfer	-	(35)	-	-	-	-	-	-	35	-
Parent tax income allocation	-	-	-	-	-	-	-	(29)	-	(29)
Impact of adoption of reclassification of certain tax effects from accumulated other comprehensive income standard	-	-	-	(1)	(72)	(2)	(75)	75	-	-
Reclassification of AOCI components	-	-	-	(12)	(2)	14	-	-	-	-
Stock-based compensation	-	-	10	-	-	-	-	-	-	10
Distribution of interests in affiliated entities to NGNA	-	-	(304)	6	-	-	6	-	-	(298)
Preferred stock dividends	-	-	-	-	-	-	-	(592)	-	(592)
<b>Balance as of March 31, 2020</b>	<b>\$ -</b>	<b>\$ 0</b>	<b>\$ 14,052</b>	<b>\$ 7</b>	<b>\$ (209)</b>	<b>\$ (3)</b>	<b>\$ (205)</b>	<b>\$ 3,184</b>	<b>\$ 63</b>	<b>\$ 17,094</b>

(1) National Grid USA ("NGUSA") had 641 shares of common stock authorized, issued and outstanding, with a par value of \$0.10 per share.

(2) NGUSA had 915 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of \$0.10 per share. See Note 17, "Preferred Stock".

(3) NGUSA subsidiaries had 372,641 shares of cumulative preferred stock authorized, issued and outstanding, with par values of either \$100 or \$50 per share at March 31, 2020 and 2019. See Note 17, "Preferred Stock".

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

**NATIONAL GRID USA AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

National Grid USA (“NGUSA” or “the Company”) is 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 (the “Parent”), a public limited company incorporated under the laws of England and Wales.

NGUSA has two major lines of business, “Gas Distribution” and “Electric Services,” and operates various energy services and investment companies. The Company’s Gas Distribution business consists of five gas distribution subsidiaries which provide gas distribution services to customers in the areas of central, northern, and eastern New York, the New York City boroughs of Brooklyn, Queens, and Staten Island, and the Long Island Counties of Nassau and Suffolk, as well as the states of Massachusetts and Rhode Island. The Company’s Electric Services business primarily consists of five electric distribution subsidiaries which provide electric services to customers in the areas of eastern, central, northern, and western New York, as well as the states of Massachusetts and Rhode Island and operate electric transmission facilities in Massachusetts, New Hampshire, Rhode Island, Maine, and Vermont.

The Company’s wholly-owned New England subsidiaries include: New England Power Company (“NEP”), The Narragansett Electric Company (“Narragansett”), Massachusetts Electric Company (“Massachusetts Electric”), Nantucket Electric Company (“Nantucket”), and Boston Gas Company (“Boston Gas”). The Company’s wholly-owned New York subsidiaries include: Niagara Mohawk Power Corporation (“Niagara Mohawk”), National Grid Generation, LLC (“Genco”), The Brooklyn Union Gas Company (“Brooklyn Union”), and KeySpan Gas East Corporation (“KeySpan Gas East”).

Genco provides energy services and supply capacity to and produces energy for the use of customers of the Long Island Power Authority (“LIPA”) on Long Island, New York. The services provided to LIPA through the Power Supply Agreement, which was amended and restated for a maximum term of 15 years in May 2013, provide LIPA with electric generating capacity, energy conversion, and ancillary services from the Company’s Long Island generating units.

The Company’s energy investments business consists of development investments such as natural gas pipelines, as well as certain other domestic energy-related investments. The Company has a wholly-owned subsidiary, National Grid LNG LLC, which is engaged in the business of receiving, storing, and redelivering liquefied natural gas (“LNG”) in liquid and gaseous states, through facilities located in Providence, Rhode Island. The Company also owns a 53.7% interest in two hydro-transmission electric companies which are consolidated into these financial statements.

The Company uses the equity method of accounting for its investments in affiliates when it has the ability to exercise significant influence over operating and financial policies, but does not control the affiliates. The Company’s share of the earnings or losses of such affiliates is reported through the line item Income from equity method investments in the accompanying consolidated statements of operations and comprehensive income (see Note 6, “Equity Method Investments” for additional details).

The accompanying consolidated 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 as applicable. The consolidated financial statements reflect the ratemaking practices of the applicable regulatory authorities.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Non-controlling interests of majority-owned subsidiaries are calculated based upon the respective non-controlling interest ownership percentages. All intercompany transactions with consolidated subsidiaries have been eliminated in consolidation.

Under its holding company structure, the Company does not have significant independent operations or source of income of its own and conducts most of its operations through its subsidiaries. As a result, the Company depends on the earnings and

cash flow of, and dividends or distributions from, its subsidiaries to provide the funds necessary to meet its debt and contractual obligations. Furthermore, a substantial portion of the Company's consolidated assets, earnings, and cash flow is derived from the operations of its regulated utility subsidiaries, whose legal authority to pay dividends or make other distributions to the Company is subject to regulation by state regulatory authorities.

On May 31, 2019, Boston Gas and Colonial Gas ("Colonial Gas"), an affiliated gas distribution company, filed a joint petition with the Massachusetts Department of Public Utilities ("DPU") for authorization for legal consolidation. The companies requested that the DPU confirm that Boston Gas, as the surviving corporation of the consolidation, will continue to have all the franchise rights and obligations that were previously held by Boston Gas and Colonial Gas. On December 16, 2019, the legal consolidation of Boston Gas and Colonial Gas was approved by the DPU in Docket D.P.U. 19-69, which became effective March 15, 2020, with Boston Gas as the sole surviving entity.

On April 1, 2019, the Company transferred its ownership interest in several legal entities that were part of the National Grid Ventures ("NGV") and National Grid Partners ("NGP") business to NGNA. See Note 6, "Equity Method Investments" for additional details.

The novel coronavirus ("COVID-19") pandemic has disrupted the U.S. and global economies and is having a significant impact on global health. In March 2020, COVID-19 was declared a pandemic by the World Health Organization ("WHO") and the Centers for Disease Control and Prevention. Due to this uncertainty, the valuations of certain assets and liabilities are necessarily more subjective. In particular, we identified the recoverability of customer receivables in relation to retail customers, in consideration of the suspension of debt collection activities and customer termination activities as an area of estimation uncertainty. In March 2020, the Company ceased certain customer cash collection activities in response to regulatory instructions and to changes in State, Federal and City level regulations and guidance, and actions to minimize risk to employees. The Company has also ceased customer termination activities as requested by relevant local authorities. The Company is monitoring COVID-19 developments closely.

The Company has evaluated subsequent events and transactions through August 5, 2020, the date of issuance of these consolidated financial statements.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Use of Estimates**

In preparing consolidated 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 consolidated financial statements. Such estimates and assumptions include the impact of the ongoing COVID-19 pandemic and are reflected in the accompanying financial statements. Actual results could differ from those estimates.

### **Regulatory Accounting**

The Federal Energy Regulatory Commission ("FERC"), the New York Public Service Commission ("NYPSC"), the DPU, and the Rhode Island Public Utilities Commission ("RIPUC") regulate the rates the Company's regulated subsidiaries charge their customers in the applicable states. In certain cases, the rate actions of the FERC, NYPSC, DPU and RIPUC can result in accounting that differs from non-regulated companies. In these cases, the subsidiaries defer costs (as regulatory assets) or recognize obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. In accordance with Accounting Standards Codification ("ASC") 980, "Regulated Operations," regulatory assets and liabilities are reflected on the consolidated balance sheets consistent with the treatment of the related costs in the ratemaking process.

## **Revenue Recognition**

Revenues are recognized for energy services provided on a monthly billing cycle basis and for sales of capacity and energy to LIPA under terms of the amended and restated Power Supply Agreement (“A&RPSA”), with rates approved by the FERC. The A&R PSA is accounted for as an operating lease. 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 (see Note 3, “Revenue” for additional details).

## **Other Taxes**

The Company’s subsidiaries collect taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas and electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2020 and 2019, were \$170 million and \$115 million, respectively.

## **Income Taxes**

Federal and state income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses, and general business credit carryforwards. The Company assesses the available positive and negative evidence to estimate whether sufficient future taxable income of the appropriate tax character will be generated to realize the benefits of existing deferred tax assets. When the evaluation of the evidence indicates that the Company will not be able to realize the benefits of existing deferred tax assets, a valuation allowance is recorded to reduce existing deferred tax assets to the net realizable amount.

The effects of tax positions are recognized in the consolidated 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, including NGUSA, determines its tax provision based on the separate return method, modified by a benefits-for-loss allocation pursuant to a tax sharing agreement between NGNA and its subsidiaries. The benefit of consolidated tax losses and credits are allocated to the NGNA subsidiaries giving rise to such benefits in determining each subsidiary’s tax expense in the year that the loss or credit arises. In a year that a consolidated loss or credit carryforward is utilized, the tax benefit utilized in consolidation is paid proportionately to the subsidiaries that gave rise to the benefit regardless of whether that subsidiary would have utilized the benefit. The tax sharing agreement also requires NGNA to allocate its parent tax losses, excluding deductions from acquisition indebtedness, to each subsidiary in the consolidated federal tax return with taxable income. The allocation of NGNA’s parent tax losses to its subsidiaries is accounted for as a capital contribution and is performed in conjunction with the annual intercompany cash settlement process following the filing of the federal tax return.

## **Cash and Cash Equivalents**

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

## **Restricted Cash and Special Deposits**

Restricted cash consists of margin calls to the New York Mercantile Exchange (“NYMEX”) and collateral paid to the Company’s counterparties for outstanding commodity and financial derivative instruments. Special deposits primarily consist of health

care deposits, a release of property account for mortgaged property under a mortgage trust indenture, and amounts reserved for potential environmental violations. The Company had restricted cash of \$11 million and \$1 million and special deposits of \$43 million and \$42 million as of March 31, 2020 and 2019, 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. The Company recorded bad debt expense of \$279 million and \$188 million for the years ended March 31, 2020 and 2019, respectively, within operations and maintenance in the accompanying consolidated statements of operations and comprehensive income. For the year ended March 31, 2020, the bad debt expense is reflective of an additional provision in relation to the impact of COVID-19.

### **Inventory**

Inventory is composed of materials and supplies, gas in storage, purchased Renewable energy certificates ("RECs"), and emission credits.

Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized as used. There were no significant write-offs of obsolete inventory for the years ended March 31, 2020 or 2019.

Gas in storage is stated at weighted average cost and the related cost is recognized when delivered to customers. Existing rate orders allow the Company to pass directly through to customers the cost of purchased gas, along with any applicable authorized delivery surcharge adjustments. Gas costs passed through to customers are subject to regulatory approvals and are reported periodically to the applicable state regulators.

RECs are stated at cost and used to measure compliance with renewable energy standards. RECs are held primarily for consumption. Emission credits are comprised of sulfur dioxide, nitrogen oxide ("NOx"), and carbon dioxide credits. Emission credits are valued at the lower of weighted average cost or net realizable value and are held primarily for consumption or may be sold to third-party purchasers.

The Company had materials and supplies of \$183 million and \$159 million, gas in storage of \$182 million and \$124 million, purchased RECs of \$143 million and \$100 million, and emission credits of \$18 million and \$11 million as of March 31, 2020 and 2019, respectively.

### **Derivative Instruments**

The Company uses derivative instruments to manage commodity price and foreign currency rate risk. All derivative instruments, except those that qualify for the normal purchase normal sale exception, are reported at fair value on the consolidated balance sheets.

All commodity costs, including the impact of derivative instruments, are passed on to customers through the Company's commodity rate adjustment mechanisms. Regulatory assets or regulatory liabilities are recorded to defer the recognition of unrealized losses or gains on derivative instruments, respectively. The gains or losses on the settlement of these contracts are recognized as purchased electricity and purchased gas in the accompanying consolidated statements of operations and comprehensive income and then refunded to, or collected from, customers consistent with regulatory requirements.

The Company has certain non-trading instruments for the physical purchase of electricity that qualify for the normal purchase normal sale exception and are accounted for upon settlement. If the Company was to determine that a contract no longer qualifies for the normal purchase normal sale exception, the Company would recognize the fair value of the contract and, if applicable, account for the gains and losses using the regulatory accounting described above.

The Company's accounting policy is to not offset fair value amounts recognized for derivative instruments and related cash collateral receivable or payable with the same counterparty under a master netting agreement, but rather to record and present the fair value of the derivative instrument on a gross basis, with related cash collateral receivable and payable recorded within restricted cash and special deposits, and in other current liabilities, respectively on the consolidated balance sheets.

### **Variable Interest Entities**

A variable interest entity ("VIE") is an entity that does not have sufficient equity at risk to permit it to finance its activities without additional subordinated financial support, or whose equity investors lack the obligation to absorb losses, the right to receive residual returns, or the right to make decisions about the activities that most significantly impact the entity's economic performance. The primary beneficiary is the enterprise that has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and the obligation to absorb losses or right to receive benefits that could be significant to the VIE. The primary beneficiary holds a controlling financial interest in the entity and is required to consolidate the VIE.

The Company determines whether it is the primary beneficiary of a VIE by evaluating the purpose and design of the entity, the nature of the VIE's risks and the risks that the Company absorbs, who has the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE, and who has the obligation to absorb losses or receive benefits that could be significant to the VIE.

Through its wholly-owned subsidiary, National Grid Generation Ventures LLC ("Ventures"), the Company owned a 50% interest in each of four individual LLCs (Island Park Energy Center LLC, LI Solar Generation LLC, LI Energy Storage System LLC, and Clean Energy Generation LLC). Each of the four individual entities was a variable interest entity, however the Company was not the primary beneficiary as it did not have the power to direct the most significant activities of each entity. The Company accounted for its 50% ownership interest in each entity using the equity method of accounting. On November 30, 2019, the Company transferred its ownership interest in Ventures to NGNA through an equity distribution. See Note 6, "Equity Method Investments" for further information.

### **Power Purchase Agreements**

Certain of the Company's subsidiaries enter into power purchase agreements ("PPAs") to procure electricity to serve their electric service customers. The Company first evaluates whether such agreements contain a lease. In performing this evaluation, the Company considers whether the terms of the PPA provide the Company with the right to direct use of the generating facility and if the Company has the right to obtain substantially all of the economic benefits derived from use of the facility. In determining whether the Company has the right to direct use of the facility, the Company will consider which rights have the most significant impact on the economic benefits to be derived from the asset; for example, dispatch rights or the right to be involved in the facility's design. If the PPA is determined to contain a lease, the Company assesses whether it should be classified as a finance lease or an operating lease.

If the PPA does not contain a lease, the Company next assesses whether the contract is a derivative or includes one or more embedded derivatives. In making this determination, the Company assesses whether the PPA includes a notional amount or payment provision through the contract's delivery requirements or terms of default. If the PPA is a derivative or contains one or more embedded derivatives, the Company will assess whether the requirements for election of the normal purchases and normal sales scope exception are met. If the requirements for the election are not met or the election is not made, the Company reports the derivative at fair value on the consolidated balance sheet. If the election is made, the Company accounts for the PPA as an executory contract whereby costs are recognized as electricity is purchased. If the contract does not contain a lease and is not a derivative, the Company accounts for the PPA as an executory contract.

The Company also assesses whether the PPA is a variable interest in a VIE. In determining whether the PPA is a variable interest, the Company assesses whether the contract absorbs certain risks, such as commodity price risk, that the VIE was designed to pass on to its interest holders. If the PPA is determined to be a variable interest in a VIE, the Company determines whether it is the primary beneficiary.

### **Natural Gas Long-Term Arrangements**

Certain of the Company's subsidiaries enter into long-term gas contracts to procure gas to serve their gas customers. Those contracts include Asset Management Agreements, Baseload, and Peaking gas contracts. Similar to the PPAs noted above, the Company evaluates whether such agreements are leases, derivative instruments, or executory contracts and performs an assessment under the guidance for VIEs.

### **Fair Value Measurements**

The Company measures derivative instruments, securities, pension and postretirement benefit other than pension plan ("PBOP") assets, and financial investments for which it has elected the fair value option at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following is the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data;
- Level 3: unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs; and
- Not categorized: certain investments are not categorized within the fair value hierarchy. These investments are typically in commingled funds or limited partnerships that are not publicly traded and have ongoing subscription and redemption activity. As a practical expedient, the fair value of these investments is the Net Asset Value ("NAV") per fund share, derived from the underlying securities' quoted prices in active markets.

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 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 state authorities. The average composite rates for the years ended March 31, 2020 and 2019 are as follows:

	<b>Composite Rates</b>	
	<b>Years Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Electric	<b>2.7%</b>	2.9%
Gas	<b>2.6%</b>	2.8%
Common	<b>9.2%</b>	8.7%

Depreciation expense, for regulated subsidiaries, includes a component for the estimated 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 recognized a regulatory liability for the amount that was in excess of costs incurred of \$1.7 billion at both March 31, 2020 and 2019.

#### *Allowance for Funds Used During Construction*

The Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. The equity component of AFUDC is reported in other income (deductions) within the accompanying consolidated statements of operations and comprehensive income. The debt component of AFUDC is reported as an 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. The Company recorded AFUDC related to equity of \$52 million and \$62 million and AFUDC related to debt of \$39 million and \$34 million for the years ended March 31, 2020 and 2019, respectively. The average AFUDC rates for the years ended March 31, 2020 and 2019 were 5.7% and 6.1%, respectively.

#### *Impairment of Long-Lived Assets*

The Company tests long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of the asset (or asset group) may not be recoverable. If identified, the recoverability of an asset is determined by comparing its carrying value to the estimated undiscounted cash flows that the asset is expected to generate. If the comparison indicates that the carrying value is not recoverable, an impairment loss is recognized for the excess of the carrying value over the estimated fair value. For the year ended March 31, 2020, there was an impairment charge of \$16 million against a corporate real-estate right-of-use (“ROU”) asset. The impairment arose due to the Company’s decision to exit a leased property prior to the end of the lease term. In estimating the impairment charge, the Company determined fair value using an income approach. For the year ended March 31, 2019, there were no impairment losses recognized for long-lived assets.

#### **Goodwill**

The Company tests goodwill for impairment annually on January 1, and when events occur, or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company tests goodwill residing at NGUSA based upon four identified reporting units, aligned with its jurisdictional operational model.

The Company has early adopted Accounting Standards Update (“ASU”) No. 2017-04, “Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which eliminates step two from the two-step goodwill impairment test. The revised one-step approach requires a recoverability test based on a comparison of the Company’s estimated fair value for each reporting unit with the reporting unit’s carrying value, including goodwill. If the estimated fair value exceeds carrying value, goodwill is not considered impaired. If the carrying value exceeds the estimated fair value, the Company is required to recognize an impairment charge for such excess, limited to the allocated amount of goodwill.

For the year ended March 31, 2020, fair value was calculated utilizing the income approach. The Company believes that this approach provides the most reliable information about estimated fair value. Based on the resulting fair values from the annual analyses, the Company determined that no adjustment to goodwill was required at March 31, 2020 or 2019.



## Financial Investments

The Company holds a range of financial and other investments, which include short-term money funds and investments in equity or available-for-sale debt securities.

Corporate owned life insurance policies (“COLI”) and Trust owned life insurance policies (“TOLI”) are measured at cash surrender value with increases and decreases in the value of these assets recorded in the consolidated statements of operations.

Debt securities are measured at fair value with changes in fair value recorded through other comprehensive income.

Equity securities consist of shares held as part of a portfolio of financial instruments, such as corporate stocks, and are measured at fair value with changes in fair value recorded in the consolidated statements of operations.

The Company has mutual funds and money market funds representing funds designated for Supplemental Executive Retirement Plans (“SERPs”). These investments are measured at fair value with changes in fair value recorded in the consolidated statements of operations.

As of March 31, 2019, other financial investments were primarily comprised of corporate venture capital investments held by NGP. On April 1, 2019, the Company transferred its ownership interest in several legal entities that were part of the NGV and NGP business to NGNA. Please refer to Note 1, “Nature of Operations and Basis of Presentation”.

The following table presents the financial investments recorded on the consolidated balance sheets:

	<b>March 31,</b>	
	<b>2020</b>	<b>2019</b>
	<i>(in millions of dollars)</i>	
COLI/TOLI	<b>\$ 273</b>	\$ 288
Debt securities	<b>162</b>	157
Equity securities	<b>103</b>	121
SERPs	<b>34</b>	29
Other	<b>-</b>	72
Total financial investments	<b>\$ 572</b>	<b>\$ 667</b>

## 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 gas distribution and electric generation facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, provided fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value. The Company applies regulatory accounting guidance whereby accretion costs associated with asset retirement obligations are recorded as increases to regulatory assets on the consolidated balance sheets. These regulatory assets represent timing differences between the recognition of costs in accordance with U.S. GAAP and costs recovered through the ratemaking process.

## **Employee Benefits**

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

## **New and Recent Accounting Guidance**

### **Accounting Guidance Recently Adopted**

#### *Leases*

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02 "Leases" ("Topic 842"), and further amended the standard in 2018 and 2019. The new standard supersedes the lease accounting guidance under Topic 840. Under the new standard, a lease is defined as a contract, or part of a contract, that conveys the right to control the use of one or more identified assets for a period of time in exchange for consideration. Lessees will need to recognize leases on the balance sheet as a right-of-use ("ROU") asset and a related lease liability and classify each lease component as either operating or finance. The lease liability will be equal to the present value of lease payments. The right-of-use asset will be based on the liability, subject to certain adjustments, such as initial direct costs. Lessor accounting under Topic 842 remains largely consistent with Topic 840.

The Company adopted this new guidance on April 1, 2019 using the modified retrospective approach. The Company recognized approximately \$782 million of operating lease liabilities and ROU assets on the balance sheet upon transition at April 1, 2019. The implementation of the guidance did not have a material impact on the Company's results of operations or statement of cash flows, as the pattern of recognition of operating lease expense was consistent with Topic 840. The Company's leases are further discussed in Note 7, "Property, Plant and Equipment" and Note 15, "Leases."

#### *Comprehensive income – stranded tax effects*

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which allows a reclassification from AOCI to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act ("Tax Act"). The Company adopted the guidance on April 1, 2019 resulting in a \$75 million adjustment to retained earnings which was reclassified from AOCI.

#### *Reference Rate*

The UK and US financial regulators, working with regulators around the world, announced that LIBOR in certain currencies including GBP and USD will cease to exist by the end of 2021, and will be replaced as interest rate benchmarks by alternative reference rates ("ARRs")

Facilitation of the Effects of ASU No. 2020-04 (Topic 848) Reference Rate Reform on Financial Reporting was issued and became immediately effective for all entities as of March 12, 2020 through December 31, 2022. The amendments in this Update provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments are elective and apply to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. No elections to apply the amendments have been made at March 31, 2020. The Company is still assessing the potential impact related to replacing LIBOR with ARR.

As the Company has not amended any of its current agreements that have LIBOR as a reference rate between March 12 and March 31, 2020, this accounting standard update did not impact the financial statements for the year ended March 31, 2020.

## **Accounting Guidance Not Yet Adopted**

### *Intangibles - Goodwill and Other*

In August 2018, the FASB issued ASU No. 2018-15 “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40), Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract” to help entities evaluate the accounting for fees paid by a customer under a cloud computing arrangement that is a service contract. The amendment will align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. For the Company, the requirements in this update are effective for the fiscal year ending March 31, 2021 and interim periods within annual period beginning after April 1, 2022; however early adoption is permitted, including adoption in any interim period. The Company intends to early adopt this standard for the fiscal year ending March 31, 2021 and is currently assessing the application of the new guidance to determine if it will have a material impact on the presentation, results of operations, cash flows, and/or financial position of the Company.

### *Pension and Postretirement Benefits*

In August 2018, the FASB issued ASU No. 2018-14 “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans,” which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans, including elimination of certain current disclosure requirements. For the Company, the requirements of the new standard will be effective for the fiscal year ending March 31, 2022; however early adoption is permitted. The Company intends to early adopt this standard for the fiscal year ending March 31, 2021 and is currently assessing the impact of this standard.

### *Fair Value*

In August 2018, the FASB issued ASU No. 2018-13 “Fair Value Measurement (Topic 820), Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement” which modifies certain disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. For the Company, the requirements of the new standard will be effective for the fiscal year ending March 31, 2021, and interim periods within. The Company is currently assessing the impact of this standard.

### *Financial Instruments – Credit Losses*

In June 2016, the FASB issued ASU No. 2016-13 “Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Statements”, which requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. In May 2019, the FASB issued ASU 2019-05, “Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief”, permitting entities to irrevocably elect the fair value option for financial instruments that were previously recorded at amortized cost basis within the scope of Topic 326, with the exception of held-to-maturity debt securities. For the Company, the requirements in these updates, as amended in November 2019 by ASU 2019-10 “Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates”, will be effective for the fiscal year ending March 31, 2024, including interim periods within. The Company is currently assessing the application of this standard to determine if it will have a material impact on the presentation, results of operations, cash flows, and financial position of the Company.

### *Income Tax*

In December 2019, the FASB issued ASU No. 2019-12 “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes” which simplifies various aspects of the accounting for income taxes by eliminating certain exceptions to current requirements. The standard also enhances and simplifies other requirements, including tax basis step-up in goodwill obtained in a transaction that is not a business combination, ownership changes in investments, and interim-period accounting for enacted

changes in tax law. For public business entities, the standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the standard is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company plans to early adopt this standard on April 1, 2021 and is currently assessing the impact of this standard on its financial statements.

### Reclassifications

Certain reclassifications have been made to the consolidated financial statements to conform the prior period's balances to the current period's presentation. These reclassifications had no effect on reported income, total assets, or stockholders' equity as previously reported.

### 3. REVENUE

The following table presents, for the years ended March 31, 2020 and 2019, revenue from contracts with customers, as well as additional revenue from sources other than contracts with customers, disaggregated by major source:

	<b>Years ended March 31</b>	
	<b>2020</b>	<b>2019</b>
	<i>(in millions of dollars)</i>	
Revenue from contracts with customers:		
Electric services	\$ 5,935	\$ 6,269
Gas distribution	5,201	5,729
Off system sales	146	322
Total revenue from contracts with customers	<b>11,282</b>	12,320
Revenue from regulatory mechanisms	413	(10)
Other revenue	516	505
Total operating revenues	<b>\$ 12,211</b>	<b>\$ 12,815</b>

*Electric Services and Gas Distribution:* Revenue from contracts with customers, includes electric services and gas distribution. Electric services are comprised of electric distribution and transmission services.

The Company's subsidiaries own and maintain electric and natural gas distribution networks. Distribution revenues are primarily from the sale of electricity, gas, and related services to retail customers. Distribution sales are regulated by the applicable state agencies, which are responsible for determining the prices and other terms of services as part of the ratemaking process. The arrangement where a utility provides a service to a customer in exchange for a price approved by a regulator is referred to as a tariff sales contract. Gas and electric distribution revenues are derived from the regulated sale and distribution of electricity and natural gas to residential, commercial, and industrial customers within the Company's service territory under the tariff rates. The tariff rates approved by the regulator are designed to recover the costs incurred by the Company for products and services provided along with a return on investment.

The performance obligation related to these sales is to provide electricity or natural gas to the customers on demand. The electricity or natural gas supplied under the tariff represents a single performance obligation as it is a series of distinct goods or services that are substantially the same. The performance obligation is satisfied over time because the customer simultaneously receives and consumes the electricity or natural gas as the Company provides these services. The Company records revenues related to distribution sales based upon the approved tariff rate and the volume delivered to the customers, which corresponds with the amount the Company has the right to invoice.

Distribution revenue also includes estimated unbilled amounts, which represent the estimated amounts due from retail customers for electricity and natural gas provided to customers by the Company, but not yet billed. Unbilled revenues are determined based on estimated unbilled sales volumes for the respective customer classes and then applying the applicable

tariff rate to those volumes. Actual amounts billed to customers, when the meter readings occur, may be different from the estimated amounts.

Certain customers have the option to obtain electricity or natural gas from other suppliers. In those circumstances revenue is only recognized for providing delivery of the commodity to the customer.

Transmission services are provided as demanded by the customers and represents a single performance obligation. The price for the services provided are based on the underlying tariff rates established by FERC related to both Niagara Mohawk and New York Independent System Operator (“NYISO”). The performance obligation is satisfied over time as the transmission services are provided by Niagara Mohawk. Niagara Mohawk records revenue related to transmission services based on the volumes delivered and the approved tariff rates, which corresponds with the amount Niagara Mohawk has the right to invoice, as it is entitled to compensation for the performance completed to date.

Generation revenue is derived from billings to LIPA for the electric generation capacity and, to the extent requested, energy from the Company’s existing oil and gas-fired generating plants as discussed in Note 14, “Commitments and Contingencies” under “Electric Services and LIPA Agreements.”

*Off system sales:* Represents direct sales of gas to participants in the wholesale natural gas marketplace, which occur after customers’ demands are satisfied.

*Revenue from regulatory mechanisms:* The Company’s regulated subsidiaries record revenues in accordance with accounting principles for rate-regulated operations for arrangements between the regulated subsidiaries and their respective regulators, which are not accounted for as contracts with customers. These include various deferral mechanisms such as capital trackers, energy efficiency programs, storm deferral, and other programs that also qualify as Alternative Revenue Programs (“ARPs”). ARPs enable the regulated subsidiaries to adjust rates in the future, in response to past activities or completed events. The regulated subsidiaries’ electric and gas distribution rates have revenue decoupling mechanisms (“RDM”) which allow for periodic adjustments to delivery rates as a result of the reconciliation between allowed revenue and billed revenue. The regulated subsidiaries also have other ARPs related to the achievement of certain objectives, demand- side management initiatives, and certain other ratemaking mechanisms. Revenues from ARPs are recognized, with a corresponding offset to a regulatory asset or liability account, when the regulatory-specified events or conditions have been met, when the amounts are determinable, and are probable of recovery (or payment) through future rate adjustments within 24-months from the end of the annual reporting period.

*Other Revenue:* Includes lease income and other transactions that are not considered contracts with customers. The lease income primarily includes the electric generation revenue, which is derived from billings to LIPA for the electric generation capacity and, to the extent requested, energy from the Company’s existing oil and gas-fired generating plants as discussed in Note 14, “Commitments and Contingencies” under “Electric Services and LIPA Agreements.”

#### 4. REGULATORY ASSETS AND LIABILITIES

The Company records regulatory assets and liabilities that result from the ratemaking process. Regulatory deferrals are recorded by each legal entity as right of offset does not exist across the Company's regulated subsidiaries. The following table presents the regulatory assets and regulatory liabilities recorded on the consolidated balance sheets:

	<b>March 31,</b>	
	<b>2020</b>	<b>2019</b>
	<i>(in millions of dollars)</i>	
<b>Regulatory assets</b>		
Current:		
Derivative instruments	\$ 177	\$ 15
Gas cost adjustment	77	105
Rate adjustment mechanisms	155	94
Renewable energy certificates	72	81
Revenue decoupling mechanism	93	42
Other	33	22
Total	<u>607</u>	<u>359</u>
Non-current:		
Environmental response costs	2,618	2,249
Net metering deferral	220	166
Postretirement benefits	2,004	1,496
Recovery of acquisition premium	159	167
Storm costs	334	307
Other	919	751
Total	<u>6,254</u>	<u>5,136</u>
<b>Regulatory liabilities</b>		
Current:		
Energy efficiency	410	432
Gas costs adjustment	110	110
Rate adjustment mechanisms	68	99
Revenue decoupling mechanism	178	240
Transmission service	62	93
Other	40	91
Total	<u>868</u>	<u>1,065</u>
Non-current:		
Carrying charges	292	243
Cost of removal	1,670	1,685
Environmental response costs	150	162
Postretirement benefits	144	233
Regulatory tax liability, net	2,795	2,835
Other	1,175	1,118
Total	<u>6,226</u>	<u>6,276</u>

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

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

**Derivative instruments:** The Company evaluates open commodity derivative instruments for regulatory deferral by determining if they are probable of recovery from, or refund to, customers through future rates. Derivative instruments that qualify for recovery are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs.

**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 state authorities.

**Environmental response costs:** The regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at former manufactured gas plant ("MGP") sites and related facilities. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates. The regulatory liability represents the excess of amounts received in rates over the Company's actual site investigation and remediation ("SIR") costs.

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

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

**Postretirement benefits:** The regulatory asset balance represents the Company's, unamortized, non-cash accrual of net pension actuarial gains and losses in addition to actual costs associated with Company's pension plans in excess of amounts received in rates that are to be collected in future periods. The regulatory liability represents the Company's, unamortized, non-cash accrual of net PBOP actuarial gains and losses in addition to excess amounts received in rates over actual costs of the Company's PBOP plans that are to be passed back in future periods.

**Rate adjustment mechanisms:** In addition to commodity costs, the Company is subject to a number of additional 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 applicable state regulatory bodies.

**Recovery of acquisition premium:** Represents the unrecovered amount (plus related taxes) by which the purchase price paid exceeded the net book value of Colonial Gas' assets in the 1998 acquisition of Colonial Gas by Eastern Enterprises, Inc. In exchange for certain rate concessions and the achievement of certain merger savings targets, the DPU has allowed Colonial Gas to recover the acquisition premium in rates through August 2039.

**Regulatory tax liability, net:** Represents over-recovered federal and state deferred taxes of the Company primarily as a result of regulatory flow-through accounting treatment, state income tax rate changes and excess federal deferred taxes as a result of the Tax Act.

**Renewable energy certificates:** Represents deferred costs associated with the Company's compliance obligations with Renewable Portfolio Standards ("RPS") in Rhode Island and Massachusetts. 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 ("RDM"):** As approved by the applicable state regulatory bodies, the Company has electric and gas RDMs which allow for an annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed and actual billed revenues. Any difference is recorded as a regulatory asset or regulatory liability.

**Storm costs:** The Company is allowed to recover storm costs from retail delivery service customers. This balance reflects costs yet to be recovered. See Note 5, “Rate Matters,” for additional information regarding the recovery of storm costs.

**Transmission service:** Massachusetts Electric and Nantucket (the “Massachusetts Electric Companies”) and Narragansett arrange transmission service on behalf of their customers and bill the costs of those services to customers, pursuant to the Transmission Service Cost Adjustment Provision. Any over or under recoveries of these costs are passed on to customers receiving transmission service over the subsequent year.

## 5. RATE MATTERS

### Niagara Mohawk

#### *Electric and Gas Filing*

On April 28, 2017, Niagara Mohawk filed a proposal to reset electric and natural gas delivery prices beginning in April 2018. On January 19, 2018, Niagara Mohawk reached a settlement agreement with the NYPSC Staff and other parties to the case and filed a Joint Proposal for a three-year rate plan. The proposal reflects the new federal tax law changes and provides a cumulative revenue requirement increase of \$241 million and \$61 million for the electric and gas business, respectively, based on a 9.0% return on equity (“ROE”) and 48% common equity ratio. On March 15, 2018, the NYPSC issued a final order approving the Joint Proposal and the new rates took effect on April 1, 2018.

As of March 31, 2018, resulting from the order, a new electric rate plan settlement credit of \$45 million and a new gas rate plan settlement credit of \$28 million were established. These credits are included in other non-current regulatory liabilities in the preceding table within Note 4, “Regulatory Assets and Liabilities.” Niagara Mohawk applied \$38 million of existing regulatory liabilities towards the creation of these credits. As authorized under the order, the Electric Rate Plan Settlement Deferral Credit balances are being amortized at the rate of \$6 million per rate year to compensate the write-down of pre-Automated Meter Reading investments. The order authorizes Niagara Mohawk to fund \$14 million in gas safety programs and compliance improvement programs from the Gas Rate Plan Settlement Deferral Credit balances. Further amortizations relating to meter investments, gas safety, or the settlement of other rate plan issues may be authorized in future proceedings.

Due to the impacts of COVID-19, Niagara Mohawk filed petitions to postpone for four months the electric and gas delivery rate increases that were scheduled to go into effect on April 1, 2020, and recover the increase over the period August 1, 2020 through March 31, 2021. The petitions were approved by the NYPSC.

On July 31, 2020, Niagara Mohawk submitted a rate filing with the NYPSC to update its electric and gas distribution rates. New rates are expected to become effective in July 2021.

#### *Tax Act*

On November 21, 2019, the FERC issued Order 864 to address ratemaking and regulatory reporting of excess or deficient Accumulated Deferred Income Taxes (“ADIT”), related to the Tax Act. The order applies to public utility transmission providers with formula rates and stated rates and provides that public utilities with formula rates submit a compliance filing within 30 days of the effective date of the final rule or in the public utilities next annual informational filing following the issuance of the final rule. The compliance filing must demonstrate how the public utilities formula rate adjusts rate base via a Rate Adjustment mechanism, returns or recovers excess or deficient ADIT via an Income Tax Allowance Mechanism and must include an ADIT worksheet to support the excess or deficient ADIT calculation and amortization. The ADIT worksheet must be populated and will be a new and permanent worksheet. The mechanisms and worksheet must remain applicable to any future changes to tax rates that give rise to excess or deficient ADIT, including changes to state and local tax rates. Excess or deficient ADIT associated with future tax rate changes will automatically be included in a public utility’s formula rate without the need for a Section 205 filing. The order does not prescribe a recovery/refund period for deficient/excess ADIT for unprotected excess/deficient ADIT that it not subject to the normalization requirements. FERC will evaluate proposed



amortization periods on a case by case basis. Niagara Mohawk has submitted a compliance filing with the June 14, 2020 annual informational filing.

On August 9, 2018, the NYPSC issued an order in its generic proceeding considering the impacts of federal tax reform. NYPSC Staff had advocated that unless already reflected in rates all New York utilities implement a sur-credit by October 1, 2018 that would reflect the immediate effects of the Tax Act and also return any deferred benefits to customers. In response, the Company's New York subsidiaries filed a proposal to (i) delay any sur-credit to January 1 to offset scheduled rate increases and (ii) retain any deferred benefits, including accumulated deferred federal income taxes ("ADFIT"), for future rate moderation.

The NYPSC's order effectively approved all aspects of Niagara Mohawk's proposal. The NYPSC agreed that Niagara Mohawk should be allowed to defer both the pass back of calendar year 2018 tax savings (to the extent not already returned in the new rate plan) and the amortization of excess ADFIT balances, and use the benefits as a rate moderator when base rates are next revised. Specifically, the NYPSC directed that:

- for Niagara Mohawk, no sur-credit is required as the current rate plan already reflects the reduction of the tax rate to 21% and the termination of bonus depreciation. The NYPSC approved Niagara Mohawk's proposal to defer the tax benefit realized for the three-month period (January-March) prior to new rates, of \$18 million for electric and \$5 million for gas, to offset future rate increases or investments.
- Brooklyn Union and KeySpan Gas East (the "New York Gas Companies") implement a sur-credit to reflect the lower tax rate effective January 1, 2019 to offset planned rate increases and retain the calendar year 2018 deferred amounts for future rate mitigation and/or to offset investments. Deferring the tax benefits until January 1, 2019 results in a deferred balance of \$40 million for Brooklyn Union and \$31 million for KeySpan Gas East.

#### *New York Management Audit*

Under the New York Public Service Law, the NYPSC is required to conduct periodic audits of various aspects of public utility activities. In 2018 the NYPSC initiated a comprehensive management and operations audit of the Company's three New York regulated businesses. New York law requires periodic management audits of all utilities at least once every five years. The Company's New York regulated business last underwent a New York management audit in 2014 and 2015, when the NYPSC audited the Company's New York gas business.

In September 2018, the NYPSC selected Saleeby Consulting Group as the independent auditor to perform the audit. The Company was fully committed to the audit with the goal of demonstrating its full capabilities and receiving meaningful feedback that would drive useful recommendations to improve the Company's New York regulated businesses electric and gas operations for the benefit of its customers. The audit began in November 2018 and ran until August 2019, with a final report due in September 2019. Unexpectedly, in October 2019, the NYPSC employees advised us that they were terminating the contract with the auditors, effective immediately, because of the poor quality of the draft audit report by the auditor, with no fault whatsoever on the part of the Company. NYPSC employees advised of their intention to complete the management audit themselves. The Audit is expected to be complete sometime in the second half of 2020.

#### **The New York Gas Companies**

##### *Rate Case Filing*

On January 29, 2016, the New York Gas Companies filed to adjust their base gas rates, to be effective from January 1, 2017. The filing requested to increase gas delivery base revenues. On September 7, 2016, the New York Gas Companies filed a Joint Proposal establishing a three-year rate plan beginning January 1, 2017 and ending December 31, 2019. The NYPSC issued an order approving the Joint Proposal on December 15, 2016 and the new rates went into effect beginning January 1, 2017.

The rate plan provided for a revenue increase of \$384 million in the first year, an additional \$61 million in the second year, and an additional \$76 million in the third year, for a cumulative three-year increase of \$1.3 billion, for the New York Gas Companies. In an effort to mitigate the potential bill impacts that the revenue increases would have on customers in the first year, the revenue increases are levelized over the three-year rate period. As such, for U.S. GAAP reporting, revenues are recognized equal to the amounts actually billed to customers during each period rather than per the provisions of the rate plan. The settlement is based upon a 9% ROE and 48% common equity ratio and includes an earnings sharing mechanism in which customers will share earnings when the New York Gas Companies' ROE is in excess of 9.5%.

Key provisions of the settlement include funding for removal of a specific mileage of leak prone pipe ("LPP") in each rate year. Additionally, recovery of proactive LPP replacement costs incurred in excess of this mileage are permitted and recovered through the Gas Safety and Reliability Surcharge. This also includes a positive revenue adjustment mechanism for unit cost savings versus those specific in rates.

The New York Gas Companies have capital tracker mechanisms that reconcile the New York Gas Companies' capital expenditures to the amounts permitted in rates. The Net Utility Plant and Depreciation Expense tracker applies to the New York Gas Companies' aggregate total average net plant and depreciation expense combined and was a downward only reconciliation through the end of rate year three and a two-way tracker in the period following the expiration of the term of the Company's rate plan. Under the City/State Construction Reconciliation, the New York Gas Companies are authorized to defer 90% of the revenue requirement impact difference (excluding operations and maintenance expense) between actual and forecast city/state construction costs for future recovery from or return to customers.

The New York Gas Companies' RDM was also adjusted to include revenue-per-class RDMs for industrial and commercial customers not previously subject to the RDM.

Each rate year, the New York Gas Companies' will fully reconcile actual SIR expense to the Forecast Rate Allowance. Any under or over expenditures will be deferred for future refund to or recovery from customers (with the exception of the Citizens site). Brooklyn Union will continue to absorb 10% of the remaining investigation costs for the Citizens site. In the event that KeySpan Gas East incurs unanticipated expenses relating to SIR costs incremental to the forecast rate allowance, KeySpan Gas East may file a petition requesting that the NYPSC approve recovery of incremental costs through KeySpan Gas East's SIR Recovery Surcharge.

Brooklyn Union's environmental SIR expense has also been moved from a surcharge to base rates. Beginning in January 2018, to the extent that the difference between actual SIR expense and the Forecast Rate Allowance exceeds \$25 million on a cumulative basis, Brooklyn Union will utilize its SIR Recovery Surcharge. The surcharge is designed to provide recovery for the differences between actual SIR expenses and the amounts allowed in rates and will be calculated annually and be limited to an amount no greater than 2% of Brooklyn Union's prior year aggregate revenues. Differences over this threshold will be deferred for future recovery. The terms of the rate plan continue beyond rate year three until the Commission issues an Order in the current rate proceeding.

On April 30, 2019, KeySpan Gas East and Brooklyn Union filed to increase revenues for the twelve months ending March 31, 2021 ("Rate Year"). The New York Gas Companies filed Corrections and Updates on July 3, 2019, which requested rate increases of \$61 million for KeySpan Gas East and \$195 million for Brooklyn Union. The filings propose to invest over \$1.5 billion in the Rate Year to modernize the New York Gas Companies' gas infrastructure by replacing aging pipelines, implementing safety improvements, enhancing storm hardening and resiliency, and reducing methane emissions. The filings also include proposals to enhance gas safety and promote a sustainable and affordable path toward a low-carbon energy future. After a series of litigation hearings held from February 10, 2020 through February 25, 2020 by an administrative law judge, on June 5, 2020 the Company informed the NYPSC and the administrative law judge of the intention to resume settlement discussions. Settlement discussions resumed on June 15, 2020 and are ongoing at this time. To facilitate those discussions, the New York Gas Companies requested an additional three-month extension of the suspension period, such that new rates would now become effective November 1, 2020. The final approved rate order will include a make-whole provision that will assure the New York Gas Companies are restored to the same financial position they would have been in had new rates gone into effect on April 1, 2020.

### *Downstate Gas Moratorium*

On May 15, 2019, the New York Gas Companies stopped fulfilling applications for new firm service connections, or requests for additional firm load from existing customers, in the affected areas of its service territory because the available firm gas supplies are insufficient to keep pace with demand. On October 11, 2019, the NYPSC issued an “Order Instituting Proceeding and to Show Cause” that directed the Company to provide gas service to a subset of previously denied applicants and show cause why the Company should not be subject to financial penalties.

On November 24, 2019, the New York Gas Companies reached settlements resolving the Order to Show Cause relating to the downstate gas moratorium. The settlement was approved November 26, 2019 in a one Commissioner Order by the NYPSC. Specifically, the New York Gas Companies are lifting the moratorium for approximately two years and implementing \$35 million in customer assistance, demand response, energy efficiency and other shareholder funded programs. The settlement also provides for the appointment of a monitor to oversee gas supply operations and compliance with the settlement.

The New York Gas Companies also agreed to develop a range of options to address the natural gas constraints facing the region, which were presented at a series of public meetings in the downstate New York service territory. These meetings were designed to facilitate a dialogue with customers, residents, advocates, business leaders and local elected officials on potential solutions. Following the public meetings, the New York Gas Companies published a report that summarized the public feedback and provided additional information and analysis on the various long-term natural gas supply options. The New York Gas Companies are now working with regulators, stakeholders, and customers to find long-term solutions to the gas supply constraints in the region.

### *Downstate Order to Show Cause*

On July 12, 2019, the NYPSC initiated a proceeding requiring the New York Gas Companies to demonstrate why a penalty action should not be commenced for more than 1,600 alleged gas safety violations. The alleged violations concern the NYPSC's investigation of improper operator qualification and related issues following a 2016 anonymous letter alleging a contractor had facilitated employees cheating on operator qualification exams. The NYPSC also alleges violations for both employees and other contractors' workers whose qualifications had lapsed. The order directs the New York Gas Companies to respond within 45 days. The New York Gas Companies filed a response to the allegation. At this time, The New York Gas Companies are unable to determine the amount and probability of any potential penalty.

On November 15, 2018, the NYPSC issued an Order to Show Cause against KeySpan Gas East for violations of gas safety regulations designed to ensure underground gas pipelines are protected from corrosion. KeySpan Gas East filed a response to the allegations. At this time, KeySpan Gas East is unable to determine the amount and probability of any potential penalty.

## **The Massachusetts Electric Companies**

### *Electric Rate Case Filing*

On November 15, 2018, the Massachusetts Electric Companies filed an application for new base distribution rates that became effective October 1, 2019. On September 30, 2019, and updated on October 11, 2019, the DPU approved an overall net increase in base distribution revenue of approximately \$40 million based upon a 9.6% return on equity, with 53.49% equity, 46.43% long-term debt and 0.08% preferred stock capital structure. The DPU approved a five-year performance-based ratemaking (“PBR”) plan, which adjusts base distribution revenue annually based on a pre-determined formula. With the approval of the PBR plan, the Company agreed not to file for an effective change in base distribution rates outside of the operation of the PBR plan for five-years and the CIRM will be discontinued after a transition period.

The approved net increase includes an increase in annual funding of the storm fund from \$11 million to \$16 million per year and an extension of the storm fund replenishment factor through November 2023.

### *Tax Act*

In February 2018, the DPU opened an investigation to examine the effect of the Tax Act on the rates of the investor-owned utilities in Massachusetts as of January 1, 2018 and directed the utilities to account for any revenues associated with the difference between the previous and current corporate income tax rates, and establish a regulatory liability for excess recovery in rates of ADIT. On May 1, 2018, the Massachusetts Electric Companies submitted their proposal for reducing electric rates prospectively, and for addressing ADIT. On June 29, 2018, the DPU approved the Massachusetts Electric Companies' proposal for reducing rates prospectively, and directed the Massachusetts Electric Companies to reduce rates effective July 1, 2018 and reduce their annual target revenue in its RDM by \$28 million, subsequently corrected to \$26 million. On December 21, 2018, the DPU issued an order requiring all utilities to begin crediting in rates the amortization of excess deferred federal income taxes, to the extent such amortization was not already included in base distribution rates, through the combination of factors associated with certain reconciling mechanisms and a separate factor for the amortization of the remaining amounts. The DPU approved the Massachusetts Electric Companies' compliance filing and proposed tariff allowing for the credit to customers of the amortization of the remaining amounts on January 28, 2019, and noted it would investigate the proposed refund of excess ADIT associated with the tax credit provision in D.P.U. 19-05, the Massachusetts Electric Companies' annual retail rate filing proceeding, and the excess ADIT associated with reconciling mechanisms in the individual dockets for those mechanisms.

In February 2019, the DPU issued an order finding that the Massachusetts utilities were not required to refund tax savings previously accrued from January 1, 2018 through June 30, 2018, as a result of the federal income tax rate reduction. The Massachusetts Electric Companies previously estimated that the total amount that would be subject to refund was approximately \$14 million. On March 7, 2019, the Attorney General's ("AG") Office filed a motion for clarification and reconsideration, requesting that the DPU provide additional clarity regarding its February 2019 ruling, and to reconsider its determination to allow utilities to keep the federal tax savings accrued from January 1, 2018 through June 30, 2018. The Motion for Clarification and Reconsideration is still pending.

### *Grid Modernization Plan*

On August 19, 2015, the Massachusetts Electric Companies filed their proposed grid modernization plan with the DPU, with four different proposed investment scenarios. On May 10, 2018, the DPU issued an order in this proceeding. The order approves \$82 million in grid-facing investments over three years in: (1) Conservation Voltage Reduction and Volt VAR Optimization; (2) advanced distribution automation; (3) feeder monitors; (4) communications and information/operational technologies; and (5) advanced distribution management/distribution supervisory control and data acquisition. The DPU allowed recovery of both operation and maintenance expense and capital costs through a reconciling mechanism, and in the future will consider grid modernization plans in separate dockets (i.e., not through rate cases). The DPU did not approve any customer-facing (i.e., advanced metering infrastructure) investments; the DPU will address these in a further investigation to see if there are ways to achieve cost-effective deployment of advanced metering functionality ("AMF"). The DPU found there needs to be widespread adoption of dynamic pricing in order for AMF to be successful, and it needs to address how to facilitate this first. The DPU also refined its grid modernization objectives to place additional focus on improved access to the distribution system planning process. The DPU recently extended the term of the first three-year grid modernization plan (2018-2020) to four years so the current grid modernization plan now runs through 2021.

### *Operational and Management Audit*

On September 30, 2019, in its decision regarding the Company's most recent request for a change in base distribution rates, DPU stated that pursuant to its supervisory authority it would require a comprehensive independent management audit of the Company, including a review of its relationship to the National Grid Service Company. On November 25, 2019, the DPU opened the investigation to undertake an independent audit. The audit will be conducted in two phases and will include data from the last five years. Phase I of the audit must be complete by November 16, 2020, while Phase II is expected to be completed by December 1, 2021. The Company cannot predict the outcome of this proceeding, at this time.

## **The Massachusetts Gas Companies**

### *General Rate Case*

Effective October 1, 2018, the DPU approved a combined rate increase for the Massachusetts Gas Companies. The DPU authorized an allowed ROE of 9.5% and an equity ratio of 53%. In addition, the DPU approved funding the Gas Business Enablement program. The Gas Business Enablement program is being developed to consolidate and modernize the Massachusetts Gas Companies' systems and operating platforms to facilitate internal efficiencies and improve customers' experience. The DPU denied the Massachusetts Gas Companies' request to increase rates for certain post-test year capital investments, instead requiring the Massachusetts Gas Companies to include those investments in a subsequent base rate case. The Massachusetts Gas Companies filed a motion for reconsideration of certain aspects of the DPU decision. The motion for reconsideration is still pending. The Massachusetts Gas Companies cannot predict the outcome of this motion.

### *Tax Act*

In February 2018, the DPU opened an investigation to examine the effect of the Tax Act on the rates of the investor-owned utilities in Massachusetts as of January 1, 2018, and directed the utilities to account for any revenues associated with the difference between the previous and current corporate income tax rates, and establish a regulatory liability for excess recovery in rates of ADIT. The Massachusetts Gas Companies' filing was submitted to the DPU on May 1, 2018. In its June 29, 2018 order, the DPU allowed the Massachusetts Gas Companies to defer the effect of the tax reduction until new rates resulting from the then-pending rate case became effective on October 1, 2018, at which time the Massachusetts Gas Companies were directed to refund the three-month tax savings deferral to customers over one year, and the Massachusetts Gas Companies included this amount in their rate case compliance filing. On December 21, 2018, the DPU issued an order requiring all utilities to begin crediting in rates the amortization of excess deferred federal income taxes, to the extent such amortization was not already included in base distribution rates, through the combination of factors associated with certain reconciling mechanisms and a separate factor for the amortization of the remaining amounts. The Massachusetts Gas Companies included an estimate of amortization of excess deferred federal income taxes in their 2017 rate case, and the DPU required a filing by May 1, 2019 to update the balance of excess deferred federal income taxes and associated amortization. By order dated September 24, 2018 in D.P.U. 18-15-D ("Order 18-15-D"), the DPU approved the Massachusetts Gas Companies' methodology for calculating the amount of excess ADIT and proposed amortization periods for protected and unprotected amounts. On May 1, 2019, consistent with the DPU's directives in Order 18-15-D, the Massachusetts Gas Companies provided a final calculation of protected and unprotected excess ADIT amounts, and a final calculation of the amortization periods applicable to protected excess ADIT.

In February 2019, the DPU issued an order finding that the Massachusetts utilities were not required to refund tax savings previously accrued from January 1, 2018 through June 30, 2018 as a result of the federal income tax rate reduction. On March 7, 2019, the AG's office filed a motion for clarification and reconsideration requesting that the DPU provide additional clarity regarding its February 2019 ruling, and to reconsider its determination to allow utilities to keep the federal tax savings accrued from January 1, 2018 through June 30, 2018. The Massachusetts Gas Companies initially recorded a \$7 million regulatory liability relating to this matter, pending the outcome of the AG's motion. To date, the DPU has not acted on or given any indication that it intends to act on the AG's motion. As a result, the Massachusetts Gas Companies no longer consider it probable that the federal tax savings will need to be refunded, so have reversed the \$7 million regulatory liability as of March 2020.

### *Independent Statewide Pipeline Safety Audit*

On November 30, 2018, the DPU initiated an independent statewide pipeline safety audit of the natural gas distribution systems in Massachusetts and hired an independent auditor. The auditor is assessing the safety of the gas systems in the entire state and made certain recommendations for improvements. As part of Phase I of the audit, the Massachusetts Gas Companies submitted responses to information requests from the auditor and made a presentation to the auditor in January 2019. In May 2019 the independent auditor issued a Phase I Summary Report with 11 preliminary recommendations general to all the gas companies in Massachusetts, which include taking steps to improve emergency response plans, establishing programs and training for process safety hazard identification in the field, and addressing resource issues at the gas

companies and in state government. Phase II of the audit has been completed with the issuance of the auditor's final report on January 31, 2020, which contained both general and specific company findings. There were no individual company penalties or fines included in the report. The auditor's process is now over, and there are no further actions pending.

## NEP

### *Transmission Return on Equity and Recovery of Transmission Costs*

Transmission revenues are based on a formula rate that recovers NEP's actual costs plus a return on investment. Approximately 74% of NEP's transmission facilities are included under regional network service ("RNS") rates. NEP earns an additional 0.5% ROE incentive adder on RNS-related transmission facilities approved under the Regional Transmission Organization's ("RTO") 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") (see the "New England East-West Solution" section).

NEP's transmission rates applicable to transmission service through October 15, 2014 reflected a base ROE of 11.14% applicable to NEP's transmission facilities, plus an additional 0.5% RTO participation adder applicable to transmission facilities included under the RNS rate. On October 16, 2014, the FERC issued an order, Opinion No. 531-A, reducing the base ROE applicable to transmission assets from 11.14% to 10.57% effective as of the date of the order and establishing a maximum ROE of 11.74%. On March 3, 2015, the FERC issued an Order on Rehearing, Opinion No. 531-B, affirming the 10.57% base ROE and clarifying that the 11.74% maximum ROE applies to all individual transmission projects with ROE incentives previously granted by the FERC. On April 14, 2017, the U.S. Court of Appeals for the D.C. Circuit (Court of Appeals) vacated and remanded FERC's Opinion No. 531 (and successor orders), through which the FERC had lowered the New England Transmission Owners ("NETO") return on equity from 11.14% to 10.57% and capped the total incentives at 11.74%.

On October 16, 2018, the FERC issued an order on all four of NEP's ROE complaints (see the "FERC ROE Complaints" section in Note 14, "Commitments and Contingencies") describing how it intends to address the issues that were remanded by the Court. The FERC proposed a new framework to determine whether an existing ROE is unjust and unreasonable and, if so, how to calculate a replacement ROE. The FERC stated that these calculations were merely preliminary and asked the parties to the NE Complaint cases to brief FERC and check the numbers. NEP along with other New England Transmission Operators ("NETO") filed a brief supporting FERC's new methodology and confirming the illustrative numbers that FERC arrived at in the October 2018 order containing a 10.41% base ROE. FERC has not issued a final order on the briefs submitted by NEP and the base ROE in NE remains at a 10.57%.

On November 21, 2019, the FERC issued an order on the Midcontinent ISO transmission owners ("MISO") ROE complaint docket addressing transmission ROEs. In that order, the FERC adopted a new methodology for determining base ROEs for the MISO and expressed that it was setting new ROE policies nationwide, which differed significantly from the methodology and framework set forth in its October 16, 2018 FERC order on the NETOs' ROE dockets. On December 23, 2019, the NETOs filed a Supplemental Paper Hearing Brief and a Motion to supplement the record in the NETO ROE dockets to respond to the new methodology proposed in the MISO order. There is uncertainty to whether the order is applicable to the NETOs' cases and if so, would have a negative effect on NEP's base ROE. On January 21, 2020, the FERC issued an order granting rehearing for further consideration to give the FERC more time to act on the substantive issues of the MISO ROE proceedings.

On May 21, 2020, the FERC issued a revised order on the MISO ROE complaint docket addressing the substantive issues identified with the November 2019 order. The November 2019 order proposed the application of the average of two models to judge whether ROEs are just and reasonable which resulted in a reduced ROE of 9.88%, from 10.32%, when the proposed methodology is applied to the two MISO ROE complaints. The May 2020 order proposes the average of three models to judge whether ROEs are just and reasonable. When applied to the two MISO ROE complaints the revised methodology using the average of three models resulted in a base ROE of 10.02%, an increase from the methodology proposed in the November 2019 order.

The FERC orders on the MISO ROE complaint proceedings, and the proposed revised ROE methodology, are specific to MISO however the FERC could order the revised methodology be applied to all transmission companies including our own ROE complaint proceedings. On May 12, 2020, NEP filed jointly with other NETOs supplemental arguments in the ROE Notice of

Inquiry (“NOI”) docket, which was commenced on March 21, 2019 and to which NEP previously responded, addressing concerns with ROE policy making and the methodologies proposed by the FERC in the MISO ROE compliant proceedings. From NEP’s perspective, the May 21, 2020 FERC order on the MISO ROE complaint proceedings represents an improvement from the November 2019 order but it does not address all the arguments filed jointly by NEP and the NETOs.

Until the FERC issues a final decision on NEP’s own ROE complaints or an order applying the revised ROE methodology proposed in the MISO orders to all transmission companies, there is significant uncertainty, and at this time, NEP does not know the impact to NEP’s current base ROE.

#### *Stranded Cost Recovery*

Under the settlement agreements approved by state commissions and the FERC, NEP 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). NEP earns a return on equity (“ROE”) related to stranded cost recovery consisting of nuclear-related investments. In Massachusetts and Rhode Island, the current ROEs are 9.2% and 10.46%, respectively. NEP will recover its remaining non-nuclear stranded costs until the costs associated with its decommissioned nuclear units cease, refer to “Decommissioning Nuclear Units” section in Note 14, “Commitments and Contingencies”.

#### *Transmission Incentive Policy Inquiry*

On March 21, 2019, the FERC announced a NOI seeking comments on possible improvements to its electric transmission incentives policy to ensure that it appropriately encourages the development of the infrastructure needed to ensure grid reliability and reduce congestion to reduce the cost of power for consumers. NEP filed comments in the NOI docket on June 26, 2019 and filed reply comments on August 26, 2019.

On March 19, 2020, the FERC issued a Notice of Proposed Rulemaking (“NOPR”). In the NOPR, the FERC proposes to shift the test for transmission incentives from risks and challenges to an approach based on benefits to customers. The NOPR also proposes to: 1) Increase the incentives for joining and remaining a member of a Regional Transmission Organization, an Independent System Operator or other commission-approved transmission organization from 50 basis points to 100 basis points; 2) Provide 50 basis point to transmission projects that meet a pre-construction benefit-to-cost ratio in the top 25% of projects examined over a sample period and an additional 50 basis points for projects that meet a post-construction benefit-to-cost ratio in the top 10% percent of projects over the same sample period; 3) Provide 50 basis points for projects that demonstrate reliability benefits by providing quantitative analysis and 4) Offer a 100 basis point incentive for transmission technologies that enhance reliability, efficiency, and capacity as well as improve the operation of new or existing transmission facilities. The NOPR also proposes a 250 basis point cap on total ROE incentives rather than limitation to the zone of reasonableness. Comments are requested within 90 days of publication in the Federal Register after which, at some point, the Commission will issue a final rule. NEP filed comments in response to the NOPR on July 1, 2020.

#### *Tax Cuts and Jobs Act*

On March 15, 2018, the FERC initiated multiple proceedings intended to adjust FERC-jurisdictional rates to reflect the corporate tax changes as a result of the passage of the Tax Act. Of the proceedings initiated relevant to NEP is the NOI seeking comments on the effects of the Tax Act on all FERC-jurisdiction rates and a Notice of Proposed Rulemaking NOPR issued as a result of the NOI. In response to the FERC NOI, NEP made recommendations designed to mitigate the cash flow impacts of the expected refunds including providing flexibility regarding the methods used to refund ADIT to customers and providing flexibility regarding the time period of the flow back. In the NOPR, the FERC proposed to give the flexibility NEP proposed.

On November 21, 2019, the FERC issued Order 864 to address ratemaking and regulatory reporting of excess or deficient ADIT related to the Tax Act. The order applies to public utility transmission providers with formula rates and stated rates and provides that public utilities with formula rates submit a compliance filing within 30 days of the effective date of the final rule or in the public utilities next annual informational filing following the issuance of the final rule. The compliance filing must demonstrate how the public utilities formula rate adjusts rate base via a Rate Adjustment mechanism, returns or recovers

excess or deficient ADIT via an Income Tax Allowance Mechanism and must include an ADIT worksheet to support the excess or deficient ADIT calculation and amortization. The ADIT worksheet must be populated and will be a new and permanent worksheet. The mechanisms and worksheet must remain applicable to any future changes to tax rates that give rise to excess or deficient ADIT, including changes to state and local tax rates. Excess or deficient ADIT associated with future tax rate changes will automatically be included in a public utility's formula rate without the need for a Section 205 filing. The order does not prescribe a recovery/refund period for deficient/excess ADIT for unprotected excess/deficient ADIT that is not subject to the normalization requirements. FERC will evaluate proposed amortization periods on a case by case basis. NEP plans to submit a compliance filing in July 2020 with the annual RNS informational filing.

#### *New England East-West Solution ("NEEWS") Project*

In September 2008, NEP, its affiliate Narragansett, 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% including the RTO participation adder), (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. The NEEWS upgrades were placed in service in December 2015.

#### **Narragansett**

##### *General Rate Case*

Narragansett reached a settlement agreement with the Rhode Island Division of Public Utilities and Carriers ("Division") and several other intervening parties to increase distribution revenue for its electric and gas operations over the three-year period commencing September 1, 2018, which was approved by the RIPUC on August 24, 2018. This settlement is an agreement that was reached in response to the base distribution revenue increase requests that Narragansett filed with the RIPUC on November 27, 2017. Pursuant to the settlement, electric distribution revenue will increase by approximately \$14 million, \$11 million, and \$4 million and gas distribution revenue will increase by approximately \$6 million, \$8 million, and \$4 million annually, on September 1, 2018, September 1, 2019, and September 1, 2020, respectively. The settlement reflects an allowed return on equity ("ROE") rate of 9.275% based on a common equity ratio of approximately 51%. Previously, Narragansett was entitled to earn an allowed ROE of 9.5%, with a common equity ratio of approximately 49.1%.

These revenue increases are intended to fund significant systems-related investments, including the replacement of several aging operational systems used in Narragansett's electric and gas businesses with newer integrated systems that will be shared by Narragansett and its electric and gas affiliates. The settlement identifies several additional metrics for tracking and reporting purposes only, some of which may become eligible for a financial performance incentive during the term of the multi-year rate plan. The increases set in place for the second and third years of the settlement may be reopened for recovery of the implementation of advanced metering and grid modernization costs.

##### *Tax Act*

The RIPUC opened a docket to address the change in the federal corporate income tax rate and other changes resulting from the Tax Act that was signed into law in December 2017. Specifically, the RIPUC requested Narragansett's proposal for how it planned to reduce rates associated with the income taxes recovered from customers on the equity component of the return on investment included in revenue taxed at the new lower income tax rate of 21% effective January 1, 2018, and how it planned to return to customers the reduction in its net deferred income tax liabilities resulting from the 14% decrease in the federal income tax rate from 35%. Effective September 1, 2018, Narragansett reduced its revenue requirement for the distribution electric and gas rates in effect for the impacts of the Tax Act as appropriate. On January 24, 2019, Narragansett filed with the RIPUC a settlement agreement among Narragansett, the Division, the Office of Energy Resources, and the State of Rhode Island Office of the Lieutenant Governor, pursuant to which approximately \$5 million and \$3 million will be provided



to electric and gas customers, respectively, which reflect the benefits of Narragansett's reduced federal corporate income tax payment obligations for the period January 1, 2018 through August 31, 2018. The RIPUC approved the settlement agreement on May 17, 2019, as filed. Refunds to electric customers began in July 2019 and will continue through June 2020 and refunds to gas customers began in November 2019 and will continue through October 2020.

#### *Suspension of Service Terminations and Certain Collections Activities*

At an open meeting on March 16, 2020, the RIPUC issued an order prohibiting all electric, natural gas, water, and sewer utilities from engaging in certain collections activities, including termination of residential and non-residential service for nonpayment (the "Order"). The RIPUC also directed Narragansett to temporarily suspend late fees, interest charges, credit card fees, debit card fees and ACH fees, along with authorizing Narragansett to track these costs for later review by the RIPUC. On May 15, 2020, pursuant to the RIPUC's directive, Narragansett filed a plan with the RIPUC and the Division that details Narragansett's plans for recommencing collection activities when the RIPUC lifts the moratorium on utility terminations (the "Plan"). The Plan consists of a four-phase approach, including initial efforts primarily focused on "bill health" messaging and assuring that customers are aware of the programs and services available to assist them with managing and paying their bills. Narragansett has also responded to requests for information from the RIPUC regarding collections activities and financial implications, as well as one set of informal data requests from the Division.

At an open meeting on July 13, 2020, the RIPUC addressed the current moratorium on ceasing certain collection activities and notices of termination with disconnection dates, through July 17, 2020. In the proceeding, the RIPUC found that the moratorium on shutoffs for customers eligible for Narragansett's low-income rate is extended through November 2020. Additionally, through September 30, 2020, Narragansett will continue to not terminate service to any residential customer for nonpayment. The RIPUC also found that until further ordered by the RIPUC any residential customer whose service has been terminated for nonpayment scheduled will be entitled to have service restored upon the satisfaction of certain conditions. Lastly, customers meeting the Arrearage Management Program ("AMP") eligibility requirements who would otherwise be terminated but for the Order may be enrolled in the AMP program without any termination notice needed.

## 6. EQUITY METHOD INVESTMENTS

At March 31, 2019 the Company held \$406 million of equity method investments through its ownership in National Grid Venture and National Grid Partners. On April 1, 2019, the Company transferred its ownership interest in several legal entities that were part of the National Grid Ventures and National Grid Partners business to NGNA. The ownership interest was transferred by making an equity distribution of the shares in the underlying entities to NGNA. As this was a transaction between entities under common control, the Company's interest was transferred at net book value and no gain or loss was recognized in the consolidated statement of operations as a result of this transfer during the period ended March 31, 2020.

The entities that were transferred had total assets of \$500 million (including accounts receivable from either the Company or one of its consolidated subsidiaries of \$27 million) and total liabilities of \$225 million (including accounts payable to either the Company or one of its consolidated subsidiaries of \$68 million and an intercompany money-pool liability to the Company or one of its consolidated subsidiaries of \$123 million) at March 31, 2019. The derecognition of the Company's net investment in both NGV and NGP was recorded in APIC. Included as part of the transfer was the Company's:

- 26.25% ownership interest in Millennium Pipeline Company LLC, a company that owns a natural gas pipeline from southern New York to the Lower Hudson Valley.
- 50% ownership interest in San Francisco-based Sunrun Neptune Investor 2016 LLC, a leading U.S. provider of residential solar energy systems, to provide investment capital.
- 28.3% ownership interest in New York Transco LLC, a limited liability company formed for the purpose of planning, construction, owning, operating, maintaining, and expanding transmission facilities in the state of New York.
- 9.4% ownership interest in Energy Impact Fund LP, a strategic energy venture investment fund that had invested in 26 companies as of March 31, 2019.

At March 31, 2019, through its wholly-owned subsidiary, National Grid Generation Ventures LLC ("Generation Ventures"), the Company owned a 50% interest in each of four individual LLCs (Island Park Energy Center LLC, LI Solar Generation LLC, LI Energy Storage System LLC, and Clean Energy Generation LLC). On November 30, 2019, the Company transferred its ownership interest in Generation Ventures to NGNA through an equity distribution. As this was a transaction between entities under common control, the Company's interest in Generation Ventures was transferred at net book value, or \$27 million. There was no gain or loss as a result of this transfer. The derecognition of the Company's net investment in Generation Ventures was recorded in APIC.

Neither the transfer of NGV and NGP in April 2019 or the transfer of Generation Ventures in November 2019 met the criteria for classification as discontinued operations.

## 7. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes property, plant and equipment at cost and operating lease right-of-use assets, along with accumulated depreciation and amortization:

	<b>March 31,</b>	
	<b>2020</b>	<b>2019</b>
	<i>(in millions of dollars)</i>	
Plant and machinery	\$ 41,902	\$ 38,510
Assets in construction	2,539	2,707
Land and buildings	2,259	2,170
Software and other intangibles	1,365	1,225
Operating lease ROU assets	888	-
Total property, plant and equipment	<b>48,953</b>	44,612
Accumulated depreciation and amortization	<b>(10,957)</b>	(10,313)
Operating lease accumulated amortization	<b>(142)</b>	-
Property, plant and equipment, net	<b>\$ 37,854</b>	<b>\$ 34,299</b>

## 8. DERIVATIVE INSTRUMENTS AND HEDGING

The Company utilizes derivative instruments to manage commodity price and foreign currency rate risk associated with its natural gas and electricity purchases and its Euro commercial paper program. The Company's commodity risk management strategy is to reduce fluctuations in firm gas and electricity sales prices to its customers. The Company's currency rate risk management policy is to hedge the risk associated with its foreign currency borrowings by utilizing instruments to convert principal and interest payments into U.S. dollars.

The Company's financial exposures are monitored and managed as an integral part of the Company's overall financial risk management policy. The Company engages in risk management activities only in commodities and financial markets where it has an exposure, and only in terms and volumes consistent with its core business.

### Notional Amounts

The notional contract amount represents the gross nominal value of the outstanding derivative contracts. The financing derivatives consisted of foreign exchange forward contracts of \$339 million and \$963 million at March 31, 2020 and 2019.

Volumes of outstanding commodity derivative instruments measured in dekatherms ("dths") and megawatts hour ("mwhs") are as follows:

	<b>March 31,</b>	
	<b>2020</b>	<b>2019</b>
	<i>(in millions)</i>	
Gas derivative contracts (dths)	<b>133</b>	163
Electric derivative contracts (mwhs)	<b>13</b>	14

## Derivative Financial Instruments

The following tables reflect the gross and net amounts of the Company's derivative assets and liabilities at March 31, 2020 and 2019:

	March 31, 2020				
	<i>(in millions of dollars)</i>				
	Gross amounts of recognized assets (liabilities)	Gross amounts offset on the Consolidated Balance Sheet	Net amount of assets (liabilities) presented on the Consolidated Balance Sheet	Gross amounts not offset on the Consolidated Balance Sheet	Net amount
	<i>A</i>	<i>B</i>	<i>C = A + B</i>	<i>D</i>	<i>E = C - D</i>
<b>ASSETS:</b>					
<b>Current assets</b>					
Gas contracts	\$ 10	\$ -	\$ 10	\$ 5	\$ 5
Electric contracts	5	-	5	3	2
<b>Other non-current assets</b>					
Electric contracts	2	-	2	1	1
Total	<u>17</u>	<u>-</u>	<u>17</u>	<u>9</u>	<u>8</u>
<b>LIABILITIES:</b>					
<b>Current liabilities</b>					
Gas contracts	(44)	-	(44)	(1)	(43)
Electric contracts	(63)	-	(63)	(3)	(60)
Foreign exchange forward contracts	(10)	-	(10)	(1)	(9)
<b>Other non-current liabilities</b>					
Gas contracts	(46)	-	(46)	-	(46)
Electric contracts	(40)	-	(40)	(10)	(30)
Total	<u>(203)</u>	<u>-</u>	<u>(203)</u>	<u>(15)</u>	<u>(188)</u>
Net assets (liabilities)	<u>\$ (186)</u>	<u>\$ -</u>	<u>\$ (186)</u>	<u>\$ (6)</u>	<u>\$ (180)</u>

March 31, 2019

(in millions of dollars)

	Gross amounts of recognized assets (liabilities)	Gross amounts offset on the Consolidated Balance Sheet	Net amount of assets (liabilities) presented on the Consolidated Balance Sheet	Gross amounts not offset on the Consolidated Balance Sheet	Net amount
	A	B	C = A + B	D	E = C - D
<b>ASSETS:</b>					
<b>Current assets</b>					
Gas contracts	\$ 7	\$ -	\$ 7	\$ 1	\$ 6
Electric contracts	26	-	26	12	14
<b>Other non-current assets</b>					
Gas contracts	1	-	1	-	1
Electric contracts	12	-	12	2	10
Total	<u>46</u>	<u>-</u>	<u>46</u>	<u>15</u>	<u>31</u>
<b>LIABILITIES:</b>					
<b>Current liabilities</b>					
Gas contracts	(20)	-	(20)	(1)	(19)
Electric contracts	(15)	-	(15)	(12)	(3)
Foreign exchange forward contracts	(16)	-	(16)	-	(16)
<b>Other non-current liabilities</b>					
Gas contracts	(2)	-	(2)	-	(2)
Electric contracts	(10)	-	(10)	(2)	(8)
Total	<u>(63)</u>	<u>-</u>	<u>(63)</u>	<u>(15)</u>	<u>(48)</u>
Net assets (liabilities)	<u>\$ (17)</u>	<u>\$ -</u>	<u>\$ (17)</u>	<u>\$ -</u>	<u>\$ (17)</u>

The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduces its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty.

Changes in fair value of the Company's rate recoverable contracts (commodity contracts only, hedge contracts are not rate recoverable) are offset by changes in regulatory assets and liabilities. As a result, changes in fair value of those contracts have no impact in the accompanying consolidated statements of operations and comprehensive income. The majority of the Company's derivative instruments are subject to rate recovery as of March 31, 2020 and 2019.

### Credit and Collateral

The Company is exposed to credit risk related to transactions entered into for commodity price, interest rate, and foreign currency risk management. Credit risk represents the risk of loss due to counterparty non-performance. Credit risk is managed by assessing each counterparty's credit profile and negotiating appropriate levels of collateral and credit support.

### Commodity Transactions

The Company enters into commodity transactions on the NYMEX. The NYMEX clearing houses act as the counterparty to each trade. Transactions on the NYMEX must adhere to comprehensive collateral and margining requirements. As a result, transactions on the NYMEX are significantly collateralized and have limited counterparty credit risk.

The credit policy for commodity transactions is managed and monitored by the Finance Committee to the Parent's Board of Directors ("Finance Committee"), which is responsible for approving risk management policies and objectives for risk assessment, control and valuation, and the monitoring and reporting of risk exposures. NGUSA's Energy Procurement Risk Management Committee ("EPRMC") is responsible for approving transaction strategies, annual supply plans, and counterparty credit approval, as well as all valuation and control procedures. The EPRMC is chaired by the Vice President of U.S. Treasury and reports to both the NGUSA Board of Directors and the Finance Committee.

The EPRMC monitors counterparty credit exposure and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support, and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties.

The Company's credit exposure for all commodity derivative instruments and applicable payables and receivables, net of collateral, and instruments that are subject to master netting agreements, was a liability of \$172 million and zero as of March 31, 2020 and 2019, respectively.

The aggregate fair value of the Company's commodity derivative instruments with credit-risk-related contingent features that were in a liability position as of March 31, 2020 and 2019 was \$106 million and \$6 million, respectively. The Company had \$10 million and zero collateral posted for these instruments as of March 31, 2020 and 2019, respectively. At March 31, 2020, if the Company's credit rating were to be downgraded by one, two, or three levels, it would be required to post additional collateral to its counterparties of \$9 million, \$27 million, or \$109 million, respectively. At March 31, 2019, if the Company's credit rating had been downgraded by one, two, or three levels, it would have been required to post additional collateral to its counterparties of zero, zero, or \$7 million, respectively.

#### *Financing Transactions*

The credit policy for financing transactions is managed by a central treasury department under policies approved by the Finance Committee. In accordance with these treasury policies, counterparty credit exposure utilizations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilization adjusted, if appropriate. Management does not expect any significant losses from non-performance by these counterparties.

In relation to the Company's financial derivative instruments, if the Company's credit rating were to be downgraded by one level it would not be required to post any additional collateral at March 31, 2020 and 2019, respectively. At March 31, 2020, if the Company's credit rating were to be downgraded by two or three levels, it would be required to post additional collateral to its counterparties of \$12 million for each downgrade. At March 31, 2019, if the Company's credit rating were to be downgraded by two or three levels, it would be required to post additional collateral to its counterparties of \$17 million for each downgrade.

## 9. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value on the consolidated balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2020 and 2019:

	March 31, 2020			
	Level 1	Level 2	Level 3	Total
	<i>(in millions of dollars)</i>			
<b>Assets:</b>				
Derivative instruments				
Gas contracts	\$ -	\$ 9	\$ 1	\$ 10
Electric contracts	-	5	2	7
Financial instruments				
Securities	136	162	-	298
Total	<u>136</u>	<u>176</u>	<u>3</u>	<u>315</u>
<b>Liabilities:</b>				
Derivative instruments				
Gas contracts	-	73	17	90
Electric contracts	-	102	1	103
Foreign exchange forward contracts	-	10	-	10
Total	-	185	18	203
Net assets (liabilities)	<u>\$ 136</u>	<u>\$ (9)</u>	<u>\$ (15)</u>	<u>\$ 112</u>

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
	<i>(in millions of dollars)</i>			
<b>Assets:</b>				
Derivative instruments				
Gas contracts	\$ -	\$ 6	\$ 2	\$ 8
Electric contracts	-	38	-	37
Financial instruments				
Securities	144	163	-	307
Other	-	-	72	72
Total	<u>144</u>	<u>207</u>	<u>74</u>	<u>425</u>
<b>Liabilities:</b>				
Derivative instruments				
Gas contracts	-	18	4	22
Electric contracts	-	25	-	25
Foreign exchange forward contracts	-	16	-	16
Total	-	59	4	63
Net assets (liabilities)	<u>\$ 144</u>	<u>\$ 148</u>	<u>\$ 70</u>	<u>\$ 362</u>

**Derivative instruments:** The Company's Level 1 fair value derivative instruments primarily consist of quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date. Derivative assets and liabilities utilizing Level 1 inputs include active exchange-based derivative instruments (e.g. natural gas futures traded on the NYMEX). The Company did not have any level 1 derivative instruments at either March 31, 2020 or March 31, 2019.

The Company's Level 2 fair value derivative instruments primarily consist of over-the-counter ("OTC") currency swap transactions, and gas swap contracts with pricing inputs obtained from the NYMEX and the Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days.

The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative instruments. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 95% or higher.

The Company's Level 3 fair value derivative instruments primarily consist of OTC gas option contracts and gas purchase contracts, which are valued based on internally-developed models. The Company also has equity options, which are designated as Level 3 derivatives as they are traded on illiquid markets. Industry-standard valuation techniques, such as the Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. A derivative is designated Level 3 when it is valued based on a forward curve that is internally developed, extrapolated, or derived from market observable curves with correlation coefficients less than 95%, where optionality is present, or if non-economic assumptions are made.

**Securities:** Securities are included in financial investments on the consolidated 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).

As of March 31, 2019, the Company's Level 3 investments included investments in associates relating to Sunrun, accounted for at fair value (as discussed in Note 14, "Commitments and Contingencies" under "Financial Guarantees") and corporate venture capital investments held by NGP measured at fair value with changes in fair value recorded in the consolidated statements of operations. These equity holdings were part of the Company's corporate venture capital portfolio held by NGP and comprised a series of small minority interest unquoted investments where prices or valuation inputs were unobservable.

## 10. EMPLOYEE BENEFITS

The Company sponsors several qualified and non-qualified non-contributory defined benefit plans (the "Pension Plans") and PBOP plans (together with the Pension Plan (the "Plans")), covering substantially all employees.

All of the Company's regulated subsidiaries have regulatory recovery of these costs and therefore have recorded related regulatory assets (liabilities) on the consolidated balance sheets. The Company records amounts for its unregulated subsidiaries to AOCI on the consolidated balance sheets.

### *Pension Plans*

The Pension Plans are defined benefit plans which provide union employees, as well as non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. During the years ended March 31, 2020 and 2019, the Company made contributions of approximately \$173 million and \$278 million, respectively, to the qualified pension plans. The Company expects to contribute \$132 million to the qualified pension plans during the year ending March 31, 2021.

Benefit payments to pension plan participants for the years ended March 31, 2020 and 2019 were approximately \$481 million and \$520 million, respectively.

### *PBOP Plans*

The PBOP plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. During the years ended March 31, 2020 and 2019, the Company made contributions of \$7 million and zero, respectively, to the PBOP plans. The Company does not expect to contribute to the PBOP plans during the year ending March 31, 2021.

Benefit payments to PBOP plan participants for the years ended March 31, 2020 and 2019 were approximately \$201 million and \$184 million, respectively.



## Net Periodic Benefit Costs

The Company's net periodic benefit pension cost for the years ended March 31, 2020 and 2019 was \$137 million and \$253 million, respectively.

The Company's net periodic benefit PBOP cost for the years ended March 31, 2020 and 2019 was \$7 million and \$33 million, respectively.

## Amounts Recognized in AOCI and Regulatory Assets/Liabilities

The following tables summarize other pre-tax changes in plan assets and benefit obligations recognized primarily in regulatory assets and AOCI for the years ended March 31, 2020 and 2019:

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2020	2019	2020	2019
	<i>(in millions of dollars)</i>			
Net actuarial loss (gain)	\$ 700	\$ 131	\$ 337	\$ 22
Prior service cost	-	25	-	-
Amortization of net actuarial loss	(188)	(258)	(15)	(25)
Amortization of prior service cost credit, net	(8)	(7)	4	6
Total	<u>\$ 504</u>	<u>\$ (109)</u>	<u>\$ 326</u>	<u>\$ 3</u>
Including in regulatory assets	\$ 393	\$ (90)	\$ 263	\$ 2
Including in AOCI	111	(19)	63	1
Total	<u>\$ 504</u>	<u>\$ (109)</u>	<u>\$ 326</u>	<u>\$ 3</u>

The Company's regulated subsidiaries have regulatory recovery of these obligations and therefore amounts are included in regulatory assets on the consolidated balance sheets. Costs of non-regulated subsidiaries are recorded as part of AOCI on the consolidated balance sheets.

## Amounts Recognized in AOCI and Regulatory Assets/Liabilities – not yet recognized as components of net actuarial loss

The following tables summarize the Company's amounts in regulatory assets and AOCI on the consolidated balance sheets that have not yet been recognized as components of net actuarial loss as of March 31, 2020 and 2019:

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2020	2019	2020	2019
	<i>(in millions of dollars)</i>			
Net actuarial loss	\$ 1,811	\$ 1,300	\$ 391	\$ 69
Prior service cost (credit)	41	48	-	(4)
Total	<u>\$ 1,852</u>	<u>\$ 1,348</u>	<u>\$ 391</u>	<u>\$ 65</u>
Including in regulatory assets	\$ 1,573	\$ 1,180	\$ 367	\$ 104
Including in AOCI	279	168	24	(39)
Total	<u>\$ 1,852</u>	<u>\$ 1,348</u>	<u>\$ 391</u>	<u>\$ 65</u>

The amount of net actuarial loss and prior service cost to be amortized from regulatory assets and AOCI during the year ending March 31, 2021 for the Pension Plans is \$219 million and \$6 million, respectively, and net actuarial loss to be amortized from regulatory assets and AOCI during the year ending March 31, 2021 for the PBOP Plans is \$32 million.

### Amounts Recognized on the Consolidated Balance Sheets

The following table summarizes the portion of the funded status that is recognized on the Company's consolidated balance sheets at March 31, 2020 and 2019:

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2020	2019	2020	2019
	<i>(in millions of dollars)</i>			
Projected benefit obligation	\$ (9,552)	\$ (9,098)	\$ (4,374)	\$ (4,478)
Fair value of plan assets	8,659	8,649	2,995	3,437
Total	\$ (893)	\$ (449)	\$ (1,379)	\$ (1,041)
Non-current assets	\$ 374	\$ 365	\$ 3	\$ 17
Current liabilities	(24)	(23)	(9)	(12)
Non-current liabilities	(1,243)	(791)	(1,373)	(1,046)
Total	\$ (893)	\$ (449)	\$ (1,379)	\$ (1,041)

The benefit obligation shown above is the projected benefit obligation for the Pension Plans and the accumulated projected benefit obligation ("APBO") for the PBOP Plans. The Pension Plans had APBO balances that exceeded the fair value of plan assets as of March 31, 2020 and 2019. The aggregate APBO balance for the Pension Plans was \$9.2 billion and \$8.7 billion as of March 31, 2020 and 2019, respectively.

### Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2020:

<i>(in millions of dollars)</i>	Pension	PBOP
	Plans	Plans
Years Ended March 31,		
2021	\$ 549	\$ 190
2022	539	198
2023	534	205
2024	541	211
2025	547	216
2026-2030	2,827	1,133
Total	\$ 5,537	\$ 2,153

## Assumptions Used for Employee Benefits Accounting

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2020	2019	2020	2019
<b>Benefit Obligations:</b>				
Discount rate	<b>3.65%</b>	4.10%	<b>3.65%</b>	4.10%
Rate of compensation increase	<b>3.50%</b>	3.50%	<b>N/A</b>	N/A
Expected return on plan assets	<b>5.00% - 6.00%</b>	6.00% - 6.50%	<b>6.50% - 7.00%</b>	6.00% - 7.25%
<b>Net Periodic Benefit Costs:</b>				
Discount rate	<b>4.10%</b>	4.10% - 4.50%	<b>4.10%</b>	4.10%
Rate of compensation increase	<b>3.50%</b>	3.50%	<b>N/A</b>	N/A
Expected return on plan assets	<b>6.00% - 6.50%</b>	6.00% - 6.25%	<b>6.00% - 7.25%</b>	6.25% - 6.75%

The Company selects its discount rate assumption based upon rates of return on highly rated corporate bond yields in the marketplace as of each measurement date. Specifically, the Company uses the Hewitt AA Above Median Curve along with the expected future cash flows from the Company retirement plans to determine the weighted average discount rate assumption.

The expected rate of return for various passive asset classes is based both on analysis of historical rates of return and forward-looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of the long-term assumptions. A small premium is added for active management of both equity and fixed income securities. The rates of return for each asset class are then weighted in accordance with the actual asset allocation, resulting in a long-term return on asset rate for each plan.

### Assumed Health Cost Trend Rate

	Years Ended March 31,	
	2020	2019
Health care cost trend rate assumed for next year		
Pre 65	<b>7.00%</b>	7.25%
Post 65	<b>5.50%</b>	5.75%
Prescription	<b>8.00%</b>	9.75%
Rate to which the cost trend is assumed to decline (ultimate)	<b>4.50%</b>	4.50%
Year that rate reaches ultimate trend		
Pre 65	<b>2031+</b>	2028
Post 65	<b>2031+</b>	2026
Prescription	<b>2031+</b>	2027

## Plan Assets

The Pension Plan is a trusted non-contributory defined benefit plan covering all eligible represented employees of the Company and eligible non-represented employees of the participating National Grid companies. The PBOP Plans are both a contributory and non-contributory, trustee, employee life insurance and medical benefit plan sponsored by the Company. Life insurance and medical benefits are provided for eligible retirees, dependents, and surviving spouses of the Company.

The Company manages the benefit plan investments for the exclusive purpose of providing retirement benefits to participants and beneficiaries and paying plan expenses. The benefit plans' named fiduciary is The Retirement Plans Committee ("RPC"). The RPC seeks to minimize the long-term cost of operating the Plans, with a reasonable level of risk. The investment objectives of the plans are to maintain a level and form of assets adequate to meet benefit obligations to participants, to achieve the expected long-term total return on the plans' assets within a prudent level of risk and maintain a level of volatility that is not expected to have a material impact on the company's expected contribution and expense or the company's ability to meet plan obligations.

The RPC has established and reviews at least annually the Investment Policy Statement ("IPS") which sets forth the guidelines for how plan assets are to be invested. The IPS contains a strategic asset allocation for each plan which is intended to meet the objectives of the pension plan by diversifying its funds across asset classes, investment styles and fund managers. An asset/liability study typically is conducted periodically to determine whether the current strategic asset allocation continues to represent the appropriate balance of expected risk and reward for the plan to meet expected liabilities. Each study considers the investment risk of the asset allocation and determines the optimal mix of assets for the plan. The target asset allocation for 2020 reflects the results of such a pension study conducted in 2019. As a result of that asset liability study the asset mix for the Niagara Mohawk Pension Plan was changed to further reduce investment risk given the overfunded nature and shorter duration of liabilities in that plan compared to the other pension plans. The PBOP Plan asset liability studies are expected to be run within the next 12-18 months.

Individual fund managers operate under written guidelines provided by the RPC, which cover such areas as investment objectives, performance measurement, permissible investments, investment restrictions, trading and execution, and communication and reporting requirements. National Grid management in conjunction with a third party investment advisor, regularly monitors, and reviews asset class performance, total fund performance, and compliance with asset allocation guidelines. This information is reported to the RPC at quarterly meetings. The RPC changes fund managers and rebalances the portfolio as appropriate.

Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across market segments and is mainly invested in investment grade securities. Where investments are made in non-investment grade assets the higher volatility is carefully judged and balanced against the expected higher returns. While the majority of plan assets are invested in equities and fixed income other asset classes are utilized to further diversify the investments. These asset classes include private equity, real estate, and diversified alternatives. The objective of these other investments are enhancing long-term returns while improving portfolio diversification. For the PBOP Plans, since the earnings on a portion of the assets are taxable, those investments are managed to maximize after tax returns consistent with the broad asset class parameters established by the asset liability study. Investment risk and return are reviewed by the plan investment advisors, National Grid management and the RPC on a regular basis. The assets of the plans have no significant concentration of risk in one country (other than the United States), industry or entity.

The target asset allocations for the benefit plans as of March 31, 2020 and 2019 are as follows:

	Pension Plans		Union PBOP Plans		Non-Union PBOP Plans	
	March 31,		March 31,		March 31,	
	2020	2019	2020	2019	2020	2019
Equity	37%	37%	63%	63%	70%	70%
Diversified alternatives	10%	10%	17%	17%	0%	0%
Fixed income securities	40%	40%	20%	20%	30%	30%
Private equity	5%	5%	0%	0%	0%	0%
Real estate	5%	5%	0%	0%	0%	0%
Infrastructure	3%	3%	0%	0%	0%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

### Fair Value Measurements

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

	March 31, 2020				
	Level 1	Level 2	Level 3	Not categorized	Total
	<i>(in millions of dollars)</i>				
<b>Pension assets:</b>					
Investments					
Equity	\$ 581	\$ -	\$ -	\$ 2,026	\$ 2,607
Diversified alternatives	201	-	-	575	776
Corporate bonds	-	1,986	-	639	2,625
Government securities	(17)	1,158	-	902	2,043
Private equity	-	-	-	489	489
Real estate	-	-	-	381	381
Infrastructure	-	-	-	173	173
Insurance contracts	-	-	-	4	4
Total assets	<u>\$ 765</u>	<u>\$ 3,144</u>	<u>\$ -</u>	<u>\$ 5,189</u>	<u>\$ 9,098</u>
Pending Transactions					(439)
Total net assets					<u>\$ 8,659</u>
<b>PBOP assets:</b>					
Investments					
Equity	\$ 438	\$ -	\$ -	\$ 1,287	\$ 1,725
Diversified alternatives	201	-	-	199	400
Corporate bonds	-	18	-	-	18
Government securities	66	610	-	2	678
Private Equity	-	-	-	1	1
Insurance contracts	-	-	-	164	164
Total assets	<u>\$ 705</u>	<u>\$ 628</u>	<u>\$ -</u>	<u>\$ 1,653</u>	<u>\$ 2,986</u>
Pending Transactions					9
Total net assets					<u>\$ 2,995</u>

**March 31, 2019**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Not categorized</u>	<u>Total</u>
	<i>(in millions of dollars)</i>				
<b>Pension assets:</b>					
Investments					
Equity	\$ 670	\$ -	\$ -	\$ 2,387	\$ 3,057
Diversified alternatives	236	-	-	634	870
Corporate bonds	-	1,754	-	550	2,304
Government securities	3	829	-	818	1,650
Private equity	-	-	-	448	448
Real estate	-	-	-	412	412
Infrastructure	-	-	-	128	128
Insurance contracts	-	-	-	25	25
Accounts Receivable	252	-	-	-	252
Accounts Payable	(497)	-	-	-	(497)
Total	<u>\$ 664</u>	<u>\$ 2,583</u>	<u>\$ -</u>	<u>\$ 5,402</u>	<u>\$ 8,649</u>
<b>PBOP assets:</b>					
Investments					
Equity	\$ 524	\$ -	\$ -	\$ 1,540	\$ 2,064
Diversified alternatives	229	-	-	216	445
Corporate bonds	-	21	-	-	21
Government securities	47	654	-	2	703
Private equity	-	-	-	1	1
Insurance contracts	-	-	-	194	194
Accounts Receivable	9	-	-	-	9
Total	<u>\$ 809</u>	<u>\$ 675</u>	<u>\$ -</u>	<u>\$ 1,953</u>	<u>\$ 3,437</u>

The methods used to fair value pension and PBOP assets are described below:

**Equity:** Equity includes both actively- and passively-managed assets with investments in domestic equity index funds as well as international equities. Corporate Bonds consist of debt issued by various corporation and corporate money market funds. Corporate Bonds also includes small investments in preferred securities as these are used in the fixed income portfolios as yield producing investments.

**Diversified Alternatives:** Diversified Alternatives consist of holdings of global tactical assets allocation funds that seek to invest opportunistically in a range of asset classes and sectors globally.

**Corporate Bonds:** Corporate Bonds consist of debt issued by various corporations and corporate money market funds. Corporate Bonds also includes small investments in preferred securities as these are used in the fixed income portfolios as yield producing investments. In addition, certain fixed income derivatives are included in this category such as credit default swaps to assist in managing credit risk.

**Government Securities:** Government Securities includes US agency and treasury securities, as well as slate and local municipally bonds. The plans hold a small amount of Non-US government debt which is also captured here. US Government money market funds are also included. In addition, interest rate futures and swaps are included in this category as a tool to manage interest rate risk.

**Private equity:** Private equity consists of limited partnerships investments where all the underlying investments are privately held. This consists of primarily buy-out investments with smaller allocations to venture capital.

**Real estate:** Real estate consists of limited partnership investments primarily in US core open end real estate funds as well as some core plus closed end real estate funds.

**Infrastructure:** Infrastructure consists of limited partnerships investments that seek to invest in physical assets that are considered essential for a society to facilitate the orderly operation of its economy. Investments in infrastructure typically include transportation assets (such as airports and toll roads) and utility type assets. Investments in infrastructure funds are utilized as a diversifier to other asset classes within the pension portfolio. Infrastructure investments are also typically income producing assets.

**Insurance contracts:** Insurance contracts consists of Trust Owned Life Insurance.

**Pending transactions/Receivables/Payables:** Accounts receivable and accounts payable are short term cash transactions that are expected to settle within a few days of the measurement date.

#### Defined Contribution Plans

The Company has two defined contribution pension plans that cover substantially all employees. For the years ended March 31, 2020 and 2019, the Company recognized an expense in the accompanying consolidated statements of operations and comprehensive income of \$79 million and \$77 million, respectively.

### 11. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to March 31, 2020 are as follows:

<i>(in millions of dollars)</i>	<b>Maturities of Long-Term Debt</b>
<b>March 31,</b>	
2021	\$ 221
2022	159
2023	473
2024	104
2025	524
Thereafter	10,746
Total	<u>\$ 12,227</u>

Sinking fund repayment requirements related to certain of the Company's Promissory Notes to NGNA and First Mortgage Bonds ("FMB") for the years subsequent to March 31, 2020 are as follows:

<i>(in millions of dollars)</i>	<b>Maturities of Long-Term Debt</b>
<b>March 31,</b>	
2021	\$ 19
2022	19
2023	19
2024	19
2025	19
Thereafter	67
Total	<u>\$ 162</u>

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. The Company's subsidiaries also have restrictions on the payment of dividends which relate to their debt to equity ratios. During the years ended March 31, 2020 and 2019, the Company was in compliance with all such covenants.

## Significant Debt Facilities

### Notes Payable

In July 2018, Narragansett issued \$350 million of unsecured senior long-term debt at 3.92% with a maturity date of August 1, 2028. In December 2018, Niagara Mohawk issued \$500 million of unsecured senior long-term debt at 4.28% with a maturity date of December 15, 2028. In March 2019, Brooklyn Union issued \$550 million of unsecured long-term debt at 3.87% with a maturity date of March 4, 2029 and \$450 million of unsecured long-term debt at 4.49% with a maturity date of March 4, 2049. In July 2019, Boston Gas issued \$500 million of unsecured senior long-term debt at 3.00% with a maturity of August 1, 2029.

On April 7, 2020, Narragansett issued \$600 million of senior unsecured debt at 3.395% due to mature on April 9, 2030. On June 15, 2020, Boston Gas received approval from the DPU for a one-year extension of the remaining \$250 million of long-term debt authorization through June 29, 2021. On June 23, 2020, Niagara Mohawk issued \$600 million of senior unsecured debt at 1.960% due to mature on June 27, 2030, and \$500 million of senior unsecured debt at 3.025% due to mature on June 27, 2050.

The following table represents the Company's notes payable for the years ended March 31, 2020 and 2019:

	Interest Rate	Maturity Date	March 31,	
			2020	2019
<i>(in millions of dollars)</i>				
<i>Brooklyn Union Unsecured Notes:</i>				
Senior Note	3.41%	March 10, 2026	\$ 500	\$ 500
Senior Note	3.87%	March 4, 2029	550	550
Senior Note	4.50%	March 10, 2046	500	500
Senior Note	4.27%	March 15, 2048	650	650
Senior Note	4.49%	March 4, 2049	450	450
<b>Brooklyn Union Notes</b>			<b>2,650</b>	<b>2,650</b>
<i>KeySpan Gas East Unsecured Notes:</i>				
Senior Note	5.82%	April 1, 2041	500	500
Senior Note	2.74%	August 15, 2026	700	700
<b>KeySpan Gas East Notes</b>			<b>1,200</b>	<b>1,200</b>
<i>Boston Gas Unsecured Notes:</i>				
Senior Note	3.30%	March 15, 2022	25	25
Senior Note	3.15%	August 1, 2027	500	500
Senior Note	3.13%	October 5, 2027	150	150
Senior Note	3.00%	August 1, 2029	500	-
Senior Note	4.49%	February 15, 2042	500	500
Senior Note	4.63%	March 15, 2042	25	25



*Boston Gas Medium-Term Notes:*

MTN Series 1989 A	8.97%	December 15, 2019	-	7
MTN Series 1990 A	9.75%	December 1, 2020	5	5
MTN Series 1990 A	9.05%	September 1, 2021	15	15
MTN Series 1992 A	8.33%	July 5, 2022	10	10
MTN Series 1995 C	6.95%	December 1, 2023	10	10
MTN Series 1994 B	6.98%	January 15, 2024	6	6
MTN Series 1995 C	6.95%	December 1, 2024	5	5
MTN Series 1995 C	7.25%	October 1, 2025	20	20
MTN Series 1995 C	7.25%	October 1, 2025	5	5

**Boston Gas Notes**

<b>1,776</b>	<b>1,283</b>
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<i>National Grid USA MTM</i>	8.00%	November 15, 2030	250	250
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*National Grid USA Unsecured Notes:*

Senior Note	5.80%	April 1, 2035	307	307
Senior Note	5.88%	April 1, 2033	150	150

**KeySpan Corp Notes**

<b>707</b>	<b>707</b>
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*Niagara Mohawk Unsecured Notes:*

Senior Note	4.88%	August 15, 2019	-	750
Senior Note	2.72%	November 28, 2022	300	300
Senior Note	3.51%	October 1, 2024	500	500
Senior Notes	4.28%	December 15, 2028	500	500
Senior Note	4.28%	October 1, 2034	400	400
Senior Note	4.12%	November 28, 2042	400	400

**Niagara Mohawk Notes**

<b>2,100</b>	<b>2,850</b>
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*Narragansett Electric Unsecured Notes:*

Senior Note	4.53%	March 15, 2020	-	250
Senior Note	3.92%	August 1, 2028	350	350
Senior Note	5.64%	March 15, 2040	300	300
Senior Note	4.17%	December 10, 2042	250	250

**Narragansett Electric Notes**

<b>900</b>	<b>1,150</b>
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*Massachusetts Electric Unsecured Notes:*

Senior Note	5.90%	November 15, 2039	800	800
Senior Note	4.00%	August 15, 2046	500	500

**Massachusetts Electric Notes:**

<b>1,300</b>	<b>1,300</b>
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*New England Power Unsecured Notes:*

Senior Notes	3.80%	December 5, 2047	400	400
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**Total**

<b>\$ 11,033</b>	<b>\$ 11,540</b>
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### *Promissory Notes to NGNA*

On November 20, 2015, Genco entered into multiple intercompany loans with NGNA totaling \$227 million, composed of a \$165 million intercompany loan with an interest rate of 3.25% due to mature on April 30, 2028 and a \$62 million intercompany loan with an interest rate of 3.13% due to mature on June 1, 2027. The intercompany loans have an annual sinking fund requirement totaling \$18 million. Genco had outstanding debt of \$156 million and \$174 million as of March 31, 2020 and 2019, respectively, of which \$18 million is included in current portion of long-term debt on the consolidated balance sheets as of March 31, 2020 and 2019. Please refer to Note 16, "Related Party Transactions" for intercompany related disclosures.

### *First Mortgage Bonds*

The assets of Boston Gas and Narragansett are subject to liens and other charges and are provided as collateral over borrowings of \$75 million and \$29 million, respectively, of non-callable FMB at March 31, 2020. These FMB indentures include, among other provisions, limitations on the issuance of long-term debt.

### *State Authority Financing Bonds*

At March 31, 2020, the Company had outstanding \$834 million of State Authority Financing Bonds, of which, approximately \$490 million were issued through the New York State Energy Research and Development Authority ("NYSERDA") and the remaining \$344 million were issued through various other state agencies.

At March 31, 2018, Niagara Mohawk had approximately \$429 million of tax-exempt revenue bonds in a variable interest rate mode ("TE Bonds") issued by the NYSERDA. Niagara Mohawk pledged to NYSERDA collateral, in the form of first mortgage bonds ("Pledged Bonds"), to secure the repayment of the NYSERDA TE bonds. The Pledged Bonds were issued under its 1937 Mortgage Trust Indenture, as amended and supplemented from time to time, that established a blanket lien (the "Indenture") (i.e. mortgage lien) on substantially all of Niagara Mohawk's operating properties.

In September and October 2018, Niagara Mohawk requested and received approval from the NYSERDA to convert the TE Bonds into a fixed rate mode which was fully completed on October 11, 2018. In connection with the mode conversion Niagara Mohawk i) cancelled the Insurance Policy, ii) replaced the Pledge Bonds with an unsecured note which eliminated the Pledge Bonds and effectively discharged the mortgage lien under the Indenture, and iii) made other modifications to NYSERDA TE Bonds transactional documents. The TE bonds were converted from a variable interest rate mode into a fixed rate interest mode ranging from 3.23% to 3.48%. These conversions were accounted for as extinguishments in accordance with ASC 470, "Debt." Prior to the conversion, the bonds bore interest at short-term interest rates ranging from 0.84% to 5.53% as of March 31, 2019.

Additionally, Genco has \$41 million of 1999 Series A Pollution Control Revenue Bonds due October 1, 2028. The interest rate on the various variable rate series ranged from 0.85% to 10.44% during the year ended March 31, 2020 and 0.94% to 3.72% during the year ended March 31, 2019. Genco also has outstanding \$25 million of variable rate 1997 Series A Electric Facilities Revenue Bonds due December 1, 2027 issued through the NYSERDA. The interest rate on the various variable rate series ranged from 0.90% to 5.15% during the year ended March 31, 2020 and 1.00% to 1.95% during the year ended March 31, 2019.

At March 31, 2020, NEP had outstanding \$293 million of Pollution Control Revenue Bonds in tax-exempt commercial paper mode and Nantucket had \$51 million of Electric Revenue Bonds in tax exempt commercial paper mode. The Electric Revenue Bonds were issued by the Massachusetts Development Finance Agency in connection with Nantucket's financing of its first and second underground and submarine cable projects.

## *Debt Authorizations*

### **Niagara Mohawk**

Niagara Mohawk has regulatory approval from the FERC to issue up to \$1.0 billion of short-term debt internally or externally that expires on January 10, 2021. Niagara Mohawk had no external short-term debt as of March 31, 2020 and 2019.

The NYPSC authorized Niagara Mohawk to issue up to \$2.1 billion of incremental long-term debt in one or more transactions through March 31, 2020. The authorization includes the option to issue up to \$429.5 million of the total authorization for a refunding of Niagara Mohawk's existing debt.

Under the authorization, Niagara Mohawk converted \$424.2 million of tax-exempt revenue bonds from a variable interest rate into a fixed rate and issued \$500.0 million of unsecured long-term debt at 4.28%. Prior to the expiration, Niagara Mohawk filed and received approval from the NYPSC for a one-year extension of the remaining \$1.1 billion of authorization through March 31, 2021.

In addition, Niagara Mohawk had unsecured long-term debt of \$750.0 million at 4.88% which matured on August 15, 2019.

### **Brooklyn Union**

On February 8, 2019 the NYPSC authorized Brooklyn Union to issue up to \$1.4 billion of long-term debt in one or more transactions through March 31, 2022. Under the authorization, on February 27, 2019, Brooklyn Union issued \$550 million of unsecured senior long-term debt at a fixed rate of 3.87% with a maturity date of March 4, 2029 and \$450 million of unsecured senior long-term debt at a fixed rate of 4.49% with a maturity date of March 4, 2049. As of March 31, 2020, \$400 million of debt authorization remains under the NYPSC order.

Under previous authorization, in March 2018, Brooklyn Union issued \$650 million of unsecured debt at 4.27% with a maturity date of March 15, 2048.

### **Keyspan Gas East**

On February 8, 2019 the NYPSC authorized KeySpan Gas East to issue up to \$400 million of long-term debt in one or more transactions through March 31, 2022. KeySpan Gas East did not issue any debts under the authorization during the year ended March 31, 2020.

### **Massachusetts Electric**

Massachusetts Electric has regulatory approval from the FERC to issue up to \$750 million of short-term debt internally or externally that expires on January 10, 2021. Massachusetts Electric had no external short-term debt as of March 31, 2020 and 2019.

### **Nantucket**

Nantucket has regulatory approval from the FERC to issue up to \$15 million of short-term debt internally or externally, that expires on January 10, 2021. Nantucket had no external short-term debt as of March 31, 2020 and 2019.

### **NEP**

NEP has regulatory approval from the FERC to issue up to \$1.5 billion of short-term debt, including the intercompany money pool, that expires on October 14, 2020. NEP intends to seek FERC approval to renew the authorization for a period of two years prior to its expiration. NEP had no short-term debt outstanding as of March 31, 2020 and 2019.

NEP has approval from the Massachusetts Department of Public Utilities, New Hampshire Public Utilities Commission and Vermont Public Service Board authorizing NEP to issue up to \$800 million of long-term debt in one or more transactions through May 23, 2020. On June 1, 2020 and June 12, 2020 NEP submitted financing applications to the aforementioned regulators requesting authorization to issue long-term debt in the aggregate amount not to exceed \$1.1 billion for a period of three years.

On November 30, 2017, NEP issued \$400 million of unsecured senior long-term debt with a maturity date of December 5, 2047. In addition, NEP entered into a bank term loan for \$100 million on March 31, 2020 with a maturity date of March 31, 2022, interest will be calculated using 3-month LIBOR plus 0.55% in year one.

### **Narragansett**

Narragansett has regulatory approval from the FERC to issue up to \$400 million of short-term debt internally or externally that expires on January 10, 2021. Narragansett had no external short-term debt as of March 31, 2020 and 2019.

A new financing petition was filed with the RIPUC and approved on January 19, 2020 authorizing the issuance of up to \$900 million of new long-term debt through March 31, 2023.

### **Genco**

Since January 12, 2015, Genco has had regulatory approval from the FERC to issue up to \$250 million of short-term debt. The authorization, which was renewed with an effective date of January 11, 2019, is effective for a period of two years and expires on January 10, 2021. Genco had no short-term debt outstanding to third-parties as of March 31, 2020 or 2019.

### *Standby Bond Purchase Agreement*

NEP and Nantucket have a Standby Bond Purchase Agreement, which expires on June 14, 2023. This agreement provides liquidity support for the \$344 million long-term bonds in tax-exempt commercial paper mode. The Company has classified the debt as long-term due to its intent and ability to refinance the debt on a long-term basis in the event of a failure to remarket the bonds.

### *Committed Facility Agreements*

At March 31, 2020, the Company, NGNA, and the Parent had committed revolving credit facilities of \$3.4 billion, of which \$0.9 billion was due to mature in June 2021, \$1.9 billion matures in May 2022, and \$0.6 billion matures in June 2024. The \$0.9 billion of facilities due to mature in June 2021 were renegotiated in the period after March 31, 2020. A new maturity date that extended to June 2022 was negotiated for \$0.4 billion of the facilities and a new maturity date that extended to June 2023 was negotiated for \$0.5 billion of the facilities. Both the renegotiated facilities include further extension options to June 2024. These facilities have not been drawn against. The Company, NGNA, and the Parent can all draw on these facilities in a variety of currencies as needed, but the aggregate borrowings across the group cannot exceed the \$3.4 billion limit. The terms of the facilities restrict the borrowing of all U.S. subsidiaries of the Company to \$25 billion excluding intercompany indebtedness. Additionally, these facilities have a number of non-financial covenants which the Company is obliged to meet. At March 31, 2020 and 2019, the Company, NGNA, and the Parent were in compliance with all covenants.

### *Commercial Paper and Revolving Credit Agreements*

At March 31, 2020, the Company had two commercial paper programs totaling \$4 billion; a \$2 billion U.S. commercial paper program and a \$2 billion Euro commercial paper program. In support of these programs, the Company was a named borrower under the Parent's credit facilities with \$3.4 billion available to the Company. These facilities support both the Parent's and the Company's commercial paper programs for ongoing working capital needs. At March 31, 2020 and 2019, there were \$483 million and \$200 million of borrowings outstanding on the U.S. commercial paper program and \$328 million and \$944 million outstanding on the Euro commercial paper program, respectively.

The credit facilities allow both the Parent and the Company to borrow in multi-currencies. The current annual commitment fees range from 0.09% to 0.28%. If for any reason the Company was not able to issue sufficient commercial paper or source funds from other sources, the facilities could be drawn upon to meet cash requirements. The facilities contain certain affirmative and negative operating covenants, including restrictions on the Company's utility subsidiaries' ability to mortgage, pledge, encumber, or otherwise subject their utility property to any lien, as well as financial covenants that require the Company and the Parent to limit the total indebtedness in U.S. and non-U.S. subsidiaries to pre-defined limits. Violation of these covenants could result in the termination of the facilities and the required repayment of amounts borrowed thereunder, as well as possible cross defaults under other debt agreements.

### Redemptions

The following table indicates the Company's redemptions for the years ended March 31, 2020 and 2019:

	Interest Rate	Maturity Date	Years Ended March 31,	
			2020	2019
<i>(in millions of dollars)</i>				
<i>Boston Gas MTN:</i>				
MTN Series 1992 A	8.33%	July 10, 2018	\$ -	\$ 10
MTN Series 1994 B	6.93%	January 15, 2019	-	10
MTN Series 1989 A	8.97%	December 15, 2019	7	-
<i>Narragansett Electric First Mortgage Bonds:</i>				
FMB Series P&R	7.5% - 8.09%	September 30, 2022 - December 15, 2025	1	1
FMB Series S	6.82%	April 1, 2018	-	15
<i>Narragansett Electric Unsecured Notes:</i>				
Senior Note	4.53%	March 15, 2020	250	-
<i>Niagara Mohawk State Authority Bonds:</i>				
NMPC 1986 Series A	3.42%	December 1, 2026	-	5
<i>Niagara Mohawk Unsecured Notes:</i>				
Senior Note	4.88%	August 15, 2019	750	-
<i>Genco Promissory Notes:</i>				
Promissory Notes to National Grid North America Inc.	3.13% - 3.25%	June 2027 - April 2028	18	18
Total			<u>\$ 1,026</u>	<u>\$ 59</u>

## 12. INCOME TAXES

### Components of Income Tax Expense

	<b>Years Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
	<i>(in millions of dollars)</i>	
Current tax expense (benefit):		
Federal	\$ (3)	\$ (10)
State	38	21
Total current tax expense	<u>35</u>	<u>11</u>
Deferred tax expense:		
Federal	245	195
State	80	7
Total deferred tax expense	<u>325</u>	<u>202</u>
Amortized investment tax credits <sup>(1)</sup>	<u>(2)</u>	<u>(2)</u>
Total deferred tax expense	<u>323</u>	<u>200</u>
Total income tax expense	<u>\$ 358</u>	<u>\$ 211</u>

<sup>(1)</sup> Investment tax credits (“ITC”) are accounted for using the deferral and gross up method of accounting 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, 2020 and 2019 are 25.6% and 21.2%, respectively. The following table presents a reconciliation of income tax expense (benefit) at the federal statutory tax rate of 21% to the actual tax expense:

	<b>Years Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
	<i>(in millions of dollars)</i>	
Computed tax	\$ 294	\$ 209
Change in computed taxes resulting from:		
State income tax, net of federal benefit	93	22
Amortization of regulatory tax liability - net	(26)	(20)
Other	(3)	-
Total changes	<u>64</u>	<u>2</u>
Total income tax expense	<u>\$ 358</u>	<u>\$ 211</u>

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

## Deferred Tax Components

	March 31,	
	2020	2019
	<i>(in millions of dollars)</i>	
<b>Deferred tax assets:</b>		
Environmental remediation costs	\$ 677	\$ 584
Reserves not currently deducted	265	90
Net operating losses	607	548
Postretirement benefits and other employee benefits	796	654
Regulatory liabilities	1,446	1,479
Other	429	290
Total deferred tax assets	<u>4,220</u>	<u>3,645</u>
<b>Deferred tax liabilities:</b>		
Property-related differences	5,782	5,181
Regulatory assets	1,799	1,441
Other	302	371
Total deferred tax liabilities	<u>7,883</u>	<u>6,993</u>
Net deferred income tax liabilities	3,663	3,348
Deferred investment tax credits	36	38
<b>Deferred income tax liabilities, net</b>	<u>\$ 3,699</u>	<u>\$ 3,386</u>

## Net Operating Losses

The amounts and expiration dates of the Company's net operating loss carryforwards as of March 31, 2020 are as follows:

	<u>Gross Carryforward Amount</u>		<u>Expiration Period</u>
	<i>(in millions of dollars)</i>		
<b>Federal</b>	\$ 3,263		2033 – 2038
<b>Federal – No Expiration</b>	346		Indefinite
<b>New York</b>	2,211	1	2035 - 2040
<b>New York City</b>	358	1	2035 - 2040
<b>Massachusetts</b>	344		2035 - 2040

<sup>(1)</sup> The amount contains net operating losses that were incurred before the tax year ended March 31, 2015 that have been converted into a Prior Net Operating Loss Conversion subtraction that can be utilized beginning fiscal year 2017.

As a result of the accounting for uncertain tax positions, the amount of deferred tax assets reflected in the consolidated financial statements is less than the amount of the tax effect of the federal and state net operating loss carryforwards reflected on the income tax returns.

## Federal and State Income Tax Audit Status

During the year ended March 31, 2020, the Company reached a settlement with the IRS for the tax years ended March 31, 2010, 2011, and 2012. The outcome of the settlement did not have a material impact on the Company's results of operations and financial position. As a result of the settlement, the Company paid \$77 million for tax and interest. The company paid an additional \$18 million of tax and interest due to the state tax consequences of the IRS settlement.

During the year ended March 31, 2020, the IRS began its examination of the next audit cycle which includes the income tax returns for the years ended March 31, 2013 through March 31, 2015. The examination was ongoing as of the end of the reporting period. Subsequent to the end of the reporting period, on June 30, 2020 the IRS issued a Form 4549 Income Tax Examination Changes commonly known as Revenue Agent’s Report (“RAR”). The Company agreed with the IRS’s findings and signed the RAR on July 24, 2020. The Company does not anticipate the agreement to have material impact on the Company’s results of operations, financial position, or cash flows. The income tax returns for the years ended March 31, 2016 through March 31, 2019 remain subject to examination by the IRS.

The state of New York is in the process of examining the Company’s New York State income tax returns. The following table presents the subsidiaries and years currently under examination. The income tax returns for the subsequent years through March 31, 2019 remain subject to examination by the state of New York.

<b>Companies</b>	<b>Years Under Examination</b>
Niagara Mohawk	March 31, 2013 through March 31, 2015
KeySpan Gas East	March 31, 2009 through March 31, 2012
Brooklyn Union	March 31, 2009 through March 31, 2012
Keyspan Energy Corporation	March 31, 2008 through March 31, 2014

The city of New York is in the process of examining the Company’s New York City income tax returns. The following table presents the subsidiaries and years currently under examination. The income tax returns for the subsequent years through March 31, 2019 remain subject to examination by the city of New York.

<b>Companies</b>	<b>Years Under Examination</b>
KeySpan Corporation and Subsidiaries	December 31, 2003 through March 31, 2009
National Grid Services Inc.	March 31, 2015

The state of Massachusetts is in the process of examining the Company’s income tax returns for the years ended March 31, 2010 through March 31, 2012. The income tax returns for the years ended March 31, 2013 through March 31, 2019 remain subject to examination by the state of Massachusetts.

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

<b>Jurisdiction</b>	<b>Tax Years</b>
Federal	March 31, 2013
Massachusetts	March 31, 2010
New York	March 31, 2008
New York City	December 31, 2003

### **Uncertain Tax Positions**

The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income (deductions), net, in the accompanying consolidated statements of operations and comprehensive income. As of March 31, 2020 and 2019, the Company has accrued for interest related to unrecognized tax benefits of \$61 million and \$107 million, respectively. During the years ended March 31, 2020 and 2019, the Company recorded interest expense of \$8 million and \$19 million, respectively. No tax penalties were recognized during the years ended March 31, 2020 and 2019.



Due to the conclusion of the IRS's examination of the Company's income tax returns for the years ended March 31, 2013 through March 31, 2015, the unrecognized tax benefits are expected to decrease in the next twelve months. The Company estimates the decrease to be \$223 million.

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 further increase or decrease. However, the Company does not believe any such increases or decreases would be material to its results of operations, financial position, and cash flows.

### **13. 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.

#### **Air**

Genco's generating facilities are subject to increasingly stringent emissions limitations under current and anticipated future requirements of the United States Environmental Protection Agency ("EPA") and the NYS Department of Environmental Conservation ("DEC"). In addition to efforts to improve both ozone and particulate matter air quality, there has been an increased focus on greenhouse gas emissions in recent years. Genco's previous investments in low NOx boiler combustion modifications, the use of natural gas firing systems at its steam electric generating stations, and the compliance flexibility available under cap and trade programs have enabled Genco to achieve its prior emission reductions in a cost-effective manner. These investments include the installation of enhanced NOx controls and efficiency improvement projects at certain of Genco's Long Island based electric generating facilities. The total cost of these improvements was approximately \$106 million, all of which have been placed in service as of the date of this report; a mechanism for recovery from LIPA of these investments has been established. Genco will continue to make investments for additional emissions reductions, as needed. Genco has developed a compliance strategy to address anticipated future requirements and is closely monitoring the regulatory developments to identify any necessary changes to its compliance strategy. At this time, Genco is unable to predict what effect, if any, these future requirements will have on its consolidated financial position, results of operations, and cash flows.

#### **Water**

Additional capital expenditures associated with the renewal of the surface water discharge permits for Genco's steam electric power plants have been required by the DEC pursuant to Section 316 of the Clean Water Act to mitigate the plants' alleged cooling water system impacts to aquatic organisms. Final permits have been issued for Port Jefferson and Northport. Capital improvements have been completed at Port Jefferson and are in the design, procurement, and construction phase for Northport. Genco continues to engage in discussions with the DEC regarding the nature of capital upgrades or other mitigation measures necessary to reduce any impacts at E.F. Barrett. Total capital costs for these improvements at Northport and E.F. Barrett are estimated to be approximately \$75 million as of March 31, 2020. Costs associated with these capital improvements are reimbursable from LIPA under the PSA.

#### **Land, Manufactured Gas Plants and Related Facilities**

Federal and state environmental regulators, as well as private parties, have alleged that several of the Company's subsidiaries are potentially responsible parties under Superfund laws for the remediation of numerous contaminated sites in New York and New England. The Company's greatest potential Superfund liabilities relate to MGP facilities formerly owned or operated by its subsidiaries or their predecessors. MGP byproducts included fuel oils, hydrocarbons, coal tar, purifier waste, and other waste products which may pose a risk to human health and the environment.

Since July 12, 2006, several lawsuits have been filed which allege damages resulting from contamination associated with the

historic operations of a former MGP located in Bay Shore, New York. The Company has been conducting remediation at this location pursuant to Administrative Order on Consent with the DEC. The Company intends to contest these proceedings vigorously.

During the year ended March 31, 2020, a regulated subsidiary of the Company received new information concerning the design and remediation work required at several sites in New York, which resulted in the Company increasing its estimate for environmental reserve. The estimated increases were the result of new information arising from notices received from environmental regulators and updated cost estimates prepared by third party engineers. Based on this, the Company's subsidiary has revised the total cost estimate accordingly and has increased its provision by approximately \$463 million. After recording an offsetting increase in regulatory assets relating to environmental remediation, there was no impact to the net assets of the subsidiary of the Company.

At March 31, 2020 and 2019, the Company's total reserve for estimated MGP-related environmental matters is \$2.4 billion and \$2.0 billion, respectively. The Company had a current portion of environmental remediation costs of \$216 million and \$128 million included in other current liabilities on the consolidated balance sheets at March 31, 2020 and 2019, respectively. Management believes that obligations imposed on the Company because of the environmental laws will not have a material adverse effect on its operations, financial position, or cash flows. Through various rate orders issued by the NYPSC, DPU, and RIPUC, costs related to MGP environmental cleanup activities are recovered in rates charged to gas distribution customers. Accordingly, the Company has reflected a net regulatory asset of \$2.5 billion and \$2.1 billion on the consolidated balance sheets at March 31, 2020 and 2019, respectively. Expenditures incurred for the years ended March 31, 2020 and 2019 were approximately \$103 million and \$50 million, respectively. The Company is pursuing claims against other potentially responsible parties to recover investigation and remediation costs it believes are the obligations of those parties. The Company cannot predict the likelihood of success of such claims.

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, and 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 since, as noted above, environmental expenditures incurred by the Company are generally recoverable from customers.

## **14. COMMITMENTS AND CONTINGENCIES**

### **Purchase Commitments**

The Company's electric subsidiaries have several long-term contracts for the purchase of electric power. Substantially all of these contracts require power to be delivered before the subsidiaries are obligated to make payment. Additionally, the Company's gas distribution subsidiaries have entered into various contracts for gas delivery, storage, and supply services. Certain of these contracts require payment of annual demand charges, which are recoverable from customers. The Company's gas distribution subsidiaries are liable for these payments regardless of the level of service required from third-parties.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2020 are summarized in the table below:

<i>(in millions of dollars)</i>	<b>Energy</b>
<u>Years Ending March 31,</u>	<u>Purchases</u>
2021	\$ 1,592
2022	1,014
2023	805
2024	611
2025	499
Thereafter	<u>2,570</u>
Total	<u>\$ 7,091</u>

The Company's subsidiaries can purchase additional energy to meet load requirements from independent power producers, other utilities, energy merchants or on the open market through the NYISO or the ISO-NE at market prices.

### Financial Guarantees

The Company has guaranteed the principal and interest payments on certain outstanding debt of its subsidiaries. Additionally, the Company has issued financial guarantees in the normal course of business, on behalf of its subsidiaries, to various third-party creditors. At March 31, 2020, the following amounts would have to be paid by the Company in the event of non-payment by the primary obligor at the time payment is due:

<u>Guarantees for Subsidiaries:</u>	<u>Amount of</u>	<u>Expiration Dates</u>
	<u>Exposure</u>	
	<i>(in millions of dollars)</i>	
KeySpan Ravenswood LLC Lease	(i) \$ 215	May 2040
Reservoir Woods	(ii) 124	October 2029
Surety Bonds	(iii) 203	Revolving
Commodity Guarantees and Other	(iv) 111	August 2025 - August 2042
Letters of Credit	(v) 379	August 2020 - December 2021
Grid NY, LLC	(vi) 341	None
Swan Lake North Holdings, LLC	(vii) 12	None
NGV US Distributed Energy Inc	(viii) <u>5</u>	None
	<u>\$ 1,390</u>	

The following is a description of the Company's outstanding subsidiary guarantees:

- (i) The Company had guaranteed all payment and performance obligations of a former subsidiary (KeySpan Ravenswood LLC) associated with a merchant electric generating facility leased by that subsidiary under a sale/leaseback arrangement. The subsidiary and the facility were sold in 2008. However, the original lease remains in place and the Company will continue to make the required payments under the lease through 2040. The cash consideration from the buyer of the facility included the remaining lease payments on a net present value basis. At March 31, 2020, the Company's obligation related to the lease was \$29 million and is reflected in other non-current liabilities on the consolidated balance sheets.
- (ii) The Company has fully and unconditionally guaranteed \$124 million in lease payments through 2029 related to

the lease of office facilities by its service company at Reservoir Woods in Waltham, Massachusetts.

- (iii) The Company has agreed to indemnify the issuers of various surety bonds associated with various construction requirements or projects of its subsidiaries. In the event that the Company or its subsidiaries fail to perform their obligations under contracts, the injured party may demand that the surety make payments or provide services under the bond. The Company would then be obligated to reimburse the surety for any expenses or cash outlays it incurs.
- (iv) The Company has guaranteed commodity-related and operational payments for certain subsidiaries. These guarantees are provided to third-parties to facilitate physical and financial transactions supporting the purchase and transportation of natural gas, oil, and other petroleum products for gas and electric production and financing activities. The guarantees cover actual transactions by these subsidiaries that are still outstanding as of March 31, 2020.
- (v) The Company has arranged for stand-by letters of credit to be issued to third-parties that have extended credit to certain subsidiaries. Certain vendors require the posting of letters of credit to guarantee subsidiary performance under the Company's contracts and to ensure payment to the Company's subsidiary subcontractors and vendors under those contracts. Certain of the Company's vendors also require letters of credit to ensure reimbursement for amounts they are disbursing on behalf of the Company's subsidiaries, such as to beneficiaries under the Company's self-funded insurance programs. Such letters of credit are generally issued by a bank or similar financial institution. The letters of credit commit the issuer to pay specified amounts to the holder of the letter of credit if the holder demonstrates that the Company has failed to perform specified actions. If this were to occur, the Company would be required to reimburse the issuer of the letter of credit.
- (vi) The Company has entered into a Parent Guaranty (the "Guaranty") dated November 14, 2014 for the benefit of NY Transco LLC, which Guaranty irrevocably and unconditionally guarantees all of Grid NY LLC's payment obligations under the New York Transco Limited Liability Company Agreement ("NY Transco LLC Agreement") dated November 14, 2014 entered into by and among Consolidated Edison Transmission, LLC, Grid NY LLC, Iberdrola USA Networks, NY Transco, LLC and Central Hudson Electric Transmission LLC. Grid NY LLC's payment obligations relate to, but are not limited to, funding project development of the initial projects, obtaining initial regulatory approvals and making capital contributions as set forth in the NY Transco LLC Agreement.
- (vii) The Company has entered into a Parent Guaranty dated February 23, 2017 under which the Company unconditionally and irrevocably guarantees to EDF Renewable Development, Inc., the timely payment of the purchase price related to the acquisition of the development rights for a 400 MW hydropower storage plant in accordance with and subject to the conditions and limitations set forth in the Purchase and Sale Agreement. The Company's aggregate liability with respect to such guaranteed obligations shall not exceed the purchase price which totals \$12 million and is payable on certain milestones being achieved.
- (viii) The Company entered into a guaranty as of December 22, 2016 in favor of Sunrun, unconditionally and irrevocably guaranteeing the timely payment when due of all of the Company's payment obligations to make "Capital Contributions" (as such term is defined in the LLC Agreement). The Company's aggregate liability with respect to such Guaranteed Obligations shall not exceed the Class A Capital Contribution Commitment (remaining commitment as of March 31, 2020 is \$5 million).

As of the date of this report, the Company has not had a claim made against it for any of the above guarantees and has no reason to believe that the Company's subsidiaries or former subsidiaries will default on their current obligations. However, the Company cannot predict when, or if, any defaults may take place or the impact any such defaults may have on its consolidated results of operations, financial position, or cash flows.

## Long-term Contracts for Renewable Energy

### *Offshore Wind Energy Procurement*

On December 6, 2018, Narragansett entered into a 20-year PPA with DWW Rev I, LLC (“Revolution Wind”), for the purchase of the electricity and renewable energy credits generated by the offshore windfarm proposed by Revolution Wind, that will have a capacity of up to 408 MW. The anticipated commercial operations date for the windfarm is in January 2024. On May 28, 2019, at an open meeting, the RIPUC approved the contract without remuneration. The written order approving the agreement and that Narragansett will be able to recover the cost incurred under the agreement was issued by the RIPUC on June 7, 2019.

On July 31, 2018, the Massachusetts Electric Companies entered into two separate 20-year PPAs with Vineyard Wind LLC (“Vineyard Wind”) for the purchase of 46.16% of the electricity and renewable energy credits generated by two offshore windfarms proposed by Vineyard Wind, with each individual windfarm having a capacity of up to 400 MW. The contracts with Vineyard Wind were entered into pursuant to Section 83C of the Green Communities Act. Based on the terms of the contract the commercial operations date for the first wind farm is in January 2022 with the second wind farm anticipated in May 2022. On January 13, 2020 Vineyard Wind exercised its first option to extend the critical milestones six months for the first wind farm including the commercial operation date. On April 12, 2019 the DPU approved the contracts and the Massachusetts Electric Companies will be able to recover the costs incurred under the agreements, including 2.75% remuneration on the annual payments made.

### *Clean Energy Procurement*

On June 13, 2018, the Massachusetts Electric Companies entered into two separate agreements for the transportation and purchase of electricity and the related environmental attributes from hydroelectric facilities located in the Canadian Province of Québec. The two agreements were entered into pursuant to Section 83D of the Green Communities Act. The first agreement is a 20-year PPA with H.Q. Energy Services Inc., (“H.Q. Energy”) for the purchase of approximately 498 mwhs of electricity, and related environmental attributes from a portfolio of hydroelectric facilities owned and operated by affiliates of H.Q. Energy. The second agreement is a 20-year transmission service agreement (“TSA”) with Central Maine Power Company (“CMP”). The TSA agreement provides for the transmission of the electricity supplied by H.Q. Energy, on a proposed new transmission line, that will run from the U.S. border to Lewiston Maine, where it will interconnect with ISO-NE. Both the TSA with CMP and the PPA with H.Q. Energy are contingent on the successful development and construction of the underlying transmission line by CMP. The anticipated commercial operations date of the transmission line is in December 2022, based on the contractual terms. The Section 83D contracts were approved by the DPU on June 25, 2019, and the Massachusetts Electric Companies will be able to recover the costs incurred under the agreements, including 2.75% remuneration on the annual payments made. An appeal on the DPU approval was filed by Next Era on July 12, 2019 and is currently on-going.

### *Annual Solicitations*

The 2009 Rhode Island law requires that, beginning on July 1, 2010, Narragansett conduct four annual solicitations for proposals from renewable energy developers and, provided commercially reasonable proposals have been received, enter into long-term contracts for the purchase of capacity, energy, and attributes from newly developed renewable energy resources. Narragansett’s four solicitations have resulted in four PPAs that have been approved by the RIPUC:

- First Solicitation: On July 28, 2011, the RIPUC approved a 15-year PPA with Orbit Energy Rhode Island, LLC for a 3.2 MW anaerobic digester biogas project located in Johnston, Rhode Island. The facility reached commercial operation on August 24, 2017.
- Second Solicitation: On May 11, 2012, the RIPUC approved a 15-year PPA with Black Bear Development Holdings, LLC for a 3.9 MW run-of-river hydroelectric plant located in Orono, Maine. The facility reached commercial operation on November 22, 2013.
- Third Solicitation: On October 25, 2013, the RIPUC approved a 15-year PPA with Champlain Wind, LLC for a 48 MW land-based wind project located in Carroll Plantation and Kossuth Township, Maine. The PPA was terminated on

January 23, 2017 because one of the required permits for the project was rejected. The impact of this termination is that Narragansett will need to backfill the MW capacity from that project to meet the 90 MW minimum long-term capacity requirements under the state statute, that it fulfilled in the fifth solicitation.

- Fourth Solicitation: On October 29, 2015, the RIPUC approved a 15-year PPA with Copenhagen Wind Farm, LLC for an 80 MW land-based wind project located in Denmark, New York. The facility reached commercial operation on December 27, 2018.

In 2014 the LTCS was amended to allow for additional solicitations until the 90 MW contracting capacity requirement was met.

- Fifth Solicitation: On May 11, 2020, the RIPUC approved a 20 year PPA with Gravel Pit Solar II, LLC for a 49.5 MW land based bifacial solar project located in East Windsor, CT. The anticipated commercial operation date is March 31, 2023.

As approved by the RIPUC, Narragansett is allowed to pass through commodity-related / purchased power costs to customers and collect remuneration equal to 2.75% on any contract capacity up to 90 MW.

#### *Aquidneck Island*

On January 21, 2019, Narragansett suspended gas service to approximately 7,500 gas customers on Aquidneck Island due to a gas transmission supply issue. The recovery effort was complete, with service restored to essentially all customers, by the morning of January 29, 2019. On February 28, 2019, the RIPUC opened an investigation into the causes of the outage to comport with the Rhode Island Senate's request to do so per Senate Resolution 188 passed on January 31, 2019. On October 30, 2019, the Division issued their Summary Investigation Report into the Aquidneck Island Gas Service Interruption of January 21, 2019. In the report, the Division identified the causes of the outages, which included multiple factors, some in which were outside the control of the Company. On December 13, 2019, Narragansett filed its Response to the Division's Report, which addressed certain aspects of the Report, but not all, and Division conclusions with which it did not agree, and included a status update on Narragansett's actions taken in response to the Report's recommendations up to that time. Also, on November 4, 2019, the Division issued a Notice of Probable Violation ("NOPV") and a fine totaling \$39,000 to Narragansett alleging Narragansett failed "to provide a telephonic notification to the Division of the emergency shutdown of an LNG facility" on the morning of January 21, 2019. An Informal Conference took place on December 18, 2019 with the Division and National Grid representatives. On January 13, 2020, Narragansett paid the fine without admitting liability and intends to work with the Division to develop a mutually agreeable notification procedures for future circumstances at the LNG facility. On November 19, 2019 and November 22, 2019, Narragansett was first served with an amended class action complaint on behalf of business owners on Aquidneck and a separate class action on behalf of individuals in the affected areas, respectively. Further amendments to the complaints have subsequently been filed. Narragansett continues to meet with the Division to discuss winter gas reliability issues, which include Aquidneck Island.

#### *Offshore Wind Energy Procurement: Round 2*

On January 10, 2020, the Massachusetts Electric Companies entered into two separate 20-year power purchase agreements ("PPA") with Mayflower Wind Energy LLC ("Mayflower Wind") for the purchase of 45.41% of the electricity and renewable energy credits generated by two offshore windfarms proposed by Mayflower Wind, with the first PPA having a capacity up to 408 MW and the second having a capacity of up to 396 MW. The contracts with Mayflower Wind were entered into pursuant to Section 83C of the Green Communities Act. Based on the terms of the contract the commercial operations date for the first wind farm is in September 2025 and the second wind farm anticipated in December 2025. These contracts were filed with the DPU on February 10, 2020 seeking approval of the PPAs so the Massachusetts Electric Companies will be able to recover the costs incurred under the agreements and 2.75% remuneration on the annual payments made. This proceeding is currently on-going.

## Legal Matters

The Company is subject to various legal proceedings arising out of the ordinary course of its business. During the year ended March 31, 2019, the Company recognized a benefit of \$130 million, within operations and maintenance in the accompanying consolidated statements of operations and comprehensive income, related to legal settlements to recover costs associated with a U.S. systems implementation. Otherwise, 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*

Four separate complaints have been filed at the FERC by combinations of New England state attorneys general, state regulatory commissions, consumer advocates, consumer groups, municipal parties and other parties (collectively the "Complainants"). In each of the first three complaints, filed on October 1, 2011, December 27, 2012, and July 31, 2014, respectively, the Complainants challenged the NETO base ROE of 11.14% that had been utilized since 2005 and sought an order to reduce it prospectively from the date of the final FERC order and for the separate 15-month complaint periods. In the fourth complaint, filed April 29, 2016, the Complainants challenged the NETOs' base ROE of 10.57% and the maximum ROE for transmission incentive ("incentive cap") of 11.74%, asserting that these ROEs were unjust and unreasonable. NEP recorded a liability of \$32 million and 30 million included in other current liabilities on the consolidated balance sheets as of March 31, 2020 and 2019 for the potential refund as a result of reduction of the base ROE.

With the exception of the FERC order issued on October 16, 2018 (refer to "Transmission Return on Equity" section in Note 5, "Rate Matters"), where the FERC proposed a new framework to determine whether an existing ROE is unjust and unreasonable and, if so, how to calculate a replacement ROE, the FERC has not issued a final order on NEP's ROE complaints nor the applicability of the FERC orders on the MISO ROE complaint proceedings on other transmission owners.

Given the significant uncertainty relating to the October 2018 FERC order and the subsequent orders issued on the MISO ROE complaint proceedings NEP is unable to predict their potential effect on the four complaints and concluded that there is no reasonable basis for a change to the reserve or recognized ROEs for any of the complaint periods at this time. Further, NEP cannot reasonably estimate a range of gain or loss for any of the four complaint proceedings.

### *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 the 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 NEP's, current RNS and 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. On August 17, 2018, the parties filed a settlement package with a FERC judge that is close to revenue neutral. A small group of municipalities and FERC Trial Staff submitted comments opposing the filed settlement. The settling parties filed an answer to the opposition in late September asking the FERC to approve the settlement as is, despite the protests. On May 22, 2019, the FERC rejected the Formula Rate 206 settlement in its entirety. Accordingly, the FERC remanded the matter to the Chief Administrative Law Judge ("ALJ") for hearing procedures. The Chief ALJ established Track III procedural time standards for this hearing, which require that the hearing be convened within 42 weeks and the initial decision issued within 63 weeks. The Chief ALJ also designated a dispute resolution specialist to serve as settlement facilitator in the proceeding but any settlement discussions will have to proceed in parallel with hearing procedures. The parties have continued settlement negotiations and have been granted a suspension of the procedural schedule to attempt to finalize settlement. The parties have since arrived at an agreement to resolve the issues in this proceeding and submitted a revised settlement agreement to FERC on June 15, 2020. The Company has requested the FERC to issue an order approving the

settlement by November 1, 2020 to assure the appropriate time needed to implement the new formula rate provided for in the settlement on January 1, 2021.

### **Electric Services and LIPA Agreements**

Effective May 28, 2013 (and most recently amended on April 1, 2018), Genco provides services to LIPA under an A&R PSA. Under the A&R PSA, Genco has a ROE of 9.75% and a capital structure of 50% debt and 50% equity. Genco's annual revenue requirement for the year ended March 31, 2020 was \$454 million.

The A&R PSA has a term of fifteen years, provided LIPA has the option to terminate the agreement as early as April 2025 on two years advance notice. GENCO accounts for the A&R PSA as an operating lease under ASC 842. In addition, LIPA has options to ramp down blocks of capacity on two years advance notice for steam generating units and one year advance notice for other generating units covered by the A&R PSA. The earliest effective ramp down date for GENCO's Northport steam generating units is May 2021; ramp downs for all other units could be effective at any time after consideration of the notice periods. Should any ramp downs be exercised, GENCO is entitled to a ramp down payment plus operating and maintenance expenses for 18 months for steam generating units and 12 months for all other generating units. The ramp down payment is equivalent to the net book value of the generating unit, less a discount factor. This discount factor ranges from 50% of the unit's net book value if retired with an effective date in 2022 up to 62.5% of the unit's net book value if retired with an effective date thereafter.

LIPA provided advance notice for one non-steam generating unit ramp down in December 2019, with an effective date in December 2020. As this unit is fully depreciated, there is no significant financial impact from the ramp down provision included within the A&R PSA associated with this notice through the effective ramp down date.

In February 2020, LIPA provided advance notice for one non-steam generating unit ramp down with an effective date in February 2021. The financial impact of receiving the advance notice was not material to the consolidated financial statements.

The A&R PSA provides potential penalties to GENCO if it does not maintain the output capability of the generating facilities, as measured by annual industry-standard tests of operating capability, plant availability, and efficiency. These penalties may total \$4 million annually. Although the A&R PSA provides LIPA with all of the capacity from the generating facilities, LIPA has no obligation to purchase energy from the generating facilities and can purchase energy on a least-cost basis from all available sources consistent with existing transmission interconnection limitations of the transmission and distribution system. GENCO must, therefore, operate its generating facilities in a manner such that GENCO can remain competitive with other producers of energy. To date, GENCO has dispatched to LIPA and LIPA has accepted the level of energy generated at the agreed to price per megawatt hour. Under the terms of the A&R PSA, LIPA is obligated to pay for capacity at rates that reflect recovery of an agreed level of the overall cost of maintaining and operating the generating facilities, including recovery of depreciation and return on its investment in plant. The capacity charge is approximately 95% of the annual revenue requirement and is adjusted each year using cost escalation and inflation factors applied to the prior year's capacity charge. A monthly variable maintenance charge is billed for each unit of energy actually acquired from the generating facilities. The billings to LIPA under the A&R PSA do not include a provision for fuel costs, as such fuel is owned by LIPA.

### **Decommissioning Nuclear Units**

As of March 31, 2020 and 2019, Niagara Mohawk had a liability of \$178 million and \$174 million, respectively, recorded in other non-current liabilities on the consolidated balance sheets, for the disposal of nuclear fuel irradiated prior to 1983. The Nuclear Waste Policy Act of 1982 provides three payment options for liquidating such liability and Niagara Mohawk has elected to delay payment, with interest, until the year in which Constellation Energy Group Inc., which purchased Niagara Mohawk's nuclear assets, initially plans to ship irradiated fuel to an approved Department of Energy ("DOE") disposal facility. The 2010 Federal budget (which became effective October 1, 2009) eliminated almost all funding for the creation of the Yucca Mountain repository. A Blue Ribbon Commission ("BRC") on America's Nuclear Future, appointed by the U.S. Energy Secretary, released a report on January 26, 2012, detailing comprehensive recommendations for creating a safe, long-term solution for managing and disposing of the nation's spent nuclear fuel and high-level radioactive waste.



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

Despite insufficient funding and actions of the DOE to block its construction, the U.S. Court of Appeals for the D.C. Circuit directed the Nuclear Regulatory Commission (“NRC”) to resume the Yucca Mountain licensing process. On November 18, 2013, the NRC ordered its staff to resume work on its Yucca Mountain safety report but scarce funding has precluded progress in the licensing process. On January 26, 2012 the BRC, which was charged with advising the DOE regarding alternatives to disposal at Yucca Mountain, issued a final report recommending that priority be given to removal of spent fuel from shutdown reactor sites. Private entities have initiated proposals, and submitted license applications to the NRC, to site consolidated interim storage facilities at two locations in the southwestern United States. 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.

### **Other Contingencies**

At March 31, 2020 and 2019, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported (“IBNR”) of \$80 million and \$82 million, respectively. IBNR reserves have been established for claims and/or events that have occurred but have not yet been reported to the Company for payment.

## **15. LEASES**

The Company has elected the practical expedient “package” under Topic 842 in which any expired contracts need not be reassessed to determine whether they are or contain leases; classification of leases that commenced prior to the adoption of this standard will not be reassessed; and any initial direct costs for existing leases need not be reassessed. The Company elected the practical expedient not to reassess existing easements that were not previously accounted for as leases under Topic 840. Additionally, the Company elected the practical expedient not to evaluate whether sales tax and other similar taxes are lessor and lessee costs. Instead, such costs are deemed lessee costs. The Company elected not to take the “hindsight” practical expedient nor other specific practical expedients to combine lease and non-lease components for contracts in which the Company is the lessee or the lessor. The Company does not reflect short-term leases on the balance sheets. The expense related to short-term leases was not material for the year ended March 31, 2020. The Company, as a regulated entity, will continue to recognize lease expense based on a pattern that conforms to the regulatory ratemaking treatment.

The Company has various operating leases, primarily related to a transmission line, buildings, land, real estate, and fleet vehicles used to support the electric and gas operations, with lease terms ranging between 4 and 70 years. The expense related to operating leases was \$150 million for the year ended March 31, 2020. Rent expense for operating leases was \$89 million for the year ended March 31, 2019. As of March 31, 2020, the Company had one finance lease with a lease liability of less than \$1 million.

Certain building leases provide the Company with an option to extend the lease term. The Company has included the periods covered by the extension options in its determination of the lease term as management believes it is reasonably certain the Company will exercise its option.

In measuring lease liabilities, the Company excludes variable lease payments, other than those that depend on an index or a rate, or are in substance fixed payments, and includes lease payments made at or before the commencement date. The variable lease payments were not material for the year ended March 31, 2020.

Lease liabilities are recognized based on the present value of the lease payments over the lease term at the commencement date. For any leases that do not provide an implicit rate, the Company uses an estimate of its collateralized incremental

borrowing rate based on the information available at the commencement date to determine the present value of future payments. Operating lease ROU assets are included in property, plant and equipment, net, and operating lease liabilities are included in other current liabilities and other noncurrent liabilities on the balance sheet.

As of March 31, 2020, the Company's operating leases had a weighted average discount rate of 3.33% and a weighted average remaining lease term of 15 years.

In January 2020, the Company entered into a corporate real-estate lease agreement that will be accounted for as an operating lease. The Company did not report a lease liability or ROU asset for this agreement on the March 31, 2020 balance sheet as the landlord had not made the property available for use by the Company. The Company expects to record a lease liability and ROU asset for this agreement during the year-ended March 31, 2021. The Company does not have any other material rights or obligations under operating leases that have not yet commenced at March 31, 2020.

The following table presents the components of cash flows arising from lease transactions:

	<b>Year ended</b>	
	<b>March 31, 2020</b>	
	<i>(in millions of dollars)</i>	
Cash paid for amounts included in lease liabilities		
Operating cash flows from operating leases	\$	150
Financing cash flows from finance leases		1
ROU assets obtained in exchange for operating lease liabilities	\$	869

The following contains the Company's maturity analysis of its operating lease liabilities as of March 31, 2020, showing the undiscounted cash flows on an annual basis reconciled to the undiscounted cash flows of the operating lease liabilities recognized in the comparative balance sheet:

<b>Year Ending March 31,</b>	<b>Operating Leases</b>	
	<i>(in millions of dollars)</i>	
2021	\$	132
2022		114
2023		99
2024		81
2025		63
Thereafter		511
Total future minimum lease payments		<u>1,000</u>
Less: imputed interest		236
Total	\$	<u>764</u>
<b>Reported as of March 31, 2020:</b>		
Current lease liability	\$	110
Non-current lease liability		654
Total	\$	<u>764</u>

The future minimum lease commitments as of March 31, 2019 under Topic 840:

<b>Year Ending March 31,</b>	<b>Operating Leases</b>	
	<i>(in millions of dollars)</i>	
2020	\$	133
2021		120
2022		103
2023		88
2024		70
Thereafter		191
Total future minimum lease payments	\$	705

There are certain leases in which the Company is the lessor. Revenue under such leases was immaterial for the year ended March 31, 2020.

## 16. RELATED PARTY TRANSACTIONS

### Accounts Receivable from and Accounts Payable to Affiliates

The Company engages in various transactions with the Parent and its subsidiaries. Certain activities and costs, primarily executive and administrative and some human resources, legal, and strategic planning, are shared between the Company and its affiliates.

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:

	<b>Accounts Receivable from Affiliates</b>		<b>Accounts Payable to Affiliates</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	<i>(in millions of dollars)</i>			
National Grid plc	\$ 15	\$ 8	\$ -	\$ 25
National Grid North America	-	-	27	-
NGV and NGP	100	-	110	-
Other	2	1	1	2
Total	<u>\$ 117</u>	<u>\$ 9</u>	<u>\$ 138</u>	<u>\$ 27</u>

### Advance from Affiliate

In August 2009, the Company entered into an agreement with the Parent, whereby either party can collectively borrow up to \$3 billion from time to time for working capital needs. These advances currently bear interest rates of London Interbank Offered Rate plus a margin set to reflect the cost of short-term borrowing rates for the Parent at the time of the borrowing. At March 31, 2020 and 2019, the Company had \$300 million and zero advances under this agreement.

In August 2008, the Company entered into an agreement with NGNA, whereby the Company can borrow up to \$1.5 billion from time to time for working capital needs. The agreement can be amended and restated from time to time with the latest amendment made in February 2016 to increase the borrowing capacity to \$8 billion. These advances do not bear interest. At March 31, 2020 and 2019, the Company had \$6.3 billion and \$3.2 billion outstanding advances from NGNA under this agreement.

Amounts advanced under each of these agreements are repayable on demand and can be structured as interest or non-interest bearing subject to the demands of the lender. The advances support general working capital needs with advances and repayments executed on a daily basis.

### **Promissory Notes**

On November 20, 2015, Genco entered into an intercompany loan with the Parent totaling \$227 million, composed of a \$165 million intercompany loan with an interest rate of 3.25% due to mature on April 30, 2028 and a \$62 million intercompany loan with an interest rate of 3.13% due to mature on June 1, 2027. The remaining intercompany loan of \$156 million is reported in Long-term debt on the consolidated balance sheets. The intercompany loans also have an annual sinking fund requirement totaling \$17.9 million, which is included in current portion of long-term debt on the accompanying consolidated balance sheets as of March 31, 2020 and 2019, respectively.

### **Intercompany Money Pool**

The settlement of the Company's various transactions with its subsidiaries and certain affiliates generally occurs via the Regulated and Unregulated Money Pools, as applicable. Borrowings from the Regulated and Unregulated Money Pools bear interest in accordance with the terms of the applicable money pool agreement. All changes in the intercompany money pool balances are reflected as investing or financing activities in the accompanying consolidated statements of cash flows. 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 and Unregulated Money Pools are funded by operating funds from participants in the applicable pool. The Company reported short-term intercompany money pool investments of \$594 million and \$0, and intercompany money pool borrowings of \$168 million and \$0 on the consolidated balance sheets as of March 31, 2020 and 2019, respectively. The balances at March 31, 2020 represent money pool positions between the Company and legal entities that are part of the NGV and NGP business, which remains party to the Unregulated Money Pool. The cash impacts from these money pool positions were reported as either investing or financing activities in the consolidated statement of cash flows for the year-ended March 31, 2020.

The average interest rates for the intercompany money pool were 2.4% and 2.4% for the years ended March 31, 2020 and 2019, respectively.

### **Holding Company Charges**

The Company receives 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 the Parent to its U.S. subsidiaries. For the years ended March 31, 2020 and 2019, the effect on income before income taxes was \$30 million and \$48 million, respectively.

## 17. PREFERRED STOCK

### Preferred stock of NGUSA subsidiaries

The Company's subsidiaries have certain issues of non-participating cumulative preferred stock outstanding where the security is guaranteed by National Grid plc and can be redeemed only at the option of the Company's subsidiaries. There are no mandatory redemption provisions on the cumulative preferred stock and no conversion options. A summary of the cumulative preferred stock of NGUSA subsidiaries at March 31, 2020 and 2019 is presented in the table below. The preferred stock is reported as a non-controlling interest as of March 31, 2020.

Series	Company	Shares Outstanding		Amount		Call Price
		March 31,		March 31,		
		2020	2019	2020	2019	
<i>(in millions of dollars, except per share and number of shares data)</i>						
\$100 par value -						
3.40% Series	Niagara Mohawk	57,524	57,524	\$ 6	\$ 6	\$ 103.500
3.60% Series	Niagara Mohawk	137,152	137,152	14	14	104.850
3.90% Series	Niagara Mohawk	95,171	95,171	9	9	106.000
4.44% Series	Massachusetts Electric	22,585	22,585	2	2	104.068
6.00% Series	NEP	11,117	11,117	1	1	Non-callable
\$50 par value -						
4.50% Series	Narragansett	49,089	49,089	3	3	55.000
Golden Shares -	Niagara Mohawk and the New York Gas Companies	3	3	-	-	Non-callable
Total		<u>372,641</u>	<u>372,641</u>	<u>\$ 35</u>	<u>\$ 35</u>	

In connection with the acquisition of KeySpan by NGUSA, each of the Company's New York subsidiaries became subject to a requirement to issue a class of preferred stock, having one share (the "Golden Share"), subordinate to any existing preferred stock. The holder of the Golden Share would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation, receivership, or similar proceeding without the consent of the holder of the Golden Share. The NYPSC subsequently authorized the issuance of the Golden Share to a trustee, GSS Holdings, Inc. ("GSS"), who will hold the Golden Share subject to a Services and Indemnity Agreement requiring GSS to vote the Golden Share in the best interests of NYS. On July 8, 2011, the Company issued a total of 3 Golden Shares pertaining to Niagara Mohawk and the New York Gas Companies each with a par value of \$1.

The Company's subsidiaries did not redeem any preferred stock as of March 31, 2020, or 2019. The annual dividend requirement for cumulative preferred stock was \$1.3 million as of March 31, 2020, and 2019.

### Preferred stock of NGUSA

The Company has cumulative series A through F non-participating non-callable preferred stock (5,000 total shares authorized, 915 outstanding) which have no fixed redemption date and no conversion options. The series A through F shares rank above all common shares, but below the Company's debt holders in an event of liquidation. If the Company does not pay its annual dividend on the A through F series preferred stock due on July 28, it is subject to limitations on the payment of any dividends to its common shareholder. The par value of the series A through F preferred stock is \$0.10. The fixed rate on the series A through E preferred stock is 6.5%. The fixed rate on the series F preferred stock is 8.5%. The Company has paid all declared dividends in full.

A summary of preferred stock is as follows:

Series	Shares Outstanding		Amount (par)		Amount (additional paid-in capital)		Dividends Paid	
	March 31,		March 31,		March 31,		March 31,	
	2020	2019	2020	2019	2020	2019	2020	2019
	<i>(in millions of dollars, except per share and number of shares data)</i>							
<p>\$0.10 par value -</p>								
Series A	51	51	\$ -	\$ -	\$ 400	\$ 400	\$ 26	\$ 26
Series B	40	40	-	-	315	315	20	20
Series C	96	96	-	-	750	750	49	49
Series D	79	79	-	-	616	616	40	40
Series E	1	1	-	-	10	10	1	1
Series F	648	648	-	-	5,368	5,368	456	456
Total	<u>915</u>	<u>915</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,459</u>	<u>\$ 7,459</u>	<u>\$ 592</u>	<u>\$ 592</u>