nationalgrid

New England Power Company

Financial Statements

For the years ended March 31, 2020, 2019, and 2018

NEW ENGLAND POWER COMPANY

TABLE OF CONTENTS

Deloitte.

Deloitte & Touche LLP
30 Rockefeller Plaza
New York, NY 10112
USA

Tel: +1 212 492 4000
Fax: +1 212 489 1687
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
New England Power Company

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New England Power Company as of March 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

July 15, 2020

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

	Years Ended March 31,		
	2020	2019	2018
Operating revenues	**$ 439,758**	$ 421,995	$ 443,119
Operating expenses:			
Purchased electricity	**132**	427	19,711
Operations and maintenance	**106,321**	110,754	116,240
Depreciation	**67,811**	63,150	59,904
Other taxes	**53,675**	52,006	49,604
Total operating expenses	**227,939**	226,337	245,459
Operating income	**211,819**	195,658	197,660
Other income and (deductions):			
Interest on long-term debt	**(20,408)**	(21,036)	(9,857)
Other interest, including affiliate interest, net	**(7,865)**	(6,389)	(13,511)
Other income, net	**4,643**	8,651	1,011
Total other deductions, net	**(23,630)**	(18,774)	(22,357)
Income before income taxes	**188,189**	176,884	175,303
Income tax expense	**50,425**	43,471	63,711
Net income	**$ 137,764**	$ 133,413	$ 111,592
Other comprehensive (loss) income, net of taxes:			
Unrealized gains (losses) on securities, net of $(94), $8, $(73) taxes in 2020, 2019 and 2018, respectively	**261**	(21)	48
Change in pension and other postretirement obligations, net of $213, $0, $0 taxes in 2020, 2019, and 2018, respectively	**(591)**	-	-
Total other comprehensive (loss) income	**(330)**	(21)	48
Comprehensive Income	**$ 137,434**	$ 133,392	$ 111,640

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

	Years Ended March 31,		
	2020	2019	2018
Operating Activities:			
Net income	$ 137,764	$ 133,413	$ 111,592
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	67,811	63,150	59,904
Deferred income tax expense	23,669	22,986	28,536
Bad debt expense	654	379	(17)
Income from equity investments, net of dividends received	(288)	(166)	(22)
Allowance for equity funds used during construction	(6,077)	(9,829)	(1,502)
Pension and postretirement benefits expenses, net	(3,307)	(3,037)	(1,940)
Changes in operating assets and liabilities			
Accounts receivable and other receivables, net, and unbilled revenues	(5,237)	1,205	537
Accounts receivable from/payable to affiliates, net	(16,976)	(17,216)	-
Inventory	(1,193)	100	1,560
Regulatory assets and liabilities, net	20,805	(16,237)	12,230
Prepaid and accrued taxes	(23,989)	16,890	25,936
Accounts payable and other liabilities	8,742	4,619	2,710
Accrued Yankee nuclear plant costs	(17,404)	17,523	(3,254)
Other, net	(4,445)	(7,941)	(2,570)
Net cash provided by operating activities	180,529	205,839	233,700
Investing Activities:			
Capital expenditures	(210,999)	(164,531)	(200,580)
Intercompany money pool	(25,206)	186,091	(176,285)
Cost of removal	(4,879)	(6,954)	(10,015)
Other	647	(370)	(655)
Net cash (used in) provided by investing activities	(240,437)	14,236	(387,535)
Financing Activities:			
Common stock dividends to Parent	(165,000)	(220,000)	-
Preferred stock dividends	(67)	(67)	(50)
Payments on long-term debt	-	-	(79,250)
Proceeds from long-term debt	100,000	-	400,000
Payment on debt issuance costs	-	-	(3,645)
Intercompany money pool	-	-	(670,983)
Equity infusion from Parent	125,000	-	505,000
Net cash provided by (used in) financing activities	59,933	(220,067)	151,072
Net increase (decrease) in cash, cash equivalents, restricted cash and special deposits	25	8	(2,763)
Cash, cash equivalents, restricted cash and special deposits, beginning of year	8	-	2,763
Cash, cash equivalents, restricted cash and special deposits, end of year	$ 33	$ 8	$ -
Supplemental disclosures:			
Interest paid	$ (22,235)	$ (20,322)	$ (10,417)
Income taxes paid	(40,989)	(13,383)	(8,769)
Significant non-cash items:	4,289	3,415	4,382
Capital-related accruals included in accounts payable	-	5,951	4,120
Parent tax loss allocation			

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

	March 31,	
	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 33**	$ 8
Accounts receivable	**10,143**	5,563
Accounts receivable from affiliates	**99,756**	77,456
Intercompany money pool asset	**43,570**	18,364
Inventory	**2,822**	1,629
Other current assets	**7,544**	2,283
Total current assets	**163,868**	105,303
Equity investments	**1,877**	1,748
Investment in affiliates	**1,642**	1,484
Property, plant and equipment, net	**2,674,202**	2,515,562
Other non-current assets:		
Regulatory assets – noncurrent	**82,205**	90,368
Goodwill	**337,614**	337,614
Postretirement benefits asset	**23,323**	19,283
Financial investments	**11,481**	11,770
Other noncurrent assets	**20,482**	15,417
Total other non-current assets	**475,105**	474,452
Total assets	**$ 3,316,694**	$ 3,098,549

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

	March 31, 2020	March 31, 2019
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 23,512**	$ 19,741
Accounts payable to affiliates	**30,909**	25,585
Current portion of long-term debt	**186,450**	-
Taxes accrued	**28,649**	45,985
Other current liabilities	**50,663**	49,279
Total current liabilities	**320,183**	140,590
Other non-current liabilities:		
Regulatory liabilities – noncurrent	**326,678**	321,838
Accrued Yankee nuclear plant costs	**7,372**	24,766
Deferred income tax liabilities, net	**365,290**	341,477
Environmental remediation costs – noncurrent	**1,784**	1,915
Other noncurrent liabilities	**22,703**	6,568
Total other non-current liabilities	**723,827**	696,564
Commitments and contingencies (Note 11)		
Capitalization:		
Shareholders' equity	**1,672,563**	1,575,196
Long-term debt	**600,121**	686,199
Total capitalization	**2,272,684**	2,261,395
Total liabilities and capitalization	**$ 3,316,694**	$ 3,098,549

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

			March 31,	
			2020	2019
Total shareholders' equity			**$ 1,672,563**	$ 1,575,196
Long-term debt:	Interest Rate	Maturity Date		
Pollution Control Revenue Bonds:				
Business Finance Authority of the State of New Hampshire	Variable	November 1, 2020	**135,850**	135,850
Business Finance Authority of the State of New Hampshire	Variable	November 1, 2020	**50,600**	50,600
Massachusetts Development Finance Agency 2	Variable	October 1, 2022	**106,150**	106,150
			292,600	292,600
Term Loans:				
Bank Term Loan	Variable	March 31, 2022	**100,000**	-
Unsecured Notes:				
Senior Notes	3.80%	December 5, 2047	**400,000**	400,000
Total Debt			**792,600**	692,600
Unamortized debt discount			**(2,488)**	(2,578)
Unamortized debt issuance costs			**(3,541)**	(3,823)
Total debt less unamortized costs			**786,571**	686,199
Current portion of long-term debt			**186,450**	-
Total long-term debt			**600,121**	686,199
Total capitalization			**$ 2,272,684**	$ 2,261,395

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

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Available-For-Sale Securities	Accumulated Other Comprehensive Income (Loss): Pension and Other Postretirement Benefits	Accumulated Other Comprehensive Income (Loss): Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2017	**$ 72,398**	**$ 1,112**	**$ 802,510**	**$ 1,132**	**$ -**	**$ 1,132**	**$ 158,058**	**$ 1,035,210**
Net income	-	-	-	-	-	-	111,592	111,592
Other comprehensive income (loss):								
Unrealized gains on securities, net of $124 tax expense	-	-	-	48	-	48	-	48
Total comprehensive income								111,640
Equity infusion from Parent	-	-	505,000	-	-	-	-	505,000
Parent tax loss allocation	-	-	4,120	-	-	-	-	4,120
Preferred stock dividends	-	-	-	-	-	-	(50)	(50)
Balance as of March 31, 2018	**$ 72,398**	**$ 1,112**	**$ 1,311,630**	**$ 1,180**	**$ -**	**$ 1,180**	**$ 269,600**	**$ 1,655,920**
Net income	-	-	-	-	-	-	133,413	133,413
Other comprehensive income (loss):								
Unrealized losses on securities, net of $8 tax benefit	-	-	-	(21)	-	(21)	-	(21)
Total comprehensive income								133,392
Parent tax loss allocation	-	-	5,951	-	-	-	-	5,951
Impact of adoption of recognition and measurement of financial assets and liabilities standard	-	-	-	(1,119)	-	(1,119)	1,119	-
Common stock dividends to Parent	-	-	-	-	-	-	(220,000)	(220,000)
Preferred stock dividends	-	-	-	-	-	-	(67)	(67)
Balance as of March 31, 2019	**$ 72,398**	**$ 1,112**	**$ 1,317,581**	**$ 40**	**$ -**	**$ 40**	**$ 184,065**	**$ 1,575,196**
Net income	-	-	-	-	-	-	137,764	137,764
Other comprehensive income (loss):								
Unrealized gains on securities, net of $94 tax expense	-	-	-	261	-	261	-	261
Change in pension and other postretirement obligations, net of $213 tax benefit	-	-	-	-	(591)	(591)	-	(591)
Total comprehensive income								137.434
Equity infusion from Parent	-	-	125,000	-	-	-	-	125,000
Impact of adoption of reclassification of certain tax effects from accumulated other comprehensive income standard	-	-	-	13	-	13	(13)	-
Common stock dividends to Parent	-	-	-	-	-	-	(165,000)	(165,000)
Preferred stock dividends	-	-	-	-	-	-	(67)	(67)
Balance as of March 31 2020	**$ 72,398**	**$ 1,112**	**$ 1,442,581**	**$ 314**	**$ (591)**	**$ (277)**	**$ 156,749**	**$ 1,672,563**

The Company had 3,619,896 shares of common stock authorized, issued and outstanding, with a par value of $20 per share and 11,117 shares of preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2020, 2019, and 2018.

NEW ENGLAND POWER COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

New England Power Company ("the Company") operates electric transmission facilities in Massachusetts, New Hampshire, Vermont, and Rhode Island, which includes facilities operated on behalf of affiliate companies Massachusetts Electric Company ("MECO") and the Narragansett Electric Company ("NECO") in accordance with the integrated facilities agreement. The Company is a wholly-owned subsidiary of National Grid USA ("NGUSA" or the "Parent"), a public utility holding company with regulated subsidiaries engaged in the generation of electricity and the transmission, distribution, and sale of both natural gas and electricity. NGUSA is a direct wholly-owned subsidiary of National Grid North America Inc. ("NGNA") and an indirect wholly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

The Company also owns non-controlling interests in three companies (the "Yankees") which own nuclear generating facilities that are permanently retired and are being decommissioned (refer to Note 7, "Equity Investments", and the "Decommissioning Nuclear Units" section in Note 11, "Commitments and Contingencies"). In addition, the Company has equity shares in New England Hydro-Transmission Electric Company, Inc. and New England Hydro-Transmission Corporation, which are two of its affiliates.

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

The 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. The COVID-19 pandemic has not had a material financial impact on the Company as of March 31, 2020; however, the extent to which the COVID-19 pandemic will impact the Company in the future is uncertain at this time. The Company is monitoring COVID-19 developments closely.

The Company has evaluated subsequent events and transactions through July 15, 2020, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2020. The Company continues to evaluate the ongoing impact of COVID-19 on both customers and financial performance and is complying with all requests from regulators to share relevant information.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities included in the financial statements. 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”) has jurisdiction over the rates the Company charges its customers and certain activities, including (i) regulating certain transactions among the Company’s affiliates; (ii) governing the issuance acquisition and disposition of securities and assets; and (iii) approving certain utility mergers and acquisitions. The Company is subject to the jurisdiction of the regulatory Commissions of Massachusetts, New Hampshire, Rhode Island, Maine, Vermont and the Nuclear Regulatory Commission (NRC). The Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. In accordance with ASC 980, “Regulated Operations,” regulatory assets and liabilities are reflected on the balance sheet consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

The Company has two primary sources of revenue: transmission and stranded cost recovery. Transmission revenues are based on a formula rate that recovers the Company’s actual costs plus a return on investment, which are recovered through regional network service (“RNS”) rates and local network service (“LNS”) rates. The Company has received authorization from the FERC to recover through contract termination charges (“CTC’s”) substantially all of the costs associated with the divestiture of its electricity generation investments (nuclear and non-nuclear) and related contractual commitments that were not recovered through the sale of those investments (i.e. stranded costs). Stranded costs are recovered from the former wholesale customers of the Company. See Note 5, “Rate Matters”, and Note 11, “Commitments and Contingencies”, for an explanation of stranded costs.

Other Taxes

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

The Company’s policy is to accrue for property taxes on a calendar year basis.

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 financial statements when it is more likely than not that the position taken, or expected to be taken, in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. Deferred investment tax credits are amortized over the useful life of the underlying property.

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary determines its 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.

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 $0.7 million, $0.4 million, and $0 million for the years ended March 31, 2020, 2019, and 2018, respectively, within operation and maintenance expenses in the accompanying statements of operations and comprehensive income.

Inventory

Inventory is primarily composed of materials and supplies. 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, 2019, and 2018.

The Company had materials and supplies of $2.8 million and $1.6 million as of March 31, 2020 and 2019, respectively.

Fair Value Measurements

The Company measures securities and pension and postretirement benefit other than pension plan assets 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 original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of property, plant and equipment is capitalized. The capitalized cost of additions to property, plant and equipment includes costs such as direct material, labor and benefits, and an allowance for funds used during construction ("AFUDC").

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the FERC and state regulatory bodies. The average composite rate for each of the years ended March 31, 2020, 2019, and 2018 was 2.3%.

Depreciation expense includes a component for estimated cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs incurred in excess of costs recovered is recognized as a regulatory asset. 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 asset. The Company recognized a regulatory asset for the amount that was in excess of costs recovered of $9.2 million and $9.5 million as of March 31, 2020 and 2019, respectively.

Allowance for Funds Used During Construction

The Company records AFUDC which represents the debt and equity costs of financing the construction of new property, plant and equipment. The equity component of AFUDC is reported in the accompanying statements of operations and comprehensive income as non-cash income in other income, net. The debt component of AFUDC is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rates. The Company recorded AFUDC related to equity of $6.1 million, $9.8 million, and $1.5 million and AFUDC related to debt of $1.4 million, $1.0 million, and $1.1 million for the years ended March 31, 2020, 2019, and 2018, respectively. The average AFUDC rates for the years ended March 31, 2020, 2019, and 2018 were 6.6%, 7.6%, and 2.5%, respectively.

Impairment of Long-Lived Assets

The Company tests the impairment of long-lived assets when events or changes in circumstances indicate that the carrying amount of the asset 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 years ended March 31, 2020, 2019, and 2018, there were no impairment losses recognized for long-lived assets.

Goodwill

The Company tests goodwill for impairment annually on January 1, and when events occur or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. 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 required under the current standard. The goodwill impairment test requires a recoverability test be performed based on the comparison of the Company's estimated fair value with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then 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 years ended March 31, 2020 and 2019, the fair value of the Company was calculated utilizing the income approach. The Company believes that this approach provides the most reliable information about the Company's estimated fair value. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment to the goodwill carrying value was required.

Executive Retirement Plans

The Company provides certain executives with nonqualified retirement and deferred compensation benefits which have been partially secured through separate fund arrangements. As a result, the Company holds securities that include equities, municipal bonds, and corporate bonds. These investments are recorded at fair value and are included in financial investments on the balance sheet. Changes in the fair value of these assets are recorded in the accompanying Statement of Operations and Comprehensive Income.

Variable Interest Entities

A variable interest entity ("VIE") is an entity that does not have a sufficient equity investment 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 entity's activities. The primary beneficiary is the business enterprise that has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and either absorbs a significant amount of the VIE's losses or has the right to receive the benefits that could be significant to the VIE. The primary beneficiary holds a controlling financial interest in an entity and is required to consolidate the VIE.

The Company determines whether they are 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.

The Company has non-controlling interests in Yankee Atomic (34.5%), Connecticut Yankee (19.5%), and Maine Yankee (24%) (the "Yankees") which own nuclear generating facilities that are permanently retired and are being decommissioned. In addition, the Company has a 3.3% equity share in New England Hydro-Transmission Electric Company, Inc. and a 3.3% equity share in New England Hydro-Transmission Corporation. Each of the individual entities is a variable interest entity; however, the Company is not the primary beneficiary as it does not have the power to direct the most significant activities of the entities. The Company accounts for its ownership interests in the entities using the equity method of accounting for investments.

Employee Benefits

The Company has defined benefit pension plans and postretirement benefit other than pension ("PBOP") plans for its employees. The Company recognizes all pension and PBOP plans' funded status on the balance sheet as a net liability or asset with an offsetting adjustment to accumulated other comprehensive income ("AOCI") in shareholders' equity. The cost of providing these plans is recovered through rates; therefore, 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 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 the 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 $1.4 million of operating lease liabilities and right-of-use assets on the balance sheets upon transition at April 1, 2019 within other current liabilities, other non-current liabilities and property, plant, and equipment, net, respectively. 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 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 Company, as a regulated entity, will continue to recognize lease expense based on a pattern that conforms to the regulatory ratemaking treatment. The expense recorded in the current year related to short term leases was not material.

The Company has no finance leases as of March 31, 2020. The Company has various operating leases primarily related to real estate and fleet vehicles.

Certain 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 if 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.

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.

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 accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. For the Company, the requirements in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company adopted the guidance on April 1, 2019 resulting in a $13.2 thousand adjustment to retained earnings which was reclassified from accumulated other comprehensive income.

Accounting Guidance Not Yet Adopted

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" 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(s) 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 No. 2019-10 "Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates", will be effective for fiscal years beginning after March 31, 2024, including interim periods within those fiscal years. 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.

Reclassification

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

3. REVENUE

The following table presents, for the years ending 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:

	Years ended March 31,	
	2020	2019
	(in thousands of dollars)	
Revenue from Contracts with Customers:		
Electric Transmission	**$ 419,853**	$ 394,985
Stranded Cost Recovery	**12,928**	11,830
Total Revenues from Contracts with Customers	**432,781**	406,815
Revenue from Regulatory Mechanisms (Stranded Cost Recovery)	**(1,382)**	5,899
Other Revenue	**8,359**	9,281
Total Operating Revenues	**$ 439,758**	$ 421,995

Electric Transmission

Transmission systems generally include overhead lines, underground cables and substations, connecting generation and interconnectors to the distribution system. The Company owns, maintains, and operates an electric transmission system spanning Massachusetts, Rhode Island, New Hampshire and Vermont. The Company's transmission services are provided under tariffs administered by the Regional Transmission Operators (i.e. Independent System Operators ("ISO") New England or under grandfathered agreements), approved and regulated by the FERC in respect of interstate transmission. Electric transmission revenues arise under Transmission Congestion Contract auctions, Transmission Service Agreements and Local / Regional Network Services under tariff/rate agreements. The Company bills its transmission services typically monthly, in the month after service has been provided. The Company recognizes the revenue over time when the amounts are billed.

The Company is a participating transmission owner in ISO New England which is a third party responsible for administering and collecting RNS transmission revenue from local distribution utilities, generators and municipalities, which includes revenues from affiliate companies MECO and NECO. The Company is also responsible for administering and collecting LNS transmission revenue from local distribution utilities, generators and municipalities, including affiliates MECO and NECO. For the years ended March 31, 2020, 2019, and 2018, the Company recognized revenues of $378.9 million, $362.7 million, and $370.9 million from affiliated companies.

Stranded Cost Recovery

The Company has received authorization from the FERC to recover through CTC's, substantially all the costs associated with the divestiture of its electricity generation investments and related contractual commitments that were not recovered through the sale of those stranded investments. Stranded costs are recovered from the former wholesale customers of the Company. See the "Stranded Cost Recovery" section in Note 5. Rate Matters.

Other

Other revenues include proceeds from right of ways with affiliate companies and lease revenue from transmission pole rentals that are not considered to be revenues from contracts with customers.

Included in other revenue is revenue recognized for right of ways granted to affiliate companies New England Hydro-Transmission Electric Company, Inc., New England Hydro-Transmission Corporation, and New England Electric Transmission Corporation. For the years ended March 31, 2020, 2019, and 2018 the Company recognized revenue for right of ways from affiliates of $7.2 million, $8.2 million, and $6.9 million, respectively.

4. REGULATORY ASSETS AND LIABILITIES

The Company records regulatory assets and liabilities that result from the ratemaking process. The following table presents the regulatory assets and regulatory liabilities recorded on the balance sheet:

	March 31,	
	2020	2019
	(in thousands of dollars)	
Regulatory assets		
Cost of removal	**$ 9,247**	$ 9,526
Postretirement benefits	**65,367**	55,848
Yankee nuclear decommissioning costs	**7,486**	24,890
Other	**105**	104
Total	**$ 82,205**	$ 90,368
Regulatory liabilities		
CTC charges	**$ 51,829**	$ 45,662
Regulatory tax liability, net	**272,700**	272,962
Other	**2,149**	3,214
Total	**$ 326,678**	$ 321,838

Cost of removal: Represents cumulative amounts incurred, but not yet collected from customers, to dispose of property, plant and equipment. Cost of removal will continue to be recovered from customers through rates.

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

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

Regulatory tax liability, net: Represents over-recovered federal 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 Cuts and Jobs Act of 2017 ("Tax Act").

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

The Company records carrying charges on 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.

5. RATE MATTERS

Stranded Cost Recovery

Under the settlement agreements approved by state commissions and the FERC, the Company is permitted to recover stranded costs (those costs associated with its former generating investments (nuclear and non-nuclear) and related contractual commitments that were not recovered through the sale of those investments). The Company earns a return on equity ("ROE") 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. The Company 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 11, "Commitments and Contingencies".

Transmission Return on Equity and Recovery of Transmission Costs

Transmission revenues are based on a formula rate that recovers the Company's actual costs plus a return on investment. Approximately 74% of the Company's transmission facilities are included under RNS rates. The Company 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).

The Company's transmission rates applicable to transmission service through October 15, 2014 reflected a base ROE of 11.14% applicable to the Company'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 the Company's ROE complaints (see the "FERC ROE Complaints" section in Note 11, "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. The Company 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 the Company 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 the Company'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, the Company 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 the Company previously responded, addressing concerns with ROE policy making and the methodologies proposed by the FERC in the MISO ROE compliant proceedings. From the Company'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 the Company and the NETOs.

Until the FERC issues a final decision on the Company'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, the Company does not know the impact to the Company's current base ROE.

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. The Company filed comments in the NOI docket on June 26, 2019 and filed reply comments on August 26, 2019.

On March 19, 2020, the Commission issued a Notice of Proposed Rulemaking ("NOPR"). In the NOPR, the commission 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. The Company 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 the Company 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, the Company made recommendations designed to mitigate the cash flow impacts of the expected refunds including providing flexibility regarding the methods used to refund accumulated deferred income tax ("ADIT") to customers and providing flexibility regarding the time period of the flow back. In the NOPR, the FERC proposed to give the flexibility the company 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. The Company 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, the Company, its affiliate NECO, and Northeast Utilities jointly filed an application with the FERC to recover financial incentives for the NEEWS project, pursuant to the FERC's Transmission Pricing Policy Order No. 679. NEEWS consists of a series of inter-related transmission upgrades identified in the New England Regional System Plan and is being undertaken to address a number of reliability problems in Connecticut, Massachusetts, and Rhode Island. Effective November 18, 2008, the FERC granted (1) an incentive ROE of 12.89% (125 basis points above the approved base ROE of 11.64% 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.

6. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2020	2019
	(in thousands of dollars)	
Plant and machinery	**$ 2,975,807**	$ 2,700,368
Assets in construction	**136,049**	242,859
Land and buildings	**157,303**	108,113
Motor vehicles and equipment	**64**	64
Software and other intangibles	**2,548**	2,548
Operating leases	**1,405**	-
Total property, plant and equipment	**3,273,176**	3,053,953
Accumulated depreciation and amortization	**(598,785)**	(538,391)
Operating lease accumulated depreciation	**(189)**	-
Property, plant and equipment, net	**$ 2,674,202**	$ 2,515,562

7. EQUITY INVESTMENTS

Yankee Nuclear Power Companies

The Company has non-controlling interests in Yankee Atomic, Connecticut Yankee, and Maine Yankee (the "Yankees"), which own nuclear generating units that have been permanently decommissioned. Spent nuclear fuel remains on each site, awaiting fulfillment by the DOE of its statutory obligation to remove it. In addition, groundwater monitoring is ongoing at each site. Summarized statement of income and balance sheet data for the Yankees are as follows:

	For the Years Ended March 31,		
	2020	2019	2018
	(in thousands of dollars)		
Operating revenue	**$ 1,026**	$ 300	$ 700
Operating expenses	**1,117**	86	467
Other income (deductions), net	**699**	(33)	(69)
Total expenses	**418**	119	536
Net income	**$ 608**	$ 181	$ 164

	March 31,	
	2020	2019
	(in thousands of dollars)	
Assets		
Current assets	**$ 13,349**	$ 18,915
Property, plant and equipment	**874**	874
Non-current assets	**576,060**	605,856
Total assets	**$ 590,283**	$ 625,645
Liabilities and equity		
Current liabilities	**$ 2,678**	$ 3,368
Non-current liabilities	**581,092**	616,372
Equity	**6,513**	5,905
Total liabilities and equity	**$ 590,283**	$ 625,645

8. EMPLOYEE BENEFITS

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

Plan assets are maintained for all of NGUSA and its subsidiaries in commingled trusts. In respect of cost determination, plan assets are primarily allocated to the Company based on its proportionate share of the projected benefit obligations. The Plan's costs are first directly charged to the Company based on the Company's employees that participate in the Plans. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. Pension and PBOP service costs are included within operations and maintenance expense, and non-service costs are included within other income, net in the accompanying statements of operations and comprehensive income. Portions of the net periodic benefit costs disclosed below have been capitalized as a component of property, plant and equipment.

Pension Plans

The Qualified Pension Plans are defined benefit plans which provide most 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, 2019, and 2018, the Company made contributions of zero, approximately $0.5 million, and approximately $0.8 million, respectively, to the Qualified Pension Plans. The Company expects to contribute $0.7 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, 2019, and 2018, were approximately $9.8 million, $9.9 million, and $10.6 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, 2019, and 2018, the Company made no contributions 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, 2019, and 2018 were approximately $2.2 million, $2.2 million, and $3.4 million, respectively.

Net Periodic Benefit Costs

The Company's total pension cost for the years ended March 31, 2020, 2019, and 2018 were $0.3 million, $1.1 million, and $1.3 million, respectively.

The Company's total PBOP income for the years ended March 31, 2020, 2019, and 2018 were $0.9 million, $0.4 million, and $0.4 million, respectively.

Amounts Recognized in OCI and Regulatory Assets/Liabilities

The following tables summarize other pre-tax changes in actuarial gains/losses and prior service costs recognized primarily in regulatory assets and other comprehensive income as of March 31, 2020, 2019, and 2018:

	Pension Plans		
	Years Ended March 31,		
	2020	2019	2018
	(in thousands of dollars)		
Net actuarial losses (gains)	**$ 10,751**	$ 1,245	$ (234)
Amortization of net actuarial losses	**(2,658)**	(3,035)	(3,206)
Total	**$ 8,093**	$ (1,790)	$ (3,440)
Change in regulatory assets	**$ 7,290**	$ (1,790)	$ (3,440)
Change in AOCI	**803**	-	-
Total	**$ 8,093**	$ (1,790)	$ (3,440)

	PBOP Plans		
	Years Ended March 31,		
	2020	2019	2018
	(in thousands of dollars)		
Net actuarial losses (gains)	**$ 2,620**	$ (637)	$ (1,753)
Amortization of net actuarial losses	**(379)**	(590)	(601)
Amortization of prior service cost, net	**(11)**	(11)	(11)
Total	**$ 2,230**	$ (1,238)	$ (2,365)
Change in regulatory assets	**$ 2,230**	$ (1,238)	$ (2,365)
Total	**$ 2,230**	$ (1,238)	$ (2,365)

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 accumulated other comprehensive income on the balance sheet that have not yet been recognized as components of net actuarial loss as of March 31, 2020, 2019, and 2018:

	Pension Plans		
	March 31,		
	2020	2019	2018
	(in thousands of dollars)		
Net actuarial losses	**$ 51,917**	$ 43,824	$ 45,614
Total	**$ 51,917**	$ 43,824	$ 45,614
Included in regulatory assets	**$ 51,114**	$ 43,824	$ 45,614
Included in AOCI	**803**	-	-
Total	**$ 51,917**	$ 43,824	$ 45,614

	PBOP Plans		
	March 31,		
	2020	2019	2018
	(in thousands of dollars)		
Net actuarial losses	**$ 14,150**	$ 11,910	$ 13,137
Prior service cost	**102**	113	124
Total	**$ 14,252**	$ 12,023	$ 13,261
Included in regulatory assets	**$ 14,252**	$ 12,023	$ 13,261
Total	**$ 14,252**	$ 12,023	$ 13,261

The amount of net actuarial loss to be amortized from regulatory assets and AOCI during the year ending March 31, 2021 for the Pension and PBOP Plans is $3.0 million and zero, respectively.

Reconciliation of Funded Status to Amount Recognized

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2020	2019	**2020**	2019
	(in thousands of dollars)			
Project benefit obligation	**$ (162,237)**	$ (158,545)	**$ (35,574)**	$ (39,055)
Allocated fair value of assets	**165,295**	169,552	**37,427**	42,103
Funded status	**$ 3,058**	$ 11,007	**$ 1,853**	$ 3,048
Non-current assets	**$ 8,343**	$ 11,488	**$ 1,939**	$ 3,136
Current liabilities	**(481)**	(481)	**(86)**	(88)
Non-current liabilities	**(4,804)**	-	**-**	-
Total	**$ 3,058**	$ 11,007	**$ 1,853**	$ 3,048

Expected Benefit Payments

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

(in thousands of dollars) **Years ended March 31,**	**Pension Plans**	**PBOP Plans**
2021	$ 11,441	$ 2,891
2022	11,834	2,843
2023	12,268	2,812
2024	12,700	2,762
2025	13,155	2,701
2026-2030	71,498	12,107
Total	**$ 132,897**	**$ 26,116**

Assumptions Used for Employee Benefits Accounting

	Pension Plans		
	Years Ended March 31,		
	2020	2019	2018
Benefit Obligations:			
Discount rate	**3.65%**	4.10%	4.10%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.00%**	6.50%	6.25%
Net Periodic Benefit Costs:			
Discount rate	**4.10%**	4.10%	4.30%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.50%**	6.25%	6.50%

	PBOP Plans		
	Years Ended March 31,		
	2020	2019	2018
Benefit Obligations:			
Discount rate	**3.65%**	4.10%	4.10%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.50%-7.00%**	6.50%-7.25%	6.25%-6.75%
Net Periodic Benefit Costs:			
Discount rate	**4.10%**	4.10%	4.30%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.50%-7.25%**	6.25%-6.75%	6.50%-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

	March 31,	
	2020	2019
Health care cost trend rate assumed for next year		
Pre 65	**7.00%**	7.25%
Post 65	**5.50%**	5.75%
Prescription	**8.00%**	9.75%
Rate to which the cost trend is assumed to decline (ultimate)	**4.50%**	4.50%
Year that rate reaches ultimate trend		
Pre 65	**2031+**	2028
Post 65	**2031+**	2026
Prescription	**2031+**	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, trusteed, employee life insurance and medical benefit plan sponsored by NGUSA. Life insurance and medical benefits are provided for eligible retirees, dependents, and surviving spouses of NGUSA.

NGUSA, as the Plans' sponsor, 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, 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 contributions and expenses 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 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. The PBOP Plan asset/ liability studies are expected to be run within the next 12 to 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 securities, 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 is 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%
Total	**100%**	100%	**100%**	100%	**100%**	100%

Fair Value Measurements

The following tables provide the fair value measurements amounts for the pension and PBOP assets at the Plan level:

	March 31, 2020				
	Level 1	**Level 2**	**Level 3**	**Not categorized**	**Total**
			(in thousands of dollars)		
Pension Assets:					
Investments					
Equity	$ 173,535	$ -	$ -	$ 630,567	$ 804,102
Diversified alternatives	57,730	-	-	173,255	230,985
Corporate bonds	-	412,698	-	142,101	554,799
Government securities	(4,072)	300,759	-	267,338	564,025
Private equity	-	-	-	131,200	131,200
Real estate	-	-	-	115,522	115,522
Infrastructure	-	-	-	48,687	48,687
Insurance contracts	-	-	-	3,507	3,507
Total assets	**$ 227,193**	**$ 713,457**	**$ -**	**$ 1,512,177**	**$ 2,452,827**
Pending transactions					**(111,173)**
Total net assets					**$ 2,341,654**

PBOP Assets:

	Level 1	Level 2	Level 3	Not categorized	Total
Investments					
Equity	$ 140,528	$ -	$ -	$ 224,383	$ 364,911
Diversified alternatives	33,367	-	-	32,954	66,321
Corporate bonds	-	2,895	-	-	2,895
Government securities	13,584	147,495	-	1,034	162,113
Insurance contracts	-	-	-	31,473	31,473
Total assets	**$ 187,479**	**$ 150,390**	**$ -**	**$ 289,844**	**$ 627,713**
Pending transactions					**1,362**
Total net assets					**$ 629,075**

	March 31, 2019				
	Level 1	**Level 2**	**Level 3**	**Not categorized**	**Total**
			(in thousands of dollars)		
Pension Assets:					
Investments					
Equity	$ 189,522	$ -	$ -	$ 667,776	$ 857,298
Diversified alternatives	68,624	-	-	181,417	250,041
Corporate bonds	-	418,330	-	149,282	567,612
Government securities	692	211,390	-	217,883	429,965
Private equity	-	-	-	120,115	120,115
Real estate	-	-	-	116,409	116,409
Infrastructure	-	-	-	35,787	35,787
Insurance contracts	-	-	-	16,750	16,750
Accounts receivable	50,966	-	-	-	50,966
Accounts payable	(105,196)	-	-	-	(105,196)
Grand Total	**$ 204,608**	**$ 629,720**	**$ -**	**$ 1,505,419**	**$ 2,339,747**
PBOP Assets:					
Investments					
Equity	$ 161,077	$ -	$ -	$ 274,993	$ 436,070
Diversified alternatives	39,056	-	-	36,920	75,976
Corporate bonds	-	3,502	-	-	3,502
Government securities	8,525	152,760	-	869	162,154
Insurance contracts	-	-	-	42,737	42,737
Accounts receivable	2,295	-	-	-	2,295
Accounts payable	(333)	-	-	-	(333)
Grand Total	**$ 210,620**	**$ 156,262**	**$ -**	**$ 355,519**	**$ 722,401**

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.

Diversified alternatives: Diversified alternatives consist of holdings of global tactical asset 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 U.S. agency and treasury securities, as well as state and local municipality bonds. The plans hold a small amount of Non-U.S. government debt which is also captured here. U.S. 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 U.S. 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.

Other Benefits

As of 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 $0.5 million and $0.7 million, respectively. IBNR reserves are estimates that have been established for claims and/or events that have transpired, but have not yet been reported to the Company for payment.

9. CAPITALIZATION

Long-term Debt

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

(in thousands of dollars) Years Ending March 31,	
2021	$ 186,450
2022	100,000
2023	106,150
2024	-
2025	-
Thereafter	400,000
Total	$ 792,600

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. As of and for the years ended March 31, 2020 and 2019, the Company was in compliance with all such covenants.

Debt Authorizations

The Company 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. The Company intends to seek FERC approval to renew the authorization for a period of two years prior to its expiration. The Company had no short-term debt outstanding as of March 31, 2020 and 2019.

The Company has approval from the Massachusetts Department of Public Utilities, New Hampshire Public Utilities Commission and Vermont Public Service Board authorizing the Company 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 the Company 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, the Company issued $400 million of unsecured senior long-term debt with a maturity date of December 5, 2047. In addition, the Company 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.

Pollution Control Revenue Bonds

As of March 31, 2020, the Company had $292.6 million outstanding of Pollution Control Revenue Bonds in tax-exempt commercial paper mode with maturity dates ranging from November 2020 to October 2022. The debt is remarketed at periods of 1-270 days, and had variable interest rates ranging from 1.00% to 6.10% and 1.20% to 1.95% for the years ended March 31, 2020 and 2019, respectively.

The Company has a Standby Bond Purchase Agreement ("SBPA") of $292.6 million, which was renewed in June 2018 and expires on June 14, 2023. This agreement is available to provide liquidity support for $292.6 million of the Company's Pollution Control Revenue Bonds. The Company has classified this debt as long-term due to its intent and ability to refinance the debt on a long-term basis if it is not able to remarket it. As of March 31, 2020 and 2019, there were no bond purchases made by the banks participating in this agreement.

Dividend Restrictions

Pursuant to provisions in connection with prior mergers, payment of dividends on common stock are not permitted if, after giving effect to such payment of dividends, common equity becomes less than 30% of total capitalization. At March 31, 2020 and 2019, common equity was 73.5% and 69.6% of total capitalization, respectively. Under these provisions, none of the Company's retained earnings at March 31, 2020 and 2019 were restricted as to common dividends.

In December 2019 and 2018, the Company paid dividends on common stock of $165 million and $220 million, respectively, to NGUSA to realign its capital structure.

Cumulative Preferred Stock

The Company has non-participating cumulative preferred stock outstanding which can be redeemed at the option of the Company. There are no mandatory redemption provisions on the Company's cumulative preferred stock. A summary of cumulative preferred stock is as follows:

	Shares Outstanding		Amount		
	March 31,		March 31,		Call
Series	**2020**	2019	**2020**	2019	**Price**
	(in thousands of dollars, except per share and number of shares data)				
$100 par value -					
6.00% Series	**11,117**	11,117	**$ 1,112**	$ 1,112	Non-callable

The Company did not redeem any preferred stock as of March 31, 2020, 2019, or 2018. The annual dividend requirement for cumulative preferred stock was $0.07 million as of March 31, 2020, 2019, and 2018.

Capital Contributions

The Company received capital contributions of $125 million and $505 million on March 30, 2020 and December 28, 2017, respectively.

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2020	**2019**	**2018**
	(in thousands of dollars)		
Current tax expense:			
Federal	**$ 20,567**	$ 14,605	$ 29,140
State	**6,189**	5,880	6,035
Total current tax expense	**26,756**	20,485	35,175
Deferred tax expense:			
Federal	**17,021**	18,300	22,932
State	**6,894**	4,958	5,916
Total deferred tax expense	**23,915**	23,258	28,848
Amortized investment tax credits [1]	**(246)**	(272)	(312)
Total deferred tax expense	**23,669**	22,986	28,536
Total income tax expense	**$ 50,425**	$ 43,471	$ 63,711

[1] 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, 2019, and 2018 are 26.8%, 24.6%, and 36.3%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 21%, 21%, and 31.55%, respectively, to the actual tax expense:

	Years Ended March 31,		
	2020	**2019**	**2018**
	(in thousands of dollars)		
Computed tax	**$ 39,520**	$ 37,146	$ 55,308
Change in computed taxes resulting from:			
State income tax, net of federal benefit	**10,336**	8,562	8,168
Investment tax credits	**(246)**	(272)	(312)
Other items, net	**815**	(1,965)	547
Total changes	**10,905**	6,325	8,403
Total income tax expense	**$ 50,425**	$ 43,471	$ 63,711

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

Deferred Tax Components

	March 31,	
	2020	2019
	(in thousands of dollars)	
Deferred tax assets:		
Regulatory liabilities	**$ 89, 432**	$ 88,289
Net operating losses	**14,403**	15,247
Other items - net	**3,933**	8,748
Total deferred tax assets	**107,768**	112,284
Deferred tax liabilities:		
Property related differences	**441,235**	417,161
Regulatory assets	**21,764**	23,925
Other items	**8,182**	10,552
Total deferred tax liabilities	**471,181**	451,638
Net deferred income tax liabilities	**363,413**	339,354
Deferred investment tax credits	**1,877**	2,123
Deferred income tax liabilities, net	**$ 365,290**	$ 341,477

Net Operating Losses

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

	Gross Carryforward Amount	Expiration Period
	(in thousands of dollars)	
Federal	**$ 72,539**	**2033-2036**
Massachusetts	**18,280**	**2036**

As a result of the accounting for uncertain tax positions, the amount of deferred tax assets reflected in the financial statements is less than the amount of the tax effect of the federal and state net operating losses carryforward 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, March 31, 2011 and March 31, 2012. The outcome of the settlement did not have a material impact on the Company's tax results for operations or financial position. As a result of the settlement, the Company made a payment of $11.3 million for tax and interest.

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 is expected to conclude in the next fiscal year and result in a settlement agreement with the IRS. The Company does not anticipate the settlement to have a 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 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:

Jurisdiction	**Tax Year**
Federal	March 31, 2013
Massachusetts	March 31, 2010

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, net, in the accompanying 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 $0.9 million and $2.5 million, respectively. During the years ended March 31, 2020, 2019, and 2018, the Company recorded interest expense of $1.2 million, $0.5 million, and $0.7 million, respectively. No tax penalties were recognized during the years ended March 31, 2020, 2019, and 2018.

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

11. COMMITMENTS AND CONTINGENCIES

Legal Matters

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

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. The Company recorded a liability of $31.5 million and $29.8 million included in other current liabilities on the accompanying balance sheet 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 the Company'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 the Company 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, the Company 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 ISO-NE's Tariff lacks adequate transparency and challenge procedures with regard to the formula rates for ISO-NE Participating Transmission Owners ("PTOs"). In addition, the FERC found that the ISO-NE PTOs', including the Company's, current RNS and 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 municipals 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 Commission rejected the Formula Rate 206 settlement in its entirely. Accordingly, the Commission 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.

Decommissioning Nuclear Units

The Company is a minority equity owner of, and former purchaser of electricity from, the Yankees. The Yankees have been permanently shut down and physically decommissioned. Spent nuclear fuel remains on each site awaiting fulfillment by the DOE of its statutory and contractual obligation to remove it. Future estimated billings are as follows:

(in thousands of dollars)	The Company's Investment as of March 31, 2020			Future Estimated Billings to the Company
Unit	%	Amount	Date Retired	Amount
Yankee Atomic	34.5	$ 585	Feb 1992	$ -
Connecticut Yankee	19.5	423	Dec 1996	2,130
Maine Yankee	24.0	634	Aug 1997	5,356

The Yankees are periodically required to file rate cases for FERC review, which present the Yankees' estimated future decommissioning costs. The Yankees collect the approved costs from their purchasers, including the Company. Future estimated billings from the Yankees are based on cost estimates. These estimates include the projections of groundwater monitoring, security, liability and property insurance, and other costs. They also include costs for interim spent fuel storage facilities which the Yankees have constructed while they await removal of the fuel by the DOE as required by the Nuclear Waste Policy Act of 1982 and contracts between the DOE and each of the Yankees. The Company has recorded a current liability of $0.1 million as of both March 31, 2020 and 2019, which represents the current portion of accrued Yankee nuclear plant costs. As of March 31, 2020 and 2019, the Company has recorded a deferred liability of $7.4 million and $24.8 million, respectively. The sum of the current and deferred liabilities is offset by a regulatory asset of $7.5 million and $24.9 million as of March 31, 2020 and 2019, respectively, reflecting the estimated future decommissioning billings from the Yankees.

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

The Yankees have brought several litigations against the DOE for the failure to remove their respective nuclear fuel stores as required by the Nuclear Waste Policy Act and contracts. This includes spent fuel storage costs incurred for the periods through 2002 (the "Phase I Litigation"), through 2008 (the "Phase II Litigation"), through 2013 (the "Phase III Litigation") and through 2016 (the "Phase IV Litigation"). For the respective periods, the Yankees were awarded approximately $160.0 million, $235.4 million, $76.8 million, and $104.0 million from the U.S. Court of Claims. The Company received $25.6 million, $57.8 million, $4.5 million, and $7.0 million, respectively. The Company refunds its share to its customers through the CTC's.

Despite insufficient funding and actions of the DOE to block its construction, the U.S. Court of Appeals for the DC Circuit directed the 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. The president's proposed budget, announced in February of 2020, omits funding for work on Yucca Mountain. On January 26, 2012 a Blue Ribbon Commission ("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 Independent Spent Fuel Storage Installation (ISFSI) operation, maintenance and decommissioning costs that are actually incurred by the Yankees may substantially exceed the estimated amounts.

12. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates March 31,		Accounts Payable to Affiliates March 31,	
	2020	2019	**2020**	2019
		(in thousands of dollars)		
NGUSA	**$ -**	$ -	**$ 6,390**	$ -
NGUSA Service Company	**2,553**	1,350	**8,466**	6,816
Massachusetts Electric Company	**71,264**	53,586	**3,096**	3,951
The Narragansett Electric Company	**25,937**	21,679	**12,872**	14,212
Other	**2**	841	**85**	606
TOTAL	**$ 99,756**	$ 77,456	**$ 30,909**	$ 25,585

The Company is a participating transmission owner in ISO New England, which is a third party responsible for administering and collecting RNS transmission revenue from local distribution utilities, generators and municipalities, which include affiliate companies MECO and NECO. For purposes of these financial statements the outstanding balances associated to those revenue activities are reflected in accounts receivable from affiliates as of March 31, 2020. The Company recognized $61.2 million and $62.8 million of affiliate RNS receivables on the accompanying balance sheet as of March 31, 2020 and 2019, respectively.

Advance from Affiliate

In December 2008, the Company entered into an agreement with NGUSA whereby the Company can borrow up to $400 million from time to time for working capital needs. The advance is non-interest bearing. At March 31, 2020 and 2019, the Company had no outstanding advances from NGUSA.

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool in which it participates. The Company is a participant in the Regulated Money Pool and can both borrow and invest funds. Borrowings from the Regulated Money Pool bear interest in accordance with the terms of the Regulated Money Pool Agreement. As the Company fully participates in the Regulated Money Pool rather than settling intercompany charges with cash, all changes in the intercompany money pool balance are reflected as investing or financing activities in the accompanying 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 Money Pool is funded by operating funds from participants. NGUSA has the ability to borrow up to $3.0 billion from National Grid plc for working capital needs, including funding of the Regulated Money Pool, if necessary. The Company had short-term intercompany money pool investments of $43.6 million and $18.4 million as of March 31, 2020 and 2019, respectively. The average interest rates for the intercompany money pool were 2.4%, 2.4%, and 1.6% for the years ended March 31, 2020, 2019, and 2018, respectively.

Service Company Charges

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

Charges from the service companies of NGUSA to the Company are mostly related to traditional administrative support functions, of which for the years ended March 31, 2020, 2019, and 2018 were $120.6 million, $103.8 million, and $101.4 million, respectively.