nationalgrid

Nantucket Electric Company

Financial Statements

For the years ended March 31, 2020 and 2019

NANTUCKET ELECTRIC COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Nantucket Electric Company

We have audited the accompanying financial statements of Nantucket Electric Company (the "Company"), which comprise the balance sheets and statements of capitalization as of March 31, 2020 and 2019 and the related statements of income, cash flows, and changes in shareholders' equity for the years then ended, 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 Nantucket Electric Company as of March 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

July 15, 2020

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

	Years Ended March 31,	
	2020	2019
Operating revenues	**$ 22,073**	$ 21,877
Operating expenses:		
Purchased electricity	**1,180**	1,184
Operations and maintenance	**10,214**	10,792
Depreciation	**2,743**	2,638
Other taxes	**628**	558
Total operating expenses	**14,765**	15,172
Operating income	**7,308**	6,705
Other income and (deductions):		
Interest on long-term debt	**(882)**	(997)
Other interest including affiliate, net	**(201)**	(247)
Other income, net	**1,436**	1,208
Total other income and (deductions), net	**353**	(36)
Income before income taxes	**7,661**	6,669
Income tax expense	**2,298**	1,782
Net income	**$ 5,363**	$ 4,887

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

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

	Years Ended March 31,	
	2020	2019
Operating activities:		
Net income	**$ 5,363**	$ 4,887
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**2,743**	2,638
Deferred income tax expense	**77**	574
Bad debt expense	**(304)**	25
Amortization of debt discount and issuance costs	**108**	110
Pension and postretirement benefits expenses, net	**195**	290
Pension and postretirement benefits contributions	**(784)**	(350)
Changes in operating assets and liabilities:		
Accounts receivable, net and unbilled revenues	**187**	(19)
Accounts receivable from/payable to affiliates, net	**(4,145)**	(1,439)
Inventory	**(321)**	(30)
Regulatory assets and liabilities, net	**1,971**	(1,551)
Prepaid and accrued taxes	**(672)**	833
Accounts payable and other liabilities	**157**	(974)
Other, net	**(251)**	(330)
Net cash provided by operating activities	**4,324**	4,664
Investing activities:		
Capital expenditures	**(5,261)**	(4,960)
Intercompany money pool	**1,296**	540
Cost of removal	**(344)**	(373)
Other	**68**	(23)
Net cash used in investing activities	**(4,241)**	(4,816)
Financing activities:		
Net cash provided financing activities	**-**	-
Net increase (decrease) in cash, cash equivalents	**83**	(152)
Cash and cash equivalents, beginning of year	**19**	171
Cash and cash equivalents, end of year	**$ 102**	$ 19
Supplemental disclosures:		
Interest (paid) received	**$ (1,157)**	$ 546
Income taxes paid	**(2,635)**	(1,826)
Significant non-cash items:		
Capital-related accruals included in accounts payable	**6**	12
Parent tax loss allocation	**-**	880

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

NANTUCKET ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 102**	$ 19
Accounts receivable	**2,543**	2,508
Allowance for doubtful accounts	**(135)**	(271)
Accounts receivable from affiliates	**1,334**	127
Intercompany money pool	**64,855**	66,151
Unbilled revenues	**864**	918
Inventory	**490**	169
Regulatory assets	**53**	18
Accrued tax benefits	**12**	66
Other	**3**	4
Total current assets	**70,121**	69,709
Property, plant and equipment, net	**79,918**	76,202
Non-current assets:		
Regulatory assets	**4,746**	4,559
Goodwill	**15,706**	15,706
Financial instruments	**1,069**	1,102
Other	**103**	125
Total non-current assets	**21,624**	21,492
Total assets	**$ 171,663**	$ 167,403

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

NANTUCKET ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2020	2019
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 2,319**	$ 2,297
Accounts payable to affiliates	**1,738**	4,676
Taxes accrued	**2,129**	2,855
Customer deposits	**116**	118
Interest accrued	**56**	467
Regulatory liabilities	**19,858**	19,310
Other	**615**	391
Total current liabilities	**26,831**	30,114
Non-current liabilities:		
Regulatory liabilities	**10,021**	8,117
Asset retirement obligations	**8**	7
Deferred income tax liabilities, net	**4,404**	4,612
Postretirement benefits	**4,980**	5,243
Operating lease liability	**318**	-
Other	**995**	625
Total non-current liabilities	**20,726**	18,604
Commitments and contingencies (Note 11)		
Capitalization:		
Shareholders' equity	**73,498**	68,111
Long-term debt	**50,608**	50,574
Total capitalization	**124,106**	118,685
Total liabilities and capitalization	**$ 171,663**	$ 167,403

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

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

			March 31,	
			2020	2019
Total shareholders' equity			**$ 73,498**	$ 68,111
Long-term debt	Interest Rate	Maturity Date		
Unsecured notes:				
2004 $10 million MIFA tax-exempt	Variable	March 1, 2039	**10,000**	10,000
2005 $28 million MIFA tax-exempt	Variable	December 1, 2040	**28,000**	28,000
2007 $13.3 million MFA tax-exempt	Variable	August 1, 2042	**13,300**	13,300
Total Debt			**51,300**	51,300
Unamortized debt issuance costs			**(692)**	(726)
Long-term debt			**50,608**	50,574
Total capitalization			**$ 124,106**	$ 118,685

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

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

	Common Stock	Additional Paid-in Capital	Accumulated Other Unrealized Gain (Loss) on Available-For-Sale Securities	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2018	$ -	$ 29,637	$ 106	$ 106	$ 32,603	$ 62,346
Net income	-	-	-	-	4,887	4,887
Other comprehensive loss:						
Unrealized loss on securities, net $1 tax benefit	-	-	(2)	(2)	-	(2)
Total comprehensive income						4,885
Parent tax loss allocation	-	880	-	-	-	880
Impact of adoption of the recognition and measurement of financial assets and liabilities standard	-	-	(100)	(100)	100	-
Balance as of March 31, 2019	**$ -**	**$ 30,517**	**$ 4**	**$ 4**	**$ 37,590**	**$ 68,111**
Net income					5,363	5,363
Other comprehensive income:						
Unrealized gains on securities, net of $9 tax Expense	-	-	24	24	-	24
Total comprehensive income						5,387
Impact of adoption of reclassification of certain tax from accumulated other comprehensive income standard	-	-	1	1	(1)	-
Balance as of March 31, 2020	**$ -**	**$ 30,517**	**$ 29**	**$ 29**	**$ 42,952**	**$ 73,498**

The Company had 1,201 shares of common stock authorized, issued and outstanding, with a par value of $1 per share at March 31, 2020 and 2019.

NANTUCKET ELECTRIC COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nantucket Electric Company ("the Company") is an electric retail distribution company providing electric service to approximately 13,800 customers on the Island of Nantucket.

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

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

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

The 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. Due to this uncertainty, the valuations of certain assets and liabilities are necessarily more subjective. In particular, we identified the recoverability of customer receivables in relation to retail customers, in consideration of the suspension of debt collection activities and customer termination activities as an area of estimation uncertainty. In March 2020, the Company ceased certain customer cash collection activities in response to regulatory instructions and to changes in State, Federal and City level regulations and guidance, and actions to minimize risk to employees. The Company has also ceased customer termination activities as requested by relevant local authorities. The Company is monitoring COVID-19 developments closely.

The Company has evaluated subsequent events and transactions through 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 the request from DPU 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") and the DPU regulate the rates the Company charges its customers. In certain cases, the rate actions of the FERC and DPU can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. In accordance with Accounting Standards Codification ("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

Revenues are recognized for energy service provided on a monthly billing cycle basis. The Company records unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the reporting period (See Note 3, "Revenue" for additional details).

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).

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 or recovery within operation and maintenance expenses in the accompanying statements of income.

Inventory

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

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

	Composite Rates	
	March 31,	
	2020	2019
Electric	**3.1%**	3.3%

Depreciation expense includes a component for the estimated cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company recognized a regulatory liability for the amount that was in excess of costs incurred of $1.3 million and $1.2 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 income as non-cash income in other income (deductions), 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 $108 thousand and $132 thousand and AFUDC related to debt of $24 thousand and $22 thousand, for the years ended March 31, 2020 and 2019, respectively. The average AFUDC rates for the years ended March 31, 2020 and 2019 were 6.1% and 5.5%, 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 and 2019, there were no impairment losses recognized for long-lived assets.

Goodwill

The Company tests goodwill for impairment annually on January 1, and when events occur or circumstances change that would more likely than not reduce the fair value of 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 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 carrying amount of goodwill.

As of March 31, 2020, and March 31, 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 analysis, the Company determined that no adjustment to the goodwill carrying value was required as of March 31, 2020 or 2019.

Employee Benefits

The Company participates with other NGUSA subsidiaries in defined benefit pension plans and postretirement benefit other than pension ("PBOP") plans for its employees, administered by NGUSA. The Company recognizes its portion of the pension and PBOP plans' funded status on the balance sheet as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The pension and PBOP plans' assets are commingled and allocated to measure and record 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 $0.5 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's leases are further discussed in Note 6 "Property, Plant and Equipment" and Note 12, "Leases."

Comprehensive income – stranded tax effects

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement–Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which allows a reclassification from accumulated other comprehensive income ("AOCI") 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 $1 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 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.

Reclassifications

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 cash flows, total assets, or shareholders' equity as previously reported.

3. REVENUE

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

	Years ended March 31	
	2020	2019
	(in thousands of dollars)	
Revenue from Contracts with Customers:		
Electric Services	**$ 18,298**	$ 18,353
Other Revenue from Contracts with Customers	**5,664**	1,918
Total Revenue from Contracts with Customers	**23,962**	20,271
Revenue from Regulatory Mechanisms	**(1,889)**	1,606
Total Operating Revenues	**$ 22,073**	$ 21,877

Electric Services: The Company owns and maintains an electric distribution network on Nantucket Island. Distribution revenues are primarily from the sale of electricity and related services to retail customers. Distribution sales are regulated by the DPU, which is responsible for determining the prices and other terms of services as part of the ratemaking process. The arrangement where a utility provides a service to a customer in exchange for a price approved by a regulator is referred to as a tariff sales contract. Electric service revenues are derived from the regulated sale and distribution of electricity to residential, commercial, and industrial customers within the Company's service territory under the tariff rates. The tariff rates approved by the regulator are designed to recover the costs incurred by the Company for products and services provided along with a return on investment.

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

This revenue also includes estimated unbilled amounts, which represent the estimated amounts due from retail customers for electricity provided to customers by the Company, but not yet billed. Unbilled revenues are determined based on estimated unbilled sales volumes for the respective customer classes and then applying the applicable tariff rate to those volumes. Actual amounts billed to customers when the meter readings occur, may be different from the estimated amounts. Certain customers have the option to obtain electricity from other suppliers. In those circumstances, revenue is only recognized for providing delivery of the commodity to the customer.

Additionally, the Company owns an electric transmission system in Nantucket. Transmission systems generally include overhead lines, underground cables and substations, connecting generation and interconnectors to the distribution system.

The Company's transmission services are regulated by both the DPU and by the Federal Energy Regulatory Commission (FERC) in respect of interstate transmission.

Other Revenue from Contracts with Customers: Other Revenue from Contracts with Customers consists of capital related operations and maintenance billings and pole rentals.

Revenue from Regulatory Mechanisms: The Company records revenues in accordance with accounting principles for rate-regulated operations for arrangements between the Company and the regulator, which are not accounted for as contracts with customers. These include various deferral mechanisms such as capital trackers, energy efficiency programs, storm deferral, and other programs that also qualify as Alternative Revenue Programs ("ARPs"). ARPs enable the Company to adjust rates in the future, in response to past activities or completed events. The Company's electric distribution rates both have a revenue decoupling mechanism ("RDM") which allows for annual adjustments to the Company's delivery rates as a result of the reconciliation between allowed revenue and billed revenue. The Company also has other ARPs related to the achievement of certain objectives, demand side management initiatives, and certain other ratemaking mechanisms. The Company recognizes ARPs with a corresponding offset to a regulatory asset or liability account when the regulatory specified events or conditions have been met, when the amounts are determinable, and are probable of recovery (or payment) through future rate adjustments.

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		
Current:		
Rate adjustment mechanisms	**$ 53**	$ 18
Total	**53**	18
Non-current:		
Postretirement benefits	**4,741**	4,555
Other	**5**	4
Total	**4,746**	4,559
Regulatory liabilities		
Current:		
Rate adjustment mechanisms	**2,117**	1,972
Transmission service	**17,136**	15,993
Revenue decoupling mechanism	**605**	1,345
Total	**19,858**	19,310
Non-current:		
Energy efficiency	**3,327**	2,167
Cost of removal	**1,333**	1,181
Second cable deferral	**1,403**	1,025
Regulatory tax liability, net	**3,855**	3,561
Other	**103**	183
Total	**$ 10,021**	$ 8,117

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

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

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

Rate adjustment mechanisms: In addition to commodity costs, the Company is subject to a number of additional rate adjustment mechanisms whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered or differences between actual revenues and targeted amounts as approved by the DPU.

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").

Revenue decoupling mechanism: As approved by the DPU, the Company has electric RDM which allows for an annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed and actual billed revenues. Any difference is recorded as a regulatory asset or regulatory liability.

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

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

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, as approved in accordance with the DPU. Carrying charges are not recorded on items for which expenditures have not yet been made.

5. RATE MATTERS

As described in Note 1, "Nature of Operations and Basis of Presentation," the Company and Massachusetts Electric are considered as one regulated entity for the purpose of recovering its costs and establishing its rates assessed to its customers. For certain regulatory assets and liabilities, including incremental storm costs of qualifying storm events, site investigation and remediation costs, solar generation costs, and any other costs incurred by the companies when taken as a single entity, the funding of the recovery or means of refund is from or to the customers of both companies, with a single regulatory asset or liability recorded on the balance sheet of Massachusetts Electric. As discussed in the "Related Party Reimbursement" section in Note 13, "Related Party Transactions," the Company's share of such costs and recoveries are reflected through the DPU-approved return on equity mechanism between the Company and Massachusetts Electric.

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

General Rate Case

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

The approved net increase includes an increase in annual funding of the storm fund from $10.5 million to $16.0 million per year and an extension of the storm fund replenishment factor through November 2023

Tax 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 Notice of Inquiry ("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, 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. On April 16, 2020, the FERC issued Order No. 864-A addressing requests for clarification, or in the alternative, rehearing, submitted in the proceeding. FERC will evaluate proposed amortization periods on a case by case basis. NEP will be submitting a compliance filing (on behalf of its affiliate) to update the formula rates in its service agreements with the Company in the next Annual True-Up Informational Filing under FERC Tariff No. 1 IFA provisions.

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

credit provision in D.P.U. 19-05, the Company's annual retail rate filing proceeding, and the recovery of excess ADIT associated under a specific reconciling mechanism in the individual dockets for those mechanisms.

In February 2019, the DPU issued an order finding that the Massachusetts utilities were not required to refund tax savings previously accrued from January 1, 2018, through June 30, 2018, as a result of the federal income tax rate reduction. The Company previously estimated that the total amount that would be subject to refund was approximately $13.8 million for the Company and Massachusetts Electric. On March 7, 2019, the Attorney General's Office filed a motion for clarification and reconsideration, requesting that the DPU provide additional clarity regarding its February 2019 ruling, and to reconsider its determination to allow utilities to keep the federal tax savings accrued from January 1, 2018, through June 30, 2018. The Motion for Clarification and Reconsideration is still pending.

Grid Modernization Plan

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

Operational and Management Audit

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

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	**$ 127,490**	$ 120,278
Land and buildings	**4,752**	4,730
Assets in construction	**2,734**	5,140
Operating leases	**587**	-
Total property, plant and equipment	**135,563**	130,148
Accumulated depreciation and amortization	**(55,510)**	(53,946)
Operating lease accumulated depreciation	**(135)**	-
Property, plant and equipment, net	**$ 79,918**	$ 76,202

7. FAIR VALUE MEASUREMENTS

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

	March 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Assets:				
Securities	$ 446	$ 622	$ -	$ 1,068

	March 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Assets:				
Securities	$ 471	$ 631	$ -	$ 1,102

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

8. EMPLOYEE BENEFITS

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

Plan assets are maintained for all of NGUSA and its subsidiaries in commingled trusts. In respect of cost determination, plan assets are allocated to the Company based on its proportionate share of the projected benefit obligations. The Plans' 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. The Company applies deferral accounting for pension and PBOP expenses associated with its regulated electric operations. Any differences between actual costs and amounts used to establish rates are deferred and collected from, or refunded to, customers in subsequent periods. Pension and PBOP service costs are included within operations and maintenance expense and non-service costs are included within other income (deductions), net in the accompanying statements of 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 and 2019, the Company made contributions of approximately $0.7 million, and $0.2 million, respectively, to the Qualified Pension Plans. The Company expects to contribute approximately $0.6 million to the Qualified Pension Plans during the year ending March 31, 2021.

Benefit payments to Pension Plan participants for the years ended March 31, 2020 and 2019 were approximately $0.3 million, each year.

PBOP Plans

The PBOP Plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. During the years ended March 31, 2020 and 2019, the Company made no contributions to the PBOP Plans. The Company does not expect to contribute to the PBOP Plans during the year ending March 31, 2020.

Benefit payments to PBOP plan participants for the years ended March 31, 2020 and 2019 were approximately $0.1 million each year.

Defined Contribution Plan

NGUSA has defined contribution retirement plans that cover substantially all employees. For the years ended March 31, 2020 and 2019, the Company recognized an expense in the accompanying statements of income of $50 thousand, and $46 thousand, respectively, for matching contributions.

Net Periodic Benefit Costs

The Company's total pension cost for the years ended March 31, 2020 and 2019 are $0.1 million, and $0.2 million respectively.

The Company's total periodic benefit PBOP costs for the years ended March 31, 2020 and 2019 was $0.2 million each year.

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 for the years ended March 31, 2020 and 2019:

	Pension Plans	
	March 31,	
	2020	2019
	(in thousands of dollars)	
Net actuarial loss (gain)	**$ 692**	$ (153)
Amortization of net actuarial loss	**(139)**	(153)
Amortization of prior service cost, net	**(1)**	(1)
Total	**552**	(307)
Change in regulatory liabilities (assets)	**552**	(307)
Total	**$ 552**	$ (307)

	PBOP Plans	
	March 31,	
	2020	2019
	(in thousands of dollars)	
Net actuarial (gain) loss	**$ (300)**	$ 79
Amortization of net actuarial loss	**(35)**	(70)
Amortization of prior service benefit, net	**(1)**	-
Total	**(336)**	9
Change in regulatory liabilities (assets)	**(336)**	9
Total	**$ (336)**	$ 9

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 and 2019:

	Pension Plans	
	March 31,	
	2020	2019
	(in thousands of dollars)	
Net actuarial losses	**$ 2,774**	$ 2,221
Prior service cost	**-**	1
Total	**$ 2,774**	$ 2,222
Included in regulatory assets	**$ 2,774**	$ 2,222
Total	**$ 2,774**	$ 2,222

	PBOP Plans	
	March 31,	
	2020	2019
	(in thousands of dollars)	
Net actuarial loss	**$ 1,014**	$ 1,349
Total	**$ 1,014**	$ 1,349
Included in regulatory assets (liabilities)	**$ 1,014**	$ 1,349
Total	**$ 1,014**	$ 1,349

The amount of net actuarial loss to be amortized from regulatory assets during the year ending March 31, 2021 for the Pension Plans is $0.2 million.

Reconciliation of Funded Status to Amount Recognized

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2020	2019	**2020**	2019
	(in thousands of dollars)			
Projected benefit obligation	**$ (8,766)**	$ (8,173)	**$ (2,984)**	$ (3,196)
Allocated fair value of assets	**6,623**	6,008	**26**	8
Funded status	**$ (2,143)**	$ (2,165)	**$ (2,958)**	$ (3,188)
Other current liabilities	**$ (38)**	$ (39)	**$ (83)**	$ (71)
Non-current liabilities	**(2,105)**	(2,126)	**(2,875)**	(3,117)
Total	**$ (2,143)**	$ (2,165)	**$ (2,958)**	$ (3,188)

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	$ 370	$ 85
2022	382	92
2023	397	102
2024	410	106
2025	425	118
2026-2030	2310	768
Total	$ 4,294	$ 1,271

Assumptions Used for Employee Benefits Accounting

	Pension Plans	
	Years Ended March 31,	
	2020	2019
Benefit obligations:		
Discount rate	**3.65%**	4.10%
Rate of compensation increase	**3.50%**	3.50%
Expected return on plan assets	**6.00%**	6.50%
Net periodic benefit costs:		
Discount rate	**4.10%**	4.10%
Rate of compensation increase	**3.50%**	3.50%
Expected return on plan assets	**6.50%**	6.25%

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

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

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

Assumed Health Cost Trend Rate

	Years Ended March 31,	
	2020	2019
Health care cost trend rate assumed for next year		
Pre 65	**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 trusteed 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%
	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:					
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.

9. CAPITALIZATION

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

(in thousands of dollars)	
March 31,	
2021	$ -
2022	-
2023	-
2024	-
2025	-
Thereafter	51,300
Total	$ 51,300

The Company's debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants such as restrictions on the level of indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the Company's debt and may restrict the Company's ability to draw upon its facilities or access the capital markets. As of 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 $15 million of short-term debt internally or externally, that expires on January 10, 2021. The Company had no external short-term debt as of March 31, 2020 and 2019. Refer to Note 13, "Related Party Transactions" under "Intercompany Money Pool" for short-term debt outstanding with associated companies.

Electric Revenue Bonds

As of March 31, 2020, the Company had $51.3 million outstanding of Electric Revenue Bonds in the form of tax-exempt commercial paper with maturity dates ranging from 2039 through 2042. The debt is remarketed at periods of 1-270 days and had variable interest rates ranging from for 1.10% and 2.30% and from 1.25% and 1.95% for the years ended March 31, 2020 and 2019, respectively. The bonds were issued by the Massachusetts Development Finance Agency in connection with the Company's financing of its first and second underground and submarine cable projects.

The Company has a Standby Bond Purchase Agreement ("SBPA") of $51.3 million, which expires on June 14, 2023. The SBPA is available to provide liquidity support for $51.3 million of the Company's long-term bonds in the form of tax-exempt

commercial paper. 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.

Massachusetts Electric unconditionally guarantees the full and prompt payment of the principal, premium, if any, and interest on the tax-exempt bonds issued by the Massachusetts Development Finance Agency in connection with the Company's financing of its first and second underground and submarine cable projects. Massachusetts Electric would be required to make any principal, premium, or interest payments if the Company did not fulfill its obligations under the financing agreement.

Dividend Restrictions

Pursuant to provisions in connection with the prior mergers, payment of dividends on common stock are not permitted if, after giving effect to such payment of dividends, common equity becomes less than 30% of total capitalization. As of March 31, 2020 and March 31, 2019 common equity was 59% and 57% of total capitalization, respectively. Under these provisions, none of the Company's retained earnings as of March 31, 2020 and March 31, 2019 were restricted as to common dividends

10. INCOME TAXES

Components of Income Tax Expense (Benefit)

	Years Ended March 31,	
	2020	2019
	(in thousands of dollars)	
Current tax expense:		
Federal	**$ 1,611**	$ 819
State	**610**	389
Total current tax expense	**2,221**	1,208
Deferred tax expense:		
Federal	**68**	426
State	**9**	148
Total deferred tax expense	**77**	574
Total income tax expense	**$ 2,298**	$ 1,782

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2020 2019 are 30.0% and 26.7% respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 21% respectively, to the actual tax expense:

	Years Ended March 31,	
	2020	2019
	(in thousands of dollars)	
Computed tax	**$ 1,609**	$ 1,400
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**489**	424
Amortization of regulatory tax liability - net	**208**	(31)
Other	**(8)**	(11)
Total changes	**689**	382
Total income tax expense	**$ 2,298**	$ 1,782

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:		
Postretirement benefits and other employee benefits	**$ 1,531**	$ 1,597
Regulatory liabilities	**7,813**	7,185
Other	**295**	277
Total deferred tax assets	**9,639**	9,059
Deferred tax liabilities:		
Property-related differences	**12,680**	12,379
Regulatory assets	**1,311**	1,250
Other	**52**	42
Total deferred tax liabilities	**14,043**	13,671
Deferred income tax liabilities, net	**$ 4,404**	$ 4,612

Federal and State Income Tax Audit

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 results of operations and financial position. As a result of the settlement, the Company made a payment of $1.6 million.

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 continues its examination of 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 income. As of March 31, 2020 and 2019, the Company has accrued for interest related to unrecognized tax benefits of $0.2 million and $0.5 million, respectively. During the years ended March 31, 2020 and 2019, the Company recorded interest expense of $0.1 million and $0.1 million, respectively. No tax penalties were recognized during the years ended March 31, 2020 or 2019.

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.

Other Contingencies

As of March 31, 2020 and 2019, the Company had accrued an estimate for workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR") of $32 thousand and $33 thousand, respectively. IBNR reserves are reserves that have been established for claims and/or events that have transpired, but have not yet been reported to the Company for payment.

12. LEASES

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

The Company has no finance leases as of March 31,2020. The Company has various operating leases, primarily related to fleet vehicles and real estate used to support the electric operations, with lease terms ranging between one and five years.

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

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

Lease liabilities are recognized based on the present value of the lease payments over the lease term at the commencement date. For any leases that do not provide an implicit rate, the Company uses an estimate of its collateralized incremental borrowing rate based on the information available at the commencement date to determine the present value of future payments. Operating lease ROU assets are included in property, plant and equipment, net, and operating lease liabilities are included in other current liabilities and other noncurrent liabilities on the balance sheet.

As of March 31, 2020, the Company's operating leases related to fleet vehicles had a weighted average discount rate of 2.7% and a weighted average remaining lease term of 4 years. The Company does not have material rights or obligations under operating leases that have not yet commenced.

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

		Year ended March 31, 2020
		(in thousands of dollars)
Cash paid for amounts included in lease liabilities		
Operating cash flows from operating leases	**$**	**149**
ROU assets obtained in exchange for new operating lease liabilities	**$**	**452**

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

		Operating Leases
Year Ending March 31,		*(in thousands of dollars)*
2021	**$**	**144**
2022		**117**
2023		**115**
2024		**78**
2025		**22**
Thereafter		**-**
Total future minimum lease payments		**476**
Less: imputed interest		**(24)**
Total		**$452**
Reported as of March 31, 2020:		
Current lease liability		**134**
Non-current lease liability		**318**
Total	**$**	**452**

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

		Operating Leases
Year Ending March 31,		*(in thousands of dollars)*
2020	$	161
2021		137
2022		126
2023		103
2024		52
Thereafter		32
Total future minimum lease payments	$	611

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

13. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

NGUSA and its affiliates provide various services to the Company, including executive and 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 outstanding accounts receivable from affiliates and accounts payable to affiliates is as follows:

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2020	2019	**2020**	2019
	(in thousands of dollars)			
Massachusetts Electric Company	**$ 1,191**	$ 48	**$ 448**	$ 3,201
Narragansett Electric Company	**1**	12	**178**	418
New England Power Company	**7**	17	**-**	333
NGUSA	**22**	22	**411**	29
NGUSA Service Company	**103**	-	**606**	682
Other	**10**	28	**95**	13
Total	**$ 1,334**	$ 127	**$ 1,738**	$ 4,676

Advances from Affiliates

The Company has an agreement with NGUSA whereby the Company can borrow up $10 million from time to time for working capital needs. The advance is non-interest bearing. As of March 31, 2020 and 2019, the Company had no outstanding advance from affiliates.

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. Investments in 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 borrowings and intercompany money pool investments of $64.9 million and $66.2

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

Related Party Reimbursement

In accordance with the Credit and Operating Support Agreement dated March 26, 1996, Massachusetts Electric will reimburse the Company an amount equal to the difference between the Company's actual net income for the year and the net income necessary for the Company to earn its DPU approved ROE for the fiscal year, currently 9.6%. This reimbursement shall constitute additional revenue to the Company and expense to Massachusetts Electric. The Company is entitled to retain any return in excess of 9.6%. For the years ended March 31, 2020 and 2019, Massachusetts Electric reimbursed the Company $5.0 million and $1.2 million.

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 and 2019 were $5.4 million and $4.6 million, respectively.