nationalgrid

National Grid Generation LLC and Subsidiaries

Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Managers of
National Grid Generation LLC

We have audited the accompanying consolidated financial statements of National Grid Generation LLC and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, capitalization, changes in member's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Grid Generation LLC and Subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 16, 2019

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended December 31,	
	2018	2017
Operating revenues	**$ 475,829**	$ 471,323
Operating expenses:		
Operations and maintenance	**171,242**	168,206
Depreciation	**53,804**	52,864
Other taxes	**200,108**	197,479
Total operating expenses	**425,154**	418,549
Operating income	**50,675**	52,774
Other income and (deductions):		
Interest on long-term debt	**(1,199)**	(738)
Other interest, including affiliate interest	**10,133**	(10,998)
Loss from equity investments	**(429)**	(66)
Other income, net	**3,610**	8,263
Total other income (deductions), net	**12,115**	(3,539)
Income before income taxes	**62,790**	49,235
Income tax expense (benefit)	**1,187**	(26,093)
Net income	**$ 61,603**	$ 75,328

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended December 31,	
	2018	2017
Operating activities:		
Net income	**$ 61,603**	$ 75,328
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**53,804**	52,864
Provision for (benefit from) deferred income taxes	**2,303**	(61,072)
Bad debt expense	**1**	81
Loss from equity investments, net of dividends received	**207**	2,036
Loss on sale/disposal of assets	**-**	772
Decommissioning charges, net of payments	**560**	885
Share-based compensation	**(26)**	36
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenues	**4,732**	2,389
Inventory	**(373)**	87
Emission credits and emission credits reserve	**(432)**	249
Prepaid and accrued taxes	**3,083**	88,061
Accounts payable and other liabilities	**(21,325)**	(17,351)
Other, net	**(9,942)**	6,936
Net cash provided by operating activities	**94,195**	151,301
Investing activities:		
Capital expenditures	**(55,902)**	(46,775)
Proceeds from sale of assets	**-**	227
Affiliated money pool investing and receivables/payables, net	**1,066**	199,522
Investment in joint venture	**(21,489)**	(123)
Other	**-**	(6,282)
Net cash (used in) provided by investing activities	**(76,325)**	146,569
Financing activities:		
Common dividends to Parent	**-**	(280,000)
Payments on long-term debt	**(17,870)**	(17,870)
Net cash used in financing activities	**(17,870)**	(297,870)
Net increase in cash and cash equivalents	**-**	-
Cash and cash equivalents, beginning of period	**-**	-
Cash and cash equivalents, end of period	**$ -**	$ -

Supplemental Cash Flow Information	**2018**	2017
	(in thousands of dollars)	
Supplemental disclosures:		
Interest paid	**$(7,060)**	$(7,174)
Income taxes paid	**$(9,202)**	$(4,181)
Significant non-cash items:		
Capital-related accruals included in accounts payable	**$1,575**	$4,688
Parent tax loss allocation	**$5,482**	$4,775

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Accounts receivable, net of allowance	**676**	6,358
Accounts receivable from affiliates	**3,632**	6,791
Intercompany money pool	**31,210**	39,337
Unbilled revenues	**6,139**	5,190
Inventory	**55,069**	66,272
Other	**2,299**	2,307
Total current assets	**99,025**	126,255
Equity investments	**22,051**	271
Property, plant and equipment, net	**676,461**	675,114
Other non-current assets	**11,702**	4,445
Total assets	**$ 809,239**	$ 806,085

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	December 31, 2018	December 31, 2017
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 55,824**	$ 49,570
Accounts payable to affiliates	**14,507**	24,727
Current portion of long-term debt	**17,870**	17,870
Taxes accrued	**73,748**	75,649
Interest accrued	**854**	926
Current portion of emission credit reserve	**6,624**	25,339
Other	**5,682**	4,978
Total current liabilities	**175,109**	199,059
Other non-current liabilities:		
Asset retirement obligations	**17,541**	17,312
Deferred income tax liabilities, net	**93,582**	83,311
Emission credits reserve	**6,707**	-
Other	**20,406**	59,698
Total other non-current liabilities	**138,236**	160,321
Capitalization:		
Member's equity	**274,229**	207,170
Long-term debt	**221,665**	239,535
Total capitalization	**495,894**	446,705
Total liabilities and capitalization	**$ 809,239**	$ 806,085

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			December 31,	
			2018	2017
Total member's equity			**$ 274,229**	$ 207,170
Long-term debt:	Interest Rate	Maturity Date		
State Authority Financing Bonds:				
Pollution Control Revenue Bonds - Series 1999A	Variable	October 1, 2028	**41,125**	41,125
Electric Facilities Revenue Bonds - Series 1997A	Variable	December 1, 2027	**24,880**	24,880
			66,005	66,005
Promissory Notes to National Grid North America Inc.	3.13% - 3.25%	June 2027 - April 2028	**173,530**	191,400
Total debt			**239,535**	257,405
Current portion of long-term debt			**17,870**	17,870
Long-term debt			**221,665**	239,535
Total capitalization			**$ 495,894**	**$ 446,705**

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY
(in thousands of dollars)

	Additional Paid-in Capital	Retained Earnings	Total
Balance as of December 31, 2016	**$ 374,495**	**$ 32,536**	**$ 407,031**
Net income	-	75,328	75,328
Parent tax loss allocation	4,775	-	4,775
Share-based compensation	36	-	36
Common dividends to Parent	(228,000)	(52,000)	(280,000)
Balance as of December 31, 2017	**$ 151,306**	**$ 55,864**	**$ 207,170**
Net income	-	61,603	61,603
Parent loss tax allocation	5,482	-	5,482
Share-based compensation	(26)	-	(26)
Balance as of December 31, 2018	**$ 156,762**	**$ 117,467**	**$ 274,229**

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

National Grid Generation LLC (together with its subsidiaries referred to as "the Company") is a New York limited liability company that owns and operates 50 electric generation units with approximately 3,800 megawatts ("MWs") of electric generation capacity located in Long Island. The Company, together with its wholly-owned subsidiaries, National Grid Glenwood Energy Center, LLC ("Glenwood") and National Grid Port Jefferson Energy Center LLC ("Port Jefferson"), sell capacity, energy conversion, and ancillary services to the Long Island Power Authority ("LIPA"). Please see Note 3, "Equity Investments," for further information on the Company's non-consolidated subsidiaries.

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 earns all of its revenue from contracts with LIPA based upon an agreement with LIPA (the "Amended and Restated Power Supply Agreement" or "A&R PSA"), which provides for the sale of all capacity and requested energy from its oil and gas-fired generating facilities. In addition, Glenwood and Port Jefferson have 25-year PPAs with LIPA to sell capacity, energy conversion, and ancillary services to LIPA. Glenwood and Port Jefferson each own plants designed to produce 80 MWs of electricity.

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Company has evaluated subsequent events and transactions through April 16, 2019, the date of issuance of these consolidated financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the consolidated financial statements as of and for the year ended December 31, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing consolidated financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities included in the consolidated financial statements. Actual results could differ from those estimates.

Revenue Recognition

Revenues are recognized for sales of capacity and energy to LIPA under terms of the A&R PSA, with rates approved by the Federal Energy Regulatory Commission ("FERC"). Please see Note 10, "Commitments and Contingencies", for additional information on the A&R PSA. The Company records unbilled revenues for the estimated amount of energy delivered from the bill date to the end of the accounting period.

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 consolidated financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses, and general business credit carryforwards.

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

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary determines its tax provision based on the separate return method, modified by benefits-for-loss allocation pursuant to a tax sharing agreement between NGNA and its subsidiaries. The benefits 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. 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.

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 taking into account historical collection and write-off experience and management's assessment of collectability from LIPA. 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 balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies and carbon dioxide ("CO2") emission credits. Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized as used. The Company wrote off $0.1 million and $0.3 million in obsolete inventory for the years ended December 31, 2018 and 2017, respectively. The Company's carbon dioxide emission credits are valued at the lower of weighted average cost or net realizable value and are held primarily for consumption or may be sold to third-party purchasers.

The Company had materials and supplies of $39.8 million and $39.4 million at December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, the Company recorded emission allowance credits of $15.3 million and $26.9 million and a compliance reserve of $13.3 million and $25.3 million, respectively.

As per the Regional Greenhouse Gas Initiative, the Company is required to hold onto carbon dioxide emission credits for emissions which are emitted over a three-year compliance period. After the end of each interim control period, which is each of the first two calendar years of a three-year compliance period, the Company is required to surrender 50% of its emission credits for the control period, which is recognized as a reduction to inventory and the emission credit reserve on the accompanying consolidated balance sheet. At the end of the three-year compliance period, the remaining inventory and emission credit reserve are surrendered and removed from the balance sheet.

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 capitalized interest.

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. The average composite rates for the years ended

December 31, 2018 and 2017 were 2.8% and 2.9%, respectively. The average service life for the years ended December 31, 2018 and 2017 was 36 years and 39 years, respectively.

Capitalized Interest

In accordance with ASC 835, the Company capitalized interest in the amount of $0.9 million and $0.8 million for the years ended December 31, 2018 and 2017, respectively. The average capitalized interest rates for the years ended December 31, 2018 and 2017 were 1.45% and 0.84%, respectively.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant, and equipment. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations, are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period, the asset retirement obligation is accreted to its present value.

The Company has various asset retirement obligations primarily associated with its electric generation activities. Generally, the Company's largest asset retirement obligations relate to: (i) cleaning and removal requirements associated with storage tanks containing waste oil and other waste contaminants; (ii) legal requirements to remove asbestos upon major renovation or demolition of structures and facilities; and (iii) waste water treatment pond removal.

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

	Years Ended December 31,	
	2018	2017
	(In thousands of dollars)	
Balance as of the beginning of the year	**$ 17,312**	$ 16,429
Accretion expense	**886**	886
Liabilities settled	**(326)**	(1)
Other - Tax adjustment		(2)
Balance as of the end of the year	**$ 17,872**	$ 17,312

The Company had a current portion of asset retirement obligations of $0.3 million included in Other Current Liabilities on the balance sheet at December 31, 2018.

As of December 31, 2017, the Company's entire asset retirement obligations balance of $17.3 million was treated as a non-current liability on the balance sheet.

Employee Benefits

The Company follows the accounting guidance for multi-employer accounting to record pension and postretirement benefits other than pension ("PBOP") expenses. The Company's pension and PBOP expenses represent direct charges and allocations from affiliated service companies, while the liability is recorded at the Parent. Contributions are also based on these pension and PBOP expenses.

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.

We determine whether we 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 we absorb, who has the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE, and who has the obligation to absorb losses or receive benefits that could be significant to the VIE.

Through its wholly-owned subsidiary, National Grid Generation Ventures LLC ("Ventures"), the Company owns a 50% interest in each of four individual LLCs (Island Park Energy Center LLC, LI Solar Generation LLC, LI Energy Storage System LLC, and Clean Energy Generation LLC). Each of the four individual entities 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 50% ownership interest in the entities using the equity method of accounting for investments.

New and Recent Accounting Guidance

Accounting Guidance Recently Adopted

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09: "Revenue from Contracts with Customers (Topic 606)." The underlying principle of this ASU is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to, in exchange for those goods or services. For the Company, the new guidance is effective for the fiscal year ended December 31, 2018 and its interim periods and has been adopted using a modified retrospective approach.

The Company performed detailed reviews of its revenue arrangements to ensure compliance with the new standard effective for the current fiscal year ended December 31, 2018 and its interim periods. The adoption of Accounting Standards Codification ("ASC") 606, "Revenue from Contracts with Customers," did not have a material impact on the presentation of the Company's results of operations, cash flows, or financial position.

Statement of Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments (Topic 230)," which provides guidance about the classification of certain cash receipts and payments within the statement of cash flows, including debt prepayment or extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and policies, and distributions received from equity method investments.

This ASU is in effect for the current fiscal year ended December 31, 2018 and its interim periods. The application of ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments (Topic 230)," did not have a material impact on the Company's cash flows as the Company is already in compliance with the amendments.

Financial Instruments – Classification and Measurement

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The new guidance principally affects the accounting for equity investments and

financial liabilities where the fair value option has been elected, as well as the disclosure requirements for financial instruments. For the Company, the new guidance is effective for the current fiscal year ended December 31, 2018 and the interim periods. The adoption of this ASU did not have a material impact on the presentation, results of operations, cash flows, and financial position of the Company.

Pension and Postretirement Benefits

In March 2017, the FASB issued ASU No. 2017-07, "Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which changes certain presentation and disclosure requirements for employers that sponsor defined benefit pension and other postretirement benefit plans. The ASU requires the service cost component of the net benefit cost to be in the same line item as other compensation in operating income and the other components of net benefit cost to be presented outside of operating income on a retrospective basis. In addition, only the service cost component will be eligible for capitalization when applicable, on a prospective basis. The requirements of the new standard are effective for the current fiscal year and its interim periods. The application of the new guidance has no impact on the results of the Company's operations, cash flows, and financial position.

Income Taxes

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," which eliminates the exception for all intra-entity sales of assets other than inventory. As a result, a reporting entity would recognize the tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. For the Company, the requirements of the new standard are effective for the current fiscal year and its interim periods. The application of this guidance did not have a material impact on the results of operations, cash flows, or financial position of the Company.

Stock Compensation

In May 2017, the FASB issued ASU No. 2017-09, "Stock Compensation (Topic 718): Scope of Modification Accounting," which provides clarity on the application of modification accounting upon a change to the terms or conditions of a share-based payment award. For the Company, the requirements of the new standard are effective for the fiscal year ended December 31, 2018 and its interim periods. The application of the standard did not have a material impact on the presentation, results of operations, cash flows, and financial position of the Company.

Accounting Guidance Not Yet Adopted

Leases

In February 2016, the FASB issued ASU 2016-02 "Leases" (codified as Topic 842) related to lease accounting. For the Company, the new standard is effective for the fiscal year ending December 31, 2019, and interim periods within, with early adoption permitted. 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 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 asset and a related lease liability and classify the leases as either operating or finance. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustments, such as initial direct costs.

Lessor accounting under the new guidance is consistent with the current model, with updates to align with certain changes to the lessee model and the new revenue standard (Topic 606). Similar to current guidance, lessors will classify leases as operating, direct financing, or sales-type. The Company follows lessor accounting in respect of its A&R PSA and PPAs with LIPA. These are considered operating leases under the current standard, as well as the new standard.

The standard will also require lessors to allocate (rather than recognize as currently required) certain variable payments to the lease and non-lease components when the changes in facts and circumstances on which the variable payment is based occur.

The new standard will require the Company to recognize and measure the cumulative effect of the new standard at the beginning of the earliest period presented using a modified retrospective approach. As GENCO is not a lessee for any leasing arrangements, no such transition adjustment will be required.

The Company follows lessor accounting in respect of its A&R PSA and PPAs with LIPA. These are considered operating leases under the current guidance, as well as the new guidance.

The new standard provides the Company with transition practical expedients including a package of three expedients that must be taken together and allows the Company to: not reassess whether existing contracts contain leases, carryforward the existing classification of any leases, and not reassess initial direct costs associated with existing leases. The Company has exercised its option to elect the package of practical expedients.

The new standard permits an entity to elect an optional transition practical expedient to not evaluate under Topic 842 land easements that exist or expire before the Company's adoption of Topic 842, that were not previously accounted for as leases under Topic 840. The Company has exercised its option to elect this expedient.

The new standard permits lessors, as an accounting policy election, to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs. Instead, those lessors will account for those costs as if they are lessee costs. The Company has made this accounting policy election. In addition, the new standard also allows lessors to exclude certain costs from variable payments, and therefore revenue, for lessor costs paid by lessees directly to third parties. The Company has also made this accounting policy election.

The new standard also permits lessors, as an accounting policy election, to not separate lease and non-lease components if the non-lease components would otherwise be accounted for under Topic 606, the timing and pattern of both the lease and non-lease components is the same and the lease component would be accounted for as an operating lease under the new standard. The Company has not made this accounting policy election.

We established a cross-functional team to assess and implement the new standard. The Company has completed its assessment and implementation activities, which included compiling the lease inventory, concluding on industry issues and implementing transition controls over the new requirements. The Company is expecting no impact to its consolidated financial position, operations or cash flows from the adoption of the new standard.

Goodwill and Other

In August 2018, the FASB issued ASU No. 2018-15, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract," to help entities evaluate the accounting for fees paid by a customer. The amendment will align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. For the Company, the requirements in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently assessing the application of the standard to determine if it will have a material impact on the presentation, results of operations, cash flows, and financial position of the Company.

Compensation

In August 2018, the FASB issued ASU No. 2018-14, "Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20), Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans," which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. For

the Company, the requirements in this Update are effective for financial statements ending after December 15, 2020. The Company is currently assessing the application of the standard to determine if it will have a material impact on the presentation, results of operations, cash flows, and financial position of the Company.

In June 2018, the FASB issued ASU No. 2018-07, “Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting,” which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. 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 is currently assessing the application of the standard to determine if it will have a material impact on the presentation, results of operations, cash flows, and financial position of the Company.

Fair Value

In August 2018, the FASB issued ASU No. 2018-13, “Fair Value Measurement (Topic 820), Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement,” which modifies the disclosure requirements on fair value measurements in Topic 820, “Fair Value Measurement,” based on the concepts in the Concepts Statement, including the consideration of costs and benefits. For the Company, the requirements in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently assessing the application of the standard to determine if it will have a material impact on the presentation, results of operations, cash flows, and financial position of the Company.

Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Statements,” which requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(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. For the Company, the requirements in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently assessing the application of the standard to determine if it will have a material impact on the presentation, results of operations, cash flows, and financial position of the Company.

3. EQUITY INVESTMENTS

The Company owns a 50% interest in each of Island Park Energy Center LLC, LI Solar Generation LLC, LI Energy Storage System LLC, and Clean Energy Generation LLC. The Company makes contributions to these LLCs as needed to fund development activities and operations. Island Park Energy Center LLC was formed to develop, construct, own, and operate a proposed repowering of the E.F. Barrett steam and combustion turbine units, all located in Nassau County, New York. LI Solar Generation LLC is developing a 22.9 MW solar generation project in Calverton, NY based on a 2017 selection by LIPA for power contracts as part of a Request for Proposals (“RFP”) process. Clean Energy Generation LLC was formed to jointly respond to RFPs in the State of New York related to generation, energy storage, and demand response resources with intent to develop, construct, own, and operate infrastructure assets if selected.

LI Energy Storage System LLC through its wholly-owned subsidiaries, East Hampton Storage Center LLC and Montauk Energy Storage Center LLC, were awarded contracts by LIPA as part of an RFP process. The award was for separate 5-megawatt hour (“MWh”) and 40-MWh battery storage projects in East Hampton, NY and Montauk, NY. The entities own and operate the facilities and provide energy and storage services to LIPA through an executed 20-year Power Purchase Agreements (“PPAs”) with LIPA. In 2018 the Company made $11.1 million in capital contributions to East Hampton Storage Center and $9.5 million to Montauk Energy Storage Center. The East Hampton Storage Center commenced commercial operations on August 1, 2018. The Montauk Energy Storage Center commenced commercial operations on February 1, 2019.

The 50% equity interest in Island Park Energy Center LLC, LI Solar Generation LLC, LI Energy Storage System LLC, and Clean Energy Generation LLC are accounted for as equity investments as the Company does not have a controlling financial interest. The Company recognized a loss on equity investments of $0.4 million and $0.1 million for the years ended December 31, 2018 and 2017, respectively. The Company has not issued any loans, commitments or guarantees to the entities. The Company's maximum exposure to loss is limited to the carrying value of the equity investments of $22.1 million.

Each of the LLCs described above are variable interest entities ("VIE"); however, the Company is not the primary beneficiary as it does not have the power to direct the most significant activities of the entities as under each LLC agreement, the Board of Managers is comprised of a number of representatives equal to two per Qualified Members (defined as Members with over a 25% interest): two representatives from Ventures and two representatives from NextEra, and there is no internal mechanism in place to resolve a board deadlock. See below for aggregated financial information in respect of the VIEs.

	As of December	
In thousands of dollars	**2018**	*2017*
Net Assets of VIEs	**$52,813**	**$10,391**
Carrying value of variable interests - assets	**$22,051**	**$271**
Carrying value of variable interests - liabilities	**-**	-
Maximum exposure to loss		
Variable Interest	**$22,051**	*$271*
Commitments and guarantees	**-**	-
Total maximum exposure to loss	**$22,051**	*$271*

The difference between the carrying value of the investment and the Company's underlying equity in the net assets is due to the development cost incurred before the company believe were probable of constructions.

4. PROPERTY, PLANT, AND EQUIPMENT

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

	December 31,	
	2018	2017
	(in thousands of dollars)	
Plant and machinery	**$ 1,682,457**	$ 1,637,172
Motor vehicles and equipment	**1,448**	1,474
Land and buildings	**349,925**	330,094
Assets in construction	**40,092**	52,919
Software and other intangibles	**8,364**	8,364
Total property, plant, and equipment	**2,082,286**	2,030,023
Accumulated depreciation and amortization	**(1,405,825)**	(1,354,909)
Property, plant, and equipment, net	**$ 676,461**	$ 675,114

5. FAIR VALUE MEASUREMENTS

The fair value of the Company's long-term debt is based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of the Company's long-term debt is the same as its amortized cost on the consolidated balance sheets. Please see Note 7, "Capitalization", for additional information.
All other financial instruments in the accompanying consolidated balance sheets, such as accounts receivable, accounts payable, and the intercompany money pool, are stated at cost, which approximates fair value.

6. EMPLOYEE BENEFITS

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

The Pension plans provide union employees, as well as all 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.

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.

Plan assets are maintained for all of NGUSA and its subsidiaries in commingled trusts. 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. Pension and PBOP expenses are included within operations expenses in the accompanying statements of income.

The Company's A&R PSA with LIPA provides for the recovery of direct and allocated pension and PBOP costs through the capacity charge mechanism. These costs are presently recovered through the capacity charge mechanism during the subsequent contract year under the A&R PSA. These same costs are a direct input into funding considerations attributed to the Company in respect of the plans.

The KeySpan Retirement Income Plan, the KeySpan Benefit Plan for Retired (East) Union Employees, the KeySpan Life Insurance Plan for Retired (East) Management Employees, and the KeySpan Medical Plan for Retired (East) Management Employees are the primary Plans that provided pension and PBOP benefits in respect of the Company. Contributions in respect of the Company totaled $5.4million and $16.2 million for the years ended December 31, 2018 and 2017, respectively.

All pension and PBOP costs associated with the Plan either directly charged or allocated from affiliated service companies are settled through the Company's Intercompany money pool (refer to the Intercompany Money Pool section of Note 11, "Related Party Transactions"). The amounts settled through the money pool are considered as the Company's contributions to the Plans.

The Company's gross pension and PBOP costs directly charged and allocated from affiliated service companies for the years ended December 31, 2018 and 2017 are as follows:

	Years Ended December 31,	
	2018	2017
	(In thousands of dollars)	
Pension	**$ 16,225**	$ 18,938
PBOP	**$ (1,072)**	$ 2,006
	$ 15,153	$ 20,944

Gross pension and PBOP costs include $2.3 million and $2.9 million of capitalized costs for the years ended December 31, 2018 and 2017, respectively.

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended December 31, 2018 and 2017, the Company recognized an expense in the accompanying consolidated statements of income of $0.8 million in each year for matching contributions.

Other Benefits

At December 31, 2018 and 2017, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR") of $1.3 million and $4.9 million, respectively. IBNR reserves have been established for claims and/or events that have transpired but have not yet been reported to the Company for payment.

7. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to December 31, 2018 are as follows:

(In thousands of dollars) Years Ended December 31,		
2019	$	17,870
2020		17,870
2021		17,870
2022		17,870
2023		17,870
Thereafter		150,185
Total	$	239,535

Debt Authorizations

Since January 12, 2015, the Company has had regulatory approval from the FERC to issue up to $250 million of short-term debt. The authorization, which was renewed with an effective date of January 11, 2019, is effective for a period of two years and expires on January 10, 2021. The Company had no short-term debt outstanding to third-parties as of December 31, 2018 or 2017.

State Authority Financing Bonds

At December 31, 2018 and 2017, $41.1 million of 1999 Series A Pollution Control Revenue Bonds due October 1, 2028 were outstanding. The interest rate ranged from 0.8% to 3.72% for the year ended December 31, 2018 and from 0.37% to 18% for the year ended December 31, 2017.

The Company also had outstanding $24.9 million of variable rate 1997 Series A Electric Facilities Revenue Bonds due December 1, 2027 at December 31, 2018 and 2017. The interest rate on these bonds is reset weekly and ranged from 1% to 1.95% during the year ended December 31, 2018 and from 0.77% to 1.77% during the year ended December 31, 2017. These bonds are backed by a standby letter of credit and reimbursement agreement which includes a percent of indebtedness covenant that cannot exceed 70%. During the years ended December 31, 2018 and 2017, the Company was in compliance with this covenant.

Promissory Notes

On November 20, 2015, the Company entered into multiple intercompany loans with NGNA totaling $227 million, composed of a $165 million intercompany loan with an interest rate of 3.25% due to mature on April 30, 2028 and a $62 million intercompany loan with an interest rate of 3.13% due to mature on June 1, 2027. The intercompany loans have an annual sinking fund requirement totaling $17.9 million. The Company had outstanding debt of $173.5 million and $191.4 million as of December 31, 2018 and 2017, respectively, of which $17.9 million is included in current portion of long-term debt on the accompanying balance sheet as of December 31, 2018 and 2017, respectively.

Restrictions on Payment of Dividends

The Company is obligated to meet certain non-financial covenants pursuant to the participation agreement with the New York State Energy Research and Development Authority. During the years ended December 31, 2018 and 2017, the Company was in compliance with all such covenants.

Pursuant to FERC regulations, payment of dividends would not be permitted if, after giving effect to such payment of dividends, member's equity becomes less than 30% of total capitalization. At December 31, 2018 and 2017, member's equity was 53.4% and 44.6% of total capitalization, respectively. Under these provisions, none of the Company's retained earnings at December 31, 2018 or 2017 were restricted as to payment of dividends.

8. INCOME TAXES

Components of Income Tax Expense

	Years Ended December 31,	
	2018	2017
	(in thousands of dollars)	
Current tax expense (benefit):		
Federal	**$ 7,592**	$ 27,586
State	**(8,708)**	7,393
Total current expense (benefit)	**(1,116)**	34,979
Deferred tax expense (benefit):		
Federal	**1,531**	(57,632)
State	**772**	(3,440)
Total deferred tax expense (benefit)	**2,303**	(61,072)
Total income tax expense (benefit)	**$ 1,187**	$ (26,093)

Statutory Rate Reconciliation

The Company's effective tax rate for the years ended December 31, 2018 and 2017 was 1.9% and -53.0%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 21% and 35%, respectively, to the actual tax expense:

	Years Ended December 31,	
	2018	2017
	(in thousands of dollars)	
Computed tax	**$ 13,186**	$ 17,232
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**3,976**	2,686
State audit settlements	**(10,349)**	-
Federal rate change	**(5,309)**	(44,548)
Other items - net	**(317)**	(1,463)
Total	**(11,999)**	(43,325)
Federal and state income taxes	**$ 1,187**	$ (26,093)

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

On December 22, 2017, the Tax Act was signed into law. The Tax Act includes significant changes to various federal tax provisions applicable to the Company, including provisions specific to regulated public utilities. The most significant changes include the reduction in the corporate federal income tax rate from 35% to 21%, effective January 1, 2018 and the limitation of the net operating loss deduction for net operating losses generated in tax years starting after December 31, 2017 to 80% of taxable income with an indefinite carryforward period. The Tax Act provisions related to regulated utilities eliminate bonus depreciation for certain property acquired or placed in service after September 27, 2017, and extend normalization requirements for ratemaking treatment of excess deferred taxes.

On December 22, 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") 118, which provides guidance on accounting for the effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date to complete the accounting under ASC 740. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete, a company can determine a reasonable estimate for those effects and record a provisional estimate in the financial statements.

The Company made a reasonable estimate for the measurement and accounting of the effects of the Tax Act which were reflected in the December 31, 2017 financial statements based on management's interpretation of the Tax Act and the best available information. The items reflected as provisional amounts were related to accelerated depreciation, the allocation of excess deferred taxes between customers and shareholders, and certain property related temporary differences. In accordance with ASC 740, "Income Taxes", the Company remeasured its deferred income tax assets and liabilities from 35% to 21% for the year ended December 31, 2017, which resulted in a decrease in the Company's deferred income tax liability in the amount of $44.5 million.

On August 3, 2018, the Internal Revenue Service (IRS) and the U.S. Department of Treasury released proposed regulations associated with the expanded depreciation rules enacted as part of the Tax Act. The proposed regulations would enable utilities to claim additional bonus depreciation on property acquired and placed in service between September 28, 2017 and March 31, 2018. The Company adopted the guidance in the proposed regulations and revised the impact of the income tax effect of the Tax Act to reflect the additional six months of bonus depreciation. The Company recognized the final impact of the Tax Act in accordance with SAB 118 which resulted in an additional $5.3 million deferred income tax benefit for the year ended December 31, 2018.

Deferred Tax Components

	Years Ended December 31,	
	2018	2017
	(in thousands of dollars)	
Deferred tax assets:		
Net operating losses	**$ 2,650**	$ 7,552
Reserves not currently deducted	**2,697**	9,257
Future federal benefit on state taxes	**4,100**	6,663
Pensions, OPEB and other employee benefits	**1,297**	1,322
Other items	**6,635**	5,166
Total deferred tax assets	**17,379**	29,960
Deferred tax liabilities:		
Property related differences	**97,419**	99,404
Property taxes	**13,542**	13,867
Total deferred tax liabilities	**110,961**	113,271
Net deferred income tax liability	**$ 93,582**	$ 83,311

Net Operating Losses

The amounts and expiration dates of the Company's net operating losses carryforward as of December 31, 2018 are as follows:

	Carryforward Amount	Expiration Period
	(In thousands of dollars)	
Federal	10,460	2033-2038
State	33,060	2035-2038

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 operating losses carryforwards reflected on the income tax returns.

Federal and State Income Tax Audit Status

During the year ended December 31, 2018, the Company reached a settlement with the IRS for the tax years ended March 31, 2008 and March 31, 2009. The outcome of the settlement did not have a material impact to the Company's results of operations, financial position, or cash flows. The IRS continues its examination of the next cycle which includes income tax returns for the years ended March 31, 2010 through March 31, 2012. The examination is not expected to conclude in the next year. The income tax returns for the years ended March 31, 2013 through March 31, 2018 remain subject to examination by the IRS.

The Company was included in the Keyspan Corporation and subsidiaries (Keyspan) NYS combined corporate income tax returns for the periods ended December 31, 2003 through March 31, 2008. During the year ended December 31, 2018, Keyspan effectively settled the 2003 to 2009 NYS audit and, as a result, recognized a benefit of $10.3 million, net of federal benefit, through the release of tax reserves, and also derecognized interest expense of $18.5 million related to the NYS audit. The State of New York concluded the audit for the years ended March 31, 2009 through March 31, 2012, which resulted in no material findings. The years ended March 31, 2013 through March 31, 2018 remain subject to examination by the State of New York.

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

Jurisdiction	Tax Year
Federal	March 31, 2010
New York	March 31, 2013

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 deductions, net, in the accompanying consolidated statements of income. As of December 31, 2018 and 2017, the Company has accrued for interest related to unrecognized tax benefits of $0.7 million and $18.9 million, respectively. During the years ended December 31, 2018 and 2017, the Company recorded interest income of $18.2 million and interest expense of $2.3 million, respectively. No tax penalties were recognized during the years ended December 31, 2018 and 2017.

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.

9. ENVIRONMENTAL MATTERS

Ordinary business operations subject the Company to various federal, state, and local laws, rules, and regulations dealing with the environment, including air, water, and hazardous waste. The Company's business operations are regulated by various federal, regional, state, and local authorities, including the EPA, the New York State Department of Environmental Conservation ("DEC"), the New York City Department of Environmental Protection, and the Nassau and Suffolk County Departments of Health.

Except as set forth below, no material proceedings relating to environmental matters have been commenced or, to the Company's knowledge, are contemplated by any federal, state, or local agency against the Company and the Company is not a defendant in any material litigation with respect to any matter relating to the protection of the environment. The Company believes that its operations are in substantial compliance with environmental laws and that requirements imposed by environmental laws are not likely to have a material adverse impact on the Company's financial position or results of operations.

Air

The Company's generating facilities are subject to increasingly stringent emissions limitations under current and anticipated future requirements of the EPA and the DEC. In addition to efforts to improve both ozone and particulate matter air quality, there has been an increased focus on greenhouse gas emissions in recent years. The Company's previous investments in low NO_x boiler combustion modifications, the use of natural gas firing systems at its steam electric generating stations, and the compliance flexibility available under cap and trade programs have enabled the Company to achieve its prior emission reductions in a cost-effective manner. These investments include the installation of enhanced NO_x controls and efficiency improvement projects at certain of the Company's Long Island based electric generating facilities. The total cost of these improvements was approximately $105.8 million, all of which have been placed in service as of the date of this report; a mechanism for recovery from LIPA of these investments has been established. The Company will continue to make investments for additional emissions reductions, as needed. The Company has developed a compliance strategy to address anticipated future requirements and is closely monitoring the regulatory developments to identify any necessary changes to its compliance strategy. At this time, the Company is unable to predict what effect, if any, these future requirements will have on its consolidated financial position, results of operations, and cash flows.

Water

Additional capital expenditures associated with the renewal of the surface water discharge permits for the Company's steam

electric power plants have been required by the DEC pursuant to Section 316 of the Clean Water Act to mitigate the plants' alleged cooling water system impacts to aquatic organisms. Final permits have been issued for Port Jefferson and Northport. Capital improvements have been completed at Port Jefferson and are in the design, procurement, and construction phase for Northport. The Company continues to engage in discussions with the DEC regarding the nature of capital upgrades or other mitigation measures necessary to reduce any impacts at E.F. Barrett. Total capital costs for these improvements at Northport and E.F. Barrett are estimated to be approximately $75.5 million. Costs associated with these capital improvements are reimbursable from LIPA under the A&R PSA.

10. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

The Company has various capital commitments related to the construction of property, plant, and equipment. The Company's commitments under these contracts for the years subsequent to December 31, 2018 are summarized in the table below:

Years Ended December 31,	Capital Expenditures
(In thousands of dollars)	
2019	7,378
Total	$ 7,378

There are no commitments past 2019.

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.

On September 29, 2014, a jury rendered a verdict in favor of a worker for asbestos-related injuries involving his limited work as a subcontractor at one of the Company's Long Island power plants during its construction in the 1960s and early 1970s. Judgment was entered against National Grid on January 28, 2015, and a motion to appeal was filed by the Company. On February 14, 2017, the Company received a decision denying its motion for leave to appeal on the case. The judgment amount of approximately $7.9 million, inclusive of New York State judgment rate interest, was remitted to the plaintiff on February 17, 2017. The Company has received full reimbursement from LIPA for all defense costs and for the entire amount of the judgment paid, pursuant to the terms of the Amended & Restated Power Supply Agreement.

Amended and Restated Power Supply Agreement

Effective May 28, 2013 (and most recently amended on April 1, 2018), the Company provides services to LIPA under an amended and restated ("A&R") PSA. Under the A&R PSA, the Company has a return on equity of 9.75% and a capital structure of 50% debt and 50% equity. The Company's annual revenue requirement for the year ended December 31, 2018 was $453.1 million. The A&R PSA has a term of fifteen years, provided LIPA has the option to terminate the agreement as early as April 2025 on two years advance notice. The Company accounts for the A&R PSA as an operating lease under ASC 840.

The A&R PSA provides potential penalties to the Company if it does not maintain the output capability of the generating facilities, as measured by annual industry-standard tests of operating capability, plant availability, and efficiency. These penalties may total $4 million annually. Although the A&R PSA provides LIPA with all of the capacity from the generating facilities, LIPA has no obligation to purchase energy from the generating facilities and can purchase energy on a least-cost basis from all available sources consistent with existing transmission interconnection limitations of the transmission and distribution system. The Company must, therefore, operate its generating facilities in a manner such that the Company can

remain competitive with other producers of energy. To date, the Company has dispatched to LIPA and LIPA has accepted the level of energy generated at the agreed to price per megawatt hour. Under the terms of the A&R PSA, LIPA is obligated to pay for capacity at rates that reflect recovery of an agreed level of the overall cost of maintaining and operating the generating facilities, including recovery of depreciation and return on its investment in plant. The capacity charge is approximately 95% of the annual revenue requirement and is adjusted each year using cost escalation and inflation factors applied to the prior year's capacity charge. A monthly variable maintenance charge is billed for each unit of energy actually acquired from the generating facilities. The billings to LIPA under the A&R PSA do not include a provision for fuel costs, as such fuel is owned by LIPA.

11. 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:

	Account Receivable from Affiliates		**Account Payable to Affiliates**	
	December 31,		**December 31,**	
	2018	2017	**2018**	2017
	(In thousands of dollars)			
KeySpan Corporation	**$ -**	$ -	**$ -**	$ 9,781
National Grid Electric Services, LLC	**-**	-	**329**	3,241
National Grid Engineering Services, LLC	**1,140**	6,791	**2,120**	-
New England Power Company	**-**	-	**-**	2,115
NGUSA	**933**	-	**9,018**	4,075
NGUSA Service Company	**1,558**	-	**3,039**	4,467
Niagara Mohawk Power Corporation	**-**	-	**-**	444
Other Affiliates	**1**	-	**1**	604
Total	**$ 3,632**	$ 6,791	**$ 14,507**	$ 24,727

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 Unregulated Money Pool and can both borrow and invest funds. Borrowings from the Unregulated Money Pool bear interest in accordance with the terms of the Unregulated Money Pool Agreement. As the Company fully participates in the Unregulated Money Pool rather than settling intercompany charges with cash, all changes in the intercompany money pool balance and accounts receivable from affiliates and accounts payable to affiliates balances are reflected as investing or financing activities in the accompanying consolidated statements of cash flows. In addition, for the purpose of presentation in the consolidated 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 Unregulated Money Pool is funded by operating funds from participants. Collectively, NGUSA and KeySpan have the ability to borrow up to $3 billion from National Grid plc for working capital needs, including funding of the Unregulated Money Pool, if necessary. The Company had short-term intercompany money pool investments of $31.2 million and $39.3 million at December 31, 2018 and 2017, respectively. The average interest rates for the intercompany money pool were 2.22% and 1.44% for the years ended December 31, 2018 and 2017, 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, including but not limited to non-power goods and services, to the Company for the years ended December 31, 2018 and 2017 were $291.1 million and $221.2 million, respectively.