Nantucket Electric Company

Financial Statements

For the years ended March 31, 2019 and 2018

NANTUCKET ELECTRIC COMPANY

FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED

March 31, 2019

I hereby certify that I am Vice-President, NE Controller of Nantucket Electric Company and that the enclosed financial statements for the twelve months ended March 31, 2019 have been prepared in accordance with generally accepted accounting principles, and are, in my opinion, materially correct.

Christopher McCusker, Vice-President, NE Controller

07/25/2019
Date

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, 2019 and 2018 and the related statements of income, cash flows, and changes in shareholder's 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, 2019 and 2018, 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 25, 2019

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

	Years Ended March 31, 2019	2018
Operating revenues	**$ 21,877**	$ 21,982
Operating expenses:		
Purchased electricity	**1,184**	1,094
Operations and maintenance	**10,792**	10,712
Depreciation	**2,638**	2,546
Other taxes	**558**	622
Total operating expenses	**15,172**	14,974
Operating income	**6,705**	7,008
Other income and (deductions):		
Interest on long-term debt	**(997)**	(702)
Other interest, including affiliate interest	**(247)**	(364)
Other income, net	**1,208**	776
Total other deductions, net	**(36)**	(290)
Income before income taxes	**6,669**	6,718
Income tax expense	**1,782**	2,406
Net income	**$ 4,887**	$ 4,312

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,	
	2019	2018
Operating activities:		
Net income	**$ 4,887**	$ 4,312
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**2,638**	2,546
Deferred income taxes	**574**	(503)
Bad debt expense	**25**	(208)
Amortization of debt discount and issuance costs	**110**	120
Pension and postretirement benefit expenses	**290**	457
Pension and postretirement benefit contributions, net	**(350)**	(460)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**(19)**	(169)
Accounts receivable from/payable to affiliates	**(1,439)**	-
Inventory	**(30)**	21
Regulatory assets and liabilities, net	**(1,551)**	2,729
Prepaid and accrued taxes	**833**	406
Accounts payable and other liabilities	**(974)**	575
Other, net	**(330)**	(96)
Net cash provided by operating activities	**4,664**	9,730
Investing activities:		
Capital expenditures	**(4,960)**	(4,949)
Intercompany money pool	**540**	(4,114)
Cost of removal	**(373)**	(433)
Other	**(23)**	(57)
Net cash used in investing activities	**(4,816)**	(9,553)
Financing activities:		
Other	**-**	(46)
Net cash used in financing activities	**-**	(46)
Net (decrease) increase in cash, cash equivalents	**(152)**	131
Cash and cash equivalents, beginning of year	**171**	40
Cash and cash equivalents, end of year	**$ 19**	$ 171
Supplemental disclosures:		
Interest received(paid), net	**$ 546**	$ (429)
Income taxes (paid) refunded	**(1,826)**	2,543
Significant non-cash items:		
Capital-related accruals included in accounts payable	**12**	65
Parent tax loss allocation	**880**	1,478

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

NANTUCKET ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 19**	$ 171
Accounts receivable	**2,508**	2,349
Allowance for doubtful accounts	**(271)**	(129)
Accounts receivable from affiliates	**127**	14,610
Intercompany money pool	**66,151**	66,480
Unbilled revenues	**918**	941
Inventory	**169**	139
Regulatory assets	**18**	2
Prepaid taxes	**66**	68
Other	**4**	2
Total current assets	**69,709**	84,633
Property, plant and equipment, net	**76,202**	73,261
Other non-current assets:		
Regulatory assets	**4,559**	4,717
Goodwill	**15,706**	15,706
Other	**1,227**	1,113
Total other non-current assets	**21,492**	21,536
Total assets	**$ 167,403**	$ 179,430

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

NANTUCKET ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2019	March 31, 2018
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 2,297**	$ 2,072
Accounts payable to affiliates	**4,676**	20,387
Taxes accrued	**2,855**	2,904
Customer deposits	**118**	149
Interest accrued	**467**	55
Regulatory liabilities	**19,310**	23,434
Other	**391**	624
Total current liabilities	**30,114**	49,625
Other non-current liabilities:		
Regulatory liabilities	**8,117**	5,261
Asset retirement obligations	**7**	7
Deferred income tax liabilities, net	**4,612**	4,101
Postretirement benefits	**5,243**	5,380
Other	**625**	2,169
Total other non-current liabilities	**18,604**	16,918
Commitments and contingencies (Note 11)		
Capitalization:		
Shareholder's equity	**68,111**	62,346
Long-term debt	**50,574**	50,541
Total capitalization	**118,685**	112,887
Total liabilities and capitalization	**$ 167,403**	$ 179,430

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

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

			March 31,	
			2019	2018
Total shareholder's equity			**$ 68,111**	$ 62,346
Long-term debt:	Interest Rate	Maturity Date		
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 $13.3 million 1996 MDFA tax-exempt	Variable	August 1, 2042	**13,300**	13,300
Total debt			**51,300**	51,300
Unamortized debt issuance costs			**(726)**	(759)
Long-term debt			**50,574**	50,541
Total capitalization			**$ 118,685**	$ 112,887

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

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

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income: Unrealized Gain on Available-For-Sale Securities	Accumulated Other Comprehensive Income: Total Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance as of March 31, 2017	**$ -**	**$ 28,159**	**$ 101**	**$ 101**	**$ 28,337**	**$ 56,597**
Net income	-	-	-	-	4,312	4,312
Other comprehensive income:						
Unrealized gains on securities, net of $7 tax expense	-	-	5	5	-	5
Total comprehensive income						4,317
Parent tax loss allocation	-	1,478	-	-	(46)	1,432
Balance as of March 31, 2018		**$ 29,637**	**$ 106**	**$ 106**	**$ 32,603**	**$ 62,346**
Net income	-	-	-	-	4,887	4,887
Other comprehensive loss:						
Unrealized losses on securities, net of $1 tax benefit	-	-	(2)	(2)	-	(2)
Total comprehensive income						4,885
Parent tax loss allocation	-	880	-	-	-	880
Impact of adoption of the recognition and measurement of financial assets and liabilities standard			(100)	(100)	100	-
Balance as of March 31, 2019	**$ -**	**$ 30,517**	**$ 4**	**$ 4**	**$ 37,590**	**$ 68,111**

The Company had 1,201 shares of common stock authorized, with 1 share issued and outstanding at a par value of $1 per share at March 31, 2019 and 2018.

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

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 13,600 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, which was 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 12, "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 Company has evaluated subsequent events and transactions through July 25, 2019, 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, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC") and the DPU regulate the rates the Company charges its customers. In certain cases, the rate actions of the 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 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 accounting 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).

Income Taxes

Federal 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 within operations and maintenance in the 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, 2019 or 2018.

Fair Value Measurements

The Company measures available-for-sale 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; and
- Level 3: unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs; 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, 2019 and 2018 are as follows:

	Electric	
	Years Ended March 31,	
	2019	2018
Composite rates	**3.3%**	3.1%

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 $1.2 million and $1.1 million as of March 31, 2019 and 2018 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, 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.

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. 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, 2019 and 2018, there were no impairment losses recognized for long-lived assets.

Goodwill

The Company tests goodwill for impairment annually on January 1, and when events occur or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. The Company has early adopted Accounting Standards Update ("ASU") No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which eliminates step two from the two-step goodwill impairment test required under the current standard. The goodwill impairment test requires a recoverability test 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.

Historically, the fair value of the Company was calculated for the annual goodwill impairment test utilizing both the income and market-based approaches. For the year ended March 31, 2019, the fair value of the Company was calculated utilizing only the income approach. The Company believes that this approach provides the most reliable information about the fair value of the Company's estimated fair value. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment to the goodwill carrying value was required as of March 31, 2019 or 2018.

Employee Benefits

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

New and Recent Accounting Guidance

Accounting Guidance Recently Adopted

Pension and Postretirement Benefits

In March 2017, the Financial Accounting Standards Board ("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 Company adopted this new guidance on April 1, 2018. The adoption of this ASU did not have a material effect on the Company's results of operations, cash flows, and financial position (See Note 8, "Employee Benefits," for additional details).

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The FASB further amended ASC 606 through various updates issued thereafter. 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. The Company adopted the new guidance on April 1, 2018 using the modified retrospective method applied to contracts that were not completed as of April 1, 2018, and the Company did not recognize an adjustment to retained earnings for the cumulative effect of adopting the standard.

The adoption of ASC 606 did not have a material impact on the presentation of the Company's results of operations, cash flows, or financial position. The Company has added additional disclosures as required under ASC 606 (See Note 3, "Revenue," for additional details).

Financial Instruments – Classification and Measurement

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments–Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The new guidance eliminates the available-for-sale and cost method classification for equity securities and requires that all equity investments, other than those accounted for using the equity method of accounting, be measured and recorded at fair value with any changes in fair value recognized through net income. However, for equity investments that do not have a readily determinable fair value an entity may choose to measure equity investments at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments. If any entity elects to use the measurement alternative for equity investments without readily determinable fair values, those investments must be qualitatively assessed for impairment at each reporting period and if impairment exist the investment is required to be measured at fair value. The guidance does not impact the classification or measurement of investments in debt securities. The guidance also amended certain disclosure requirements related to financial instruments. The Company adopted the guidance on April 1, 2018 using a modified retrospective transition approach with a cumulative effect adjustment to retained earnings which was reclassified from accumulated other comprehensive income for $0.1 million related to equity investments that were previously classified as available-for-sale.

Accounting Guidance Not Yet Adopted

Leases

In February 2016, the FASB issued ASU 2016-02 “Leases,” (Topic 842) related to lease accounting. For the Company, the new standard is effective for the fiscal year ending March 31, 2020, and interim periods within. 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. Under the requirements of the new standard, lessees will need to recognize leases on the balance sheet as a right-of-use asset and a related lease liability, which will be equal to the present value of the estimated future lease payments. The right-of-use asset at inception will be based on the liability, subject to certain adjustments, such as initial direct costs. The new standard requires leases to be classified as either operating or financing which will impact the amount and classification of lease-related expenses on the statement of income. Under the new standard, lessor accounting is largely unchanged. The new standard also has additional disclosure requirements.

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 Company will make the election under the new standard to not reflect a right-of-use asset or related liability for leases with a term of 12 months or less. The Company has also elected the practical expedient to not reevaluate land easements existing at adoption if they were not previously accounted for as leases. The Company will not make the election to combine the lease components and the associated non-lease components of an arrangement and account for as a single lease component, and will also not elect the expedient to use hindsight in determining the lease term for existing leases at the time of adoption.

The Company will recognize and measure the cumulative effect of the new standard at the beginning of the earliest period presented using the modified retrospective approach. The Company determined the impact the ASUs will have on its financial statements by reviewing its lease population and identifying lease data needed for the disclosure requirements. The Company has various operating leases relating to office space and fleet vehicles. The Company will implement a new lease accounting system in fiscal year 2020 to ensure ongoing compliance with the ASU’s requirements. 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. Implementation of the new guidance will not materially impact the results of operations or cash flows as we do not expect significant changes to its pattern of expense recognition as a result of the new standard. The Company’s leases are further discussed in Note 11, “Commitments and Contingencies”.

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” 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 FASB further amended Topic 326 through additional updates issued thereafter. 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 of the new standard will be effective for the fiscal year ending March 31, 2022 and interim periods within, with early adoption permitted from the fiscal year ending March 31, 2020 and interim periods within. The Company is currently assessing the impact of this standard.

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, total assets, or stockholders' equity, as previously reported.

3. REVENUE

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

		Year Ended March 31, 2019
		(in thousands of dollars)
Revenue from Contracts with Customers:		
Electric Distribution	$	13,288
Electric Transmission		5,065
Other Revenue from Contracts with Customers		1,918
Total Revenue from Contracts with Customers		20,271
Revenue from Regulatory Mechanisms		1,606
Total Operating Revenues	$	21,877

Electric Distribution: 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 rate making 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 distribution 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 for distribution 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 related to the distribution sales based upon the approved tariff rate and the volume delivered to the customers, which corresponds with the amount the Company has the right to invoice.

The distribution 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.

Electric Transmission: 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.

Electric transmission revenues arise under tariff agreements and are collected primarily from the Company's Nantucket distribution customers.

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 revenue in accordance with accounting principles for rate-regulated operations that are arrangements between the Company and the regulator, which are not accounted for as contracts with customers. These include various deferral mechanisms such as energy efficiency programs and programs that 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 rates include 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 rate making mechanisms. The Company recognizes the activity for ARPs with a corresponding offset to a regulatory asset or liability account when the specified events or conditions have occurred or 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,	
	2019	2018
	(in thousands of dollars)	
Regulatory assets		
Current:		
Rate adjustment mechanisms	**$ 18**	$ 2
Total	**18**	2
Non-current:		
Postretirement benefits	**4,555**	4,713
Other	**4**	4
Total	**4,559**	4,717
Regulatory liabilities		
Current:		
Energy efficiency	**-**	6,077
Rate adjustment mechanisms	**1,972**	1,899
Transmission service	**15,993**	14,289
Revenue decoupling mechanism	**1,345**	1,169
Total	**19,310**	23,434
Non-current:		
Cost of removal	**1,181**	1,125
Energy efficiency	**2,167**	-
Regulatory tax liability, net	**3,561**	3,499
Second cable deferral	**1,025**	500
Other	**183**	137
Total	**8,117**	5,261
Net regulatory liabilities	**$ (22,850)**	$ (23,976)

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

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

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

Regulatory tax liability, net: Represents over-recovered federal deferred taxes of the Company primarily as a result of regulatory flow through accounting treatment 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 an 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. 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 12, "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 own 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.

Rate Case Filing

In November 2015, the Company, together with its affiliate, Massachusetts Electric, filed an application for new base distribution rates that become effective October 1, 2016. The DPU approved an overall increase in base distribution revenue of approximately $169.7 million based upon a 9.9% return on equity and an overall capital structure of 50.69% equity, 49.22% long-term debt and 0.09% preferred stock. This increase in revenue includes capital and solar assets placed in service after the last rate case test year of December 2008 and previously recovered through separate factors.

Storm recovery allowed in base rates increased from $4.3 million to $10.5 million per year. Deferred storm costs incurred through September 30, 2016 remain subject to carrying charges at the Weighted Average Cost of Capital. However, deferred storm costs incurred after October 1, 2016 will accrue carrying charges at the prime rate. Additionally, the DPU approved the extension of the recovery factor through August 2019 for costs associated with 16 storm events that took place between February 2010 and March 2013.

The order also allows for an increase in the annual capital costs for plant investment placed into service as part of the Company's Capital Investment Recovery Mechanism ("CIRM") from $170 million to $249 million and also allows for the inclusion of property taxes related to these incremental capital additions. The CIRM is a continuation of the Company's capital investment recovery mechanism initially part of its RDM, with an annual cap on capital investment of $249 million, which is a three-year calendar year historical average.

On November 15, 2018, the Company and Massachusetts Electric filed an application for new base distribution rates to become effective October 1, 2019. The requested net increase is $55.2 million based on a 10.5% return on equity, with 53.49% equity, 46.43% long-term debt and 0.08% preferred stock. The Company is requesting implementation of a five-year performance-based ratemaking ("PBR") plan, which would adjust base distribution revenue annually based on a pre-determined formula. If the PBR plan is approved, the Company will agree not to file a rate case for five-years and the CIRM will be discontinued after a transition period.

The Company also requested an increase in annual funding of the storm fund from $10.5 million to $19.3 million per year, and an extension of the storm fund replenishment factor through November 2023. Evidentiary hearings were held in April-May 2019 and an order is expected in September 2019. The Company cannot predict the outcome of this request.

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. Comments on the NOPR were due on January 22, 2019. The Company is awaiting a final rule from FERC.

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 RDM by $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 excess ADIT associated with reconciling mechanisms in the individual dockets for those mechanisms. The Department further noted it would investigate in the pending general rate case (D.P.U. 18-150), the Company's proposal to remove excess ADIT associated with any reconciling mechanism and the applicable amortization from those mechanisms and credit the remaining amounts through base distribution rates effective October 1, 2019.

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/Volt VAR Optimization; (2) advanced distribution automation; (3) feeder monitors; (4) communications and information/operational technologies; and (5) advanced distribution management/distribution supervisory control and data acquisition. The DPU allowed recovery of both operation and maintenance expense and capital costs through a reconciling mechanism, and in the future will consider grid modernization plans in separate dockets (i.e., not through rate cases). The DPU did not approve any customer-facing (i.e., advanced metering infrastructure) investments; the DPU will address these in a further investigation to see if there are ways to achieve cost-effective deployment of advanced metering functionality (AMF). The DPU found there needs to be widespread adoption of dynamic pricing in order for AMF to be successful, and it needs to address how to facilitate this first. The DPU also refined its grid modernization objectives to place additional focus on improved access to the distribution system planning process.

6. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2019	2018
	(in thousands of dollars)	
Plant and machinery	**$ 120,278**	$ 118,096
Land and buildings	**4,730**	4,565
Assets in construction	**5,140**	2,847
Total property, plant and equipment	**130,148**	125,508
Accumulated depreciation and amortization	**(53,946)**	(52,247)
Property, plant and equipment, net	**$ 76,202**	$ 73,261

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, 2019 and 2018:

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Available-for-sale securities	$ 471	$ 631	$ -	$ 1,102

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Available-for-sale securities	$ 453	$ 623	$ -	$ 1,076

Available-for-sale securities: Available-for-sale 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 the Company's proportionate share of the Plan's projected benefit obligation. The Plan's costs are first directly charged to the Company based on the Company's employees that participate in the Plans. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. The Company applies deferral accounting for pension and PBOP expenses associated with its regulated electric operations. Any differences between actual pension costs and amounts used to establish rates are deferred and collected from, or refunded to, customers in subsequent periods. Pension and PBOP service costs are included within operations and maintenance expense, and non-service costs are included within other (deductions) income, 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 Plan is a defined benefit plan which provides 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, 2019 and 2018, the Company made contributions of approximately $0.2 million in each year to the Qualified Pension Plans. The Company expects to contribute approximately $0.7 million to the Qualified Pension Plan during the year ending March 31, 2020.

Benefit payments to Pension Plan participants for the years ended March 31, 2019 and 2018 were approximately $0.3 million and $0.2 million, respectively.

PBOP Plans

The PBOP plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. During the years ended March 31, 2019 and 2018, the Company made no contributions to the PBOP Plans. The Company does not expect to contribute to the PBOP Plans during the year ending March 31, 2020.

Benefit payments to PBOP plan participants for the years ended March 31, 2019 and 2018 were approximately $0.1 million and $0.2 million, respectively.

ASU No. 2017-07, "Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost"

In March 2017, the FASB issued guidance that required the service costs of net periodic benefit costs be disaggregated from the other components of net periodic benefit costs, with the remaining components presented outside of operating (loss) income and no longer subject to capitalization.

The Company adopted ASU No. 2017-07, "Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," for its fiscal year beginning April 1, 2018 for both regulatory filing and U.S. GAAP reporting purposes. As a result of the retrospective adoption of this standard, relating to the income statement presentation of the non-service costs components, the Company reclassified $0.4 million from operations and maintenance expense to other income, net for the year ended March 31, 2018. This standard does not impact the Company's recovery of costs incurred from a ratemaking perspective.

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2019 and 2018, the Company recognized an expense in the accompanying statements of income of $46 thousand and $39 thousand, respectively, for matching contributions.

Net Periodic Benefit Costs

The Company's net periodic benefit pension cost for the years ended March 31, 2019 and 2018 was $0.2 million in each year.

The Company's net periodic benefit PBOP costs for the years ended March 31, 2019 and 2018 was $0.2 million in each year.

Amounts Recognized in Regulatory Assets

The following tables summarize the Company's changes in actuarial gains/losses and prior service costs recognized in regulatory assets for the years ended March 31, 2019 and 2018:

	Pension Plans	
	Years Ended March 31,	
	2019	2018
	(in thousands of dollars)	
Net actuarial (gain) loss	**$ (153)**	$ 148
Amortization of net actuarial loss	**(153)**	(178)
Amortization of prior service cost, net	**(1)**	(1)
Total	**$ (307)**	$ (31)
Recognized in regulatory assets	**$ (307)**	$ (31)
Total	**$ (307)**	$ (31)

	PBOP Plans	
	Years Ended March 31,	
	2019	2018
	(in thousands of dollars)	
Net actuarial loss	**$ 79**	$ 412
Amortization of net actuarial loss	**(70)**	(61)
Total	**$ 9**	$ 351
Recognized in regulatory assets	**$ 9**	$ 351
Total	**$ 9**	$ 351

Amounts Recognized in Regulatory Assets – not yet recognized as components of net actuarial loss

The following tables summarize the Company's amounts in regulatory assets and other comprehensive income on the balance sheet that have not yet been recognized as components of net actuarial loss as of March 31, 2019 and 2018:

	Pension Plans	
	March 31,	
	2019	2018
	(in thousands of dollars)	
Net actuarial loss	**$ 2,221**	$ 2,527
Prior service cost	**1**	2
Total	**$ 2,222**	$ 2,529
Recognized in regulatory assets	**$ 2,222**	$ 2,529
Total	**$ 2,222**	$ 2,529

	PBOP Plans	
	March 31,	
	2019	2018
	(in thousands of dollars)	
Net actuarial loss	**$ 1,349**	$ 1,340
Prior service cost	**-**	1
Total	**$ 1,349**	$ 1,341
Recognized in regulatory assets	**$ 1,349**	$ 1,341
Total	**$ 1,349**	$ 1,341

The amount of net actuarial loss to be amortized from regulatory assets during the year ending March 31, 2020 for the Pension Plans is $ 0.1 million and net actuarial loss to be amortized from regulatory assets during the year ending March 31, 2020 for the PBOP Plans is $0.1 million.

Amounts Recognized on the Balance Sheet

The following table summarizes the portion of the funded status above that is recognized on the Company's balance sheet as of March 31, 2019 and 2018:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2019	2018	**2019**	2018
	(in thousands of dollars)			
Projected benefit obligation	**$ (8,173)**	$ (9,034)	**$ (3,196)**	$ (3,012)
Fair value of plan assets	**6,008**	6,452	**8**	(9)
Total	**$ (2,165)**	$ (2,582)	**$ (3,188)**	$ (3,021)
Current liabilities	**$ (39)**	$ (42)	**$ (71)**	$ (181)
Other non-current liabilities	**(2,126)**	(2,540)	**(3,117)**	(2,840)
Total	**$ (2,165)**	$ (2,582)	**$ (3,188)**	$ (3,021)

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2019:

(in thousands of dollars) Years Ended March 31,	Pension Plans	PBOP Plans
2020	$ 368	$ 100
2021	380	95
2022	393	101
2023	407	113
2024	422	117
2025-2029	2,313	783
Total	$ 4,283	$ 1,309

Assumptions Used for Employee Benefits Accounting

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

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

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

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

Assumed Health Cost Trend Rate

	March 31,	
	2019	2018
Health care cost trend rate assumed for next year		
Pre 65	**7.25%**	7.50%
Post 65	**5.75%**	5.75%
Prescription	**9.75%**	10.25%
Rate to which the cost trend is assumed to decline (ultimate)	**4.50%**	4.50%
Year that rate reaches ultimate trend		
Pre 65	**2028**	2028
Post 65	**2026**	2026
Prescription	**2027**	2027

Plan Assets

NGUSA, as the Plans' sponsor, manages the benefit plan investments to minimize the long-term cost of operating the Plans, with a reasonable level of risk. Risk tolerance is determined as a result of a periodic study which analyzes the Plans' liabilities and funded status and results in the determination of the allocation of assets across equity, fixed income securities and other investments. 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. Approximately ten percent of the total investment portfolio is approved for investments in private equity, real estate, and infrastructure with the objective of 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 study. Investment risk and return are reviewed by NGUSA's Investment Committee on a quarterly basis.

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.

The target asset allocations for the benefit plans as of March 31, 2019 and 2018 are as follows:

	Pension Plans		PBOP Union		PBOP Non-Union	
	March 31,		March 31,		March 31,	
	2019	2018	**2019**	2018	**2019**	2018
			(in thousands of dollars)			
US Equities	**20%**	20%	**34%**	34%	**45%**	45%
Global equities (including US)	**7%**	7%	**12%**	12%	**0%**	0%
Global tactical asset allocation	**10%**	10%	**17%**	17%	**0%**	0%
Non-US equities	**10%**	10%	**17%**	17%	**25%**	25%
Fixed income securities	**40%**	40%	**20%**	20%	**30%**	30%
Private equity	**5%**	5%	**0%**	0%	**0%**	0%
Real estate	**5%**	5%	**0%**	0%	**0%**	0%
Infrastructure	**3%**	3%	**0%**	0%	**0%**	0%
Total	**100%**	100%	**100%**	100%	**100%**	100%

Fair Value Measurements

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

	March 31, 2019				
	Level 1	Level 2	Level 3	Not Categorized	Total
			(in thousands of dollars)		
Pension Assets:					
Cash and cash equivalents	$ -	$ 1,954	$ -	$ 27,308	$ 29,262
Accounts receivable	50,966	-	-	-	50,966
Accounts payable	(105,196)	-	-	-	(105,196)
Convertible or Exchangeable Securities	-	188	-	-	188
Equity	189,522	-	-	667,776	857,298
Fixed income securities	-	621,152	-	339,857	961,009
Futures contracts	692	-	-	-	692
Preferred securities	-	6,426	-	-	6,426
Private equity	-	-	-	155,902	155,902
Real estate	-	-	-	116,409	116,409
Other	68,624	-	-	198,167	266,791
Total	**$ 204,608**	**$ 629,720**	**$ -**	**$ 1,505,419**	**$ 2,339,747**
PBOP Assets:					
Cash and cash equivalents	$ 8,632	$ 101	$ -	$ 869	$ 9,602
Accounts receivable	2,295	-	-	-	2,295
Accounts payable	(333)	-	-	-	(333)
Equity	161,077	-	-	274,993	436,070
Fixed income securities	-	156,161	-	-	156,161
Futures contracts	(107)	-	-	-	(107)
Other	39,056	-	-	79,657	118,713
Total	**$ 210,620**	**$ 156,262**	**$ -**	**$ 355,519**	**$ 722,401**

	March 31, 2018				
	Level 1	Level 2	Level 3	Not Categorized	Total
			(in thousands of dollars)		
Pension Assets:					
Cash and cash equivalents	$ 575	$ 15,518	$ -	$ 28,149	$ 44,242
Accounts receivable	88,162	-	-	-	88,162
Accounts payable	(133,593)	-	-	-	(133,593)
Equity	303,037	(16)	-	651,355	954,376
Fixed income securities	-	553,463	-	338,944	892,407
Preferred securities	-	5,972	-	-	5,972
Private equity	-	-	-	133,785	133,785
Real estate	-	-	-	110,551	110,551
Other	1,329	-	-	178,235	179,564
Total	**$ 259,510**	**$ 574,937**	**$ -**	**$ 1,441,019**	**$ 2,275,466**
PBOP Assets:					
Cash and cash equivalents	$ 9,111	$ 16	$ -	$ 598	$ 9,725
Accounts receivable	1,998	-	-	-	1,998
Accounts payable	(183)	-	-	-	(183)
Equity	189,026	-	-	281,678	470,704
Fixed income securities	-	165,705	-	-	165,705
Other	14,030	-	-	78,622	92,652
Total	**$ 213,982**	**$ 165,721**	**$ -**	**$ 360,898**	**$ 740,601**

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

Cash and cash equivalents: Cash and cash equivalents that can be priced daily are classified as Level 1. Active reserve funds, reserve deposits, commercial paper, repurchase agreements, and commingled cash equivalents are classified as Level 2. Cash and cash equivalents invested in commingled money market investment funds which have NAV pricing per fund share are excluded from the fair value hierarchy.

Accounts receivable and accounts payable: Accounts receivable and accounts payable are classified as Level 1. Such amounts are short-term and settle within a few days of the measurement date.

Equity and preferred securities: Common stocks, preferred stocks, and real estate investment trusts are valued using the official close of the primary market on which the individual securities are traded. Equity securities are primarily comprised of securities issued by public companies in domestic and foreign markets plus investments in commingled funds, which are valued on a daily basis. The Company can exchange shares of the publicly traded securities and the fair values are primarily sourced from the closing prices on stock exchanges where there is active trading, in which case they are classified as Level 1 investments. If there is less active trading, then the publicly traded securities would typically be priced using observable data, such as bid and ask prices, and these measurements are classified as Level 2 investments. Mutual funds with publicly quoted prices and active trading are classified as Level 1 investments. For investments in commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV as a practical expedient per fund share, derived from the underlying securities' quoted prices in active markets. These investments are excluded from the fair value hierarchy.

Fixed income securities: Fixed income securities (which include corporate debt securities, municipal fixed income securities, U.S. Government and Government agency securities including government mortgage backed securities, index linked government bonds, and state and local bonds), convertible securities, and investments in securities lending collateral (which include repurchase agreements, asset-backed securities, floating rate notes and time deposits) are valued with an institutional bid valuation. A bid valuation is an estimated price at which a dealer would pay for a security (typically in an institutional round lot). Oftentimes, these evaluations are based on proprietary models which pricing vendors establish for these purposes. In some cases, there may be manual sources when primary vendors do not supply prices. Fixed income investments are primarily comprised of fixed income securities and fixed income commingled funds. The prices for direct investments in fixed income securities are generated on a daily basis. Prices generated from less active trading with wider bid ask prices are classified as Level 2 investments. Mutual funds with publicly quoted prices and active trading are classified as Level 1 investments. For commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV a practical expedient per fund share. These investments are excluded from the fair value hierarchy.

Private equity and real estate: Commingled equity funds, commingled special equity funds, limited partnerships, real estate, venture capital, and other investments are valued using evaluations (NAV, as a practical expedient, per fund share) based on proprietary models, or based on the NAV. Investments in private equity and real estate funds are primarily invested in privately held real estate investment properties, trusts, and partnerships as well as equity and debt issued by public or private companies. The Company's interest in the fund or partnership is estimated based on the NAV. The Company's interest in these funds cannot be readily redeemed due to the inherent lack of liquidity and the primarily long-term nature of the underlying assets. Distribution is made through the liquidation of the underlying assets. The Company views these investments as part of a long-term investment strategy. These investments are valued by each investment manager based on the underlying assets. The funds utilize valuation techniques consistent with the market, income, and cost approaches to measure the fair value of certain real estate investments. The majority of the underlying assets are valued using significant unobservable inputs and often require significant management judgment or estimation based on the best available information. Market data includes observations of the trading multiples of public companies considered comparable to the private companies being valued. Investments in limited partnerships with redemption restrictions and that use NAV are excluded from the fair value hierarchy.

While management believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the NAV as a practical expedient could result in a different fair value measurement at the reporting date.

9. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to March 31, 2019 are as follows:

(in thousands of dollars) Years Ending March 31,		
2020	$	-
2021		-
2022		-
2023		-
2024		-
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. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the Company's debt and may restrict the Company's ability to draw upon its facilities or access the capital markets. During the years ended March 31, 2019 and 2018, the Company was in compliance with all such covenants.

Debt Authorizations

Since January 12, 2015, the Company had regulatory approval from the FERC to issue up to $15 million of short-term debt. The authorization was renewed with an effective date of January 11, 2019 for a period of two years that expires on January 10, 2021. The Company had no external short-term debt outstanding as of March 31, 2019 and 2018. Refer to Note 12, "Related Party Transactions" under "Intercompany Money Pool" for short-term debt outstanding to associated companies.

Electric Revenue Bonds

As of March 31, 2019, 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 1.25% and 1.95% and from 0.90% and 1.80% for the years ended March 31, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and March 31, 2018 common equity was 57% and 55% of total capitalization, respectively. Under these provisions, none of the Company's retained earnings as of March 31, 2019 and March 31, 2018 were restricted as to common dividends.

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2019	2018
	(in thousands of dollars)	
Current tax expense (benefit):		
Federal	**$ 819**	$ 2,255
State	**389**	654
Total current tax expense (benefit)	**1,208**	2,909
Deferred tax expense benefit:		
Federal	**426**	(393)
State	**148**	(110)
Total deferred tax expense (benefit)	**574**	(503)
Total income tax expense	**$ 1,782**	$ 2,406

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2019 and 2018 are 26.7% and 35.8%, respectively. The following table presents a reconciliation of income tax expense (benefit) at the federal statutory tax rate of 21.0% and 30.8%, respectively, to the actual tax expense:

	Years Ended March 31,	
	2019	2018
	(in thousands of dollars)	
Computed tax	**$ 1,400**	$ 2,068
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**424**	377
Other items, net	**(42)**	(39)
Total	**382**	338
Total income tax expense	**$ 1,782**	$ 2,406

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.

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 35.0% to 21.0% effective January 1, 2018 and the elimination of bonus depreciation for certain property acquired or placed in service after September 27, 2017 and extend the normalization requirements for ratemaking treatment of excess deferred taxes.

On August 3, 2018, the Internal Revenue Service ("IRS") and the U.S. Department of Treasury released proposed regulations associated with the bonus 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 claimed the additional six months of bonus depreciation on its fiscal year 2018 Federal income tax return.

In accordance with ASC 740, "Income Taxes," the effect of changes in tax law are required to be recognized in the period of enactment, which for the Company was the period ended March 31, 2018. Since the Company's fiscal year end is March 31, the statutory rate applicable for the Company's fiscal year ended March 31, 2018, was a blended tax rate of 31.6%. For the fiscal year ended March 31, 2019 and future periods, the federal income tax rate will be 21.0%. In addition, ASC 740 requires deferred income tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. As a result, the Company remeasured its federal deferred income tax assets and liabilities using the newly enacted tax rate of 21.0%.

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, "Income Taxes". 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. As of March 31, 2019, any and all provisional amounts previously recorded in accordance with SAB 118 have been adjusted to reflect their final amounts.

As of March 31, 2018, the remeasurement amounted to a decrease in net deferred income tax liability of $2.8 million of which zero was recorded to deferred income tax expense and $2.8 million recorded as a regulatory liability for the refund of excess ADIT to the ratepayers. During the current period, the Company adjusted the remeasurement of the net deferred income tax liability by $0.1 million, which was recorded as an increase to a regulatory liability for excess ADIT. As of March 31, 2019 the regulatory liability for excess ADIT on a pre-tax basis prior to amortization amounted to $4 million ($2.9 million post-tax).

Deferred Tax Components

	Years Ended March 31,	
	2019	2018
	(in thousands of dollars)	
Deferred tax assets:		
Future federal benefit on state taxes	**$ 249**	$ 220
Postretirement benefits and other employee benefits	**1,695**	1,702
Regulatory liabilities - taxes	**1,051**	1,033
Regulatory liabilities - other	**6,579**	6,987
Other items	**228**	205
Total deferred tax assets	**9,802**	10,147
Deferred tax liabilities:		
Property related differences	**13,042**	12,826
Regulatory assets - postretirement benefits	**1,321**	1,367
Other items	**51**	55
Total deferred tax liabilities	**14,414**	14,248
Deferred income tax liabilities, net	**$ 4,612**	$ 4,101

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, 2019 and 2018, the Company has accrued for interest related to unrecognized tax benefits of $0.5 million and $0.3 million, respectively. During the years ended March 31, 2019 and 2018, 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, 2019 or 2018.

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

During the year ended March 31, 2019, 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 on the Company's results of operations, financial position, or cash flows. The IRS continues its examination of the next audit cycle which includes the income tax returns for the years ended March 31, 2010 through March 31, 2012. 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 financial position. As a result of both settlements with the IRS a payment of $1.9 million is expected to be made within the next 12 months. The income tax returns for the years ended March 31, 2013 through March 31, 2019 remain subject to examination by the IRS.

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

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

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

11. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Company has various operating leases relating to office space and fleet vehicles . The future minimum lease payments for the years subsequent to March 31, 2019 are as follows:

(in thousands of dollars) Years Ending March 31,	
2020	$ 161
2021	137
2022	126
2023	103
2024	52
Thereafter	32
Total	$ 611

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, 2019 and 2018, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR") of $33 thousand. IBNR reserves have been established for claims and/or events that have transpired but have not yet been reported to the Company for payment.

12. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable From Affliates		Accounts Payable To Affiliates	
	March 31,		March 31,	
	2019	2018	**2019**	2018
	(in thousands of dollars)			
Massachusetts Electric Company	**$ 48**	$ -	**$ 3,201**	$ 19,459
Narragansett Electric Company	**12**	1	**418**	-
National Grid Generation LLC	**27**	1	**-**	-
New England Power Company	**17**	12	**333**	317
NGUSA	**22**	43	**29**	103
NGUSA Service Company	**-**	14,430	**682**	499
Other	**1**	123	**13**	9
Total	**$ 127**	$ 14,610	**$ 4,676**	$ 20,387

Advance from Affiliate

Since January 2015, the Company had FERC and board authorization to borrow up to $10 million from NGUSA as deemed necessary for working capital needs. The advance is non-interest bearing. As of March 31, 2019 and 2018, respectively, 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. Borrowings from and 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 consolidated statements of cash flows. For the purpose of presentation in the statements of cash flows, it is assumed all amounts settled through the intercompany money pool are constructive cash receipts and payments, and therefore are presented as such.

The Regulated Money Pool is funded by operating funds from participants. NGUSA has the ability to borrow up to $3.0 billion from National Grid plc for working capital needs including funding of the Regulated Money Pool, if necessary. The Company had short-term intercompany money pool investments of $66.2 million and $66.5 million as of March 31, 2019 and March 31, 2018, respectively. The average interest rates for the intercompany money pool were 2.4% and 1.6% for the years ended March 31, 2019 and March 31, 2018, respectively.

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 9.9%. 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 9.9%. For the years ended March 31, 2019 and 2018, Massachusetts Electric reimbursed the Company $1.2 million and $5.6 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, 2019 and 2018 were $4.6 million and $4.3 million, respectively.