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Niagara Mohawk Power Corporation

Financial Statements

For the years ended March 31, 2019, 2018, and 2017

NIAGARA MOHAWK POWER CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Niagara Mohawk Power Corporation

We have audited the accompanying financial statements of Niagara Mohawk Power Corporation (the "Company"), which comprise the balance sheets and statements of capitalization as of March 31, 2019 and 2018 and the related statements of operations and comprehensive income, cash flows, and changes in shareholders' equity for the two years in the period ended March 31, 2019, 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 Niagara Mohawk Power Corporation 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.

Predecessor Auditors' Opinion on 2017 Financial Statements

The financial statements of the Company as of and for the year ended March 31, 2017, were audited by other auditors whose report, dated June 29, 2017, expressed an unmodified opinion on those statements.

Deloitte & Touche LLP

June 27, 2019

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2019	2018	2017
Operating revenues	**$ 3,412,417**	$ 3,039,995	$ 2,849,441
Operating expenses:			
Purchased electricity	**723,100**	729,002	678,500
Purchased gas	**275,843**	210,580	161,967
Operations and maintenance	**1,283,313**	1,078,544	1,044,431
Depreciation	**297,397**	256,995	253,819
Other taxes	**288,036**	276,089	263,347
Total operating expenses	**2,867,689**	2,551,210	2,402,064
Operating income	**544,728**	488,785	447,377
Other deductions:			
Interest on long-term debt	**(124,032)**	(114,112)	(106,833)
Other interest, including affiliate interest	**(44,130)**	(39,756)	(34,540)
Other deductions, net	**(12,615)**	10,892	10,019
Total other deductions, net	**(180,777)**	(142,976)	(131,354)
Income before income taxes	**363,951**	345,809	316,023
Income tax expense	**82,322**	113,002	118,626
Net income	**$ 281,629**	$ 232,807	$ 197,397
Other comprehensive income, net of taxes:			
Unrealized (losses) gains on securities, net of $13, $(260) and $(355) taxes in 2019, 2018, and 2017, respectively	**(38)**	283	549
Change in pension and other postretirement obligations, net of $(128), $(9) and $(96) taxes in 2019, 2018, and 2017, respectively	**360**	(3)	149
Total other comprehensive income	**322**	280	698
Comprehensive income	**$ 281,951**	$ 233,087	$ 198,095

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2019	2018	2017
Operating activities:			
Net income	**$ 281,629**	$ 232,807	$ 197,397
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**297,397**	256,995	253,819
Regulatory amortizations	**(8,857)**	23,949	(2,578)
Deferred income tax	**65,428**	(50,525)	13,843
Bad debt expense	**55,187**	36,221	49,290
Loss (income) from equity investments, net of dividends received	**17**	(7)	136
Allowance for equity funds used during construction	**(13,523)**	(12,483)	(10,287)
Amortization of debt discount and issuance costs	**2,734**	3,012	2,943
Pension and postretirement benefits expenses, net	**53,320**	65,718	85,439
Pension and postretirement benefits contributions	**(4,617)**	(83,408)	(83,306)
Environmental remediation payments	**(9,773)**	(10,238)	(20,957)
Changes in operating assets and liabilities:			
Accounts receivable and other receivable, net, and unbilled revenues	**(50,765)**	(79,111)	(63,535)
Accounts receivable from/payable to affiliates, net	**(2,297)**	-	-
Inventory	**(2,918)**	(4,507)	13,523
Regulatory assets and liabilities, net	**(33,527)**	245,966	256,162
Derivative instruments	**(68,940)**	(5,905)	(33,961)
Prepaid and accrued taxes	**7,223**	119,583	68,818
Other prepayments	**8,572**	(31,202)	1,664
Accounts payable and other liabilities	**48,791**	41,944	114,834
Renewable energy certificate obligations, net	**(1,779)**	42,194	-
Other, net	**12,806**	(26,558)	1,154
Net cash provided by operating activities	**636,108**	764,445	844,398
Investing activities:			
Capital expenditures	**(667,495)**	(654,974)	(566,575)
Intercompany money pool	**(413,286)**	477,833	(221,935)
Cost of removal	**(51,174)**	(46,914)	(59,526)
Other	**(2,253)**	(3,314)	(1,080)
Net cash used in investing activities	**(1,134,208)**	(227,369)	(849,116)
Financing activities:			
Common stock dividends to Parent	**-**	(550,000)	-
Preferred stock dividends	**(1,060)**	(1,060)	(1,060)
Payments on long-term debt	**(5,300)**	-	-
Issuance of long-term debt	**500,000**	-	-
Payment of debt issuance costs	**(2,771)**	-	-
Net cash provided by (used in) financing activities	**490,869**	(551,060)	(1,060)
Net decrease in cash, cash equivalents, restricted cash and special deposits	**(7,231)**	(13,984)	(5,778)
Cash, cash equivalents, restricted cash and special deposits, beginning of year	**26,291**	40,275	46,053
Cash, cash equivalents, restricted cash and special deposits, end of year	**$ 19,060**	$ 26,291	$ 40,275
Supplemental disclosures:			
Interest paid	**$ (109,521)**	**$ (103,148)**	**$ (106,969)**
Income taxes (paid) refunded	**(70,086)**	**(43,138)**	**1,457**
Significant non-cash items:			
Capital-related accruals included in accounts payable	**27,278**	**21,067**	**27,845**
Parent tax loss allocation	**37,121**	**32,720**	**-**
Share based compensation	**-**	**20**	**304**

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

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 16,028**	$ 4,743
Restricted cash and special deposits	**3,032**	21,548
Accounts receivable	**591,199**	596,645
Allowance for doubtful accounts	**(162,882)**	(150,189)
Accounts receivable from affiliates	**24,288**	14,953
Intercompany money pool	**525,362**	133,669
Unbilled revenues	**123,282**	109,565
Inventory	**54,091**	51,066
Regulatory assets	**22,487**	94,007
Derivative instruments	**26,655**	9,088
Prepaid taxes	**54,153**	19,747
Other	**59,821**	89,173
Total current assets	**1,337,516**	994,015
Investments in affiliates	**763**	746
Property, plant and equipment, net	**9,507,345**	9,049,221
Other non-current assets:		
Regulatory assets	**479,782**	611,414
Goodwill	**1,289,132**	1,289,132
Derivative instruments	**12,156**	1,585
Postretirement benefits assets	**370,431**	355,899
Other	**76,544**	71,231
Total other non-current assets	**2,228,045**	2,329,261
Total assets	**$ 13,073,669**	$ 12,373,243

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

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2019	March 31, 2018
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 276,885**	$ 184,182
Accounts payable to affiliates	**105,648**	120,203
Current portion of long-term debt	**750,000**	-
Taxes accrued	**173,213**	169,612
Customer deposits	**30,668**	31,630
Interest accrued	**74,842**	32,610
Regulatory liabilities	**456,435**	559,447
Derivative instruments	**15,631**	41,398
Renewable energy certificate obligations	**40,522**	42,194
Other	**179,928**	174,799
Total current liabilities	**2,103,772**	1,356,075
Other non-current liabilities:		
Regulatory liabilities	**1,684,506**	1,790,227
Asset retirement obligations	**14,290**	14,546
Deferred income tax liabilities, net	**987,800**	928,484
Postretirement benefits	**305,737**	278,576
Environmental remediation costs	**343,038**	332,556
Derivative instruments	**9,852**	24,887
Other	**320,360**	403,844
Total other non-current liabilities	**3,665,583**	3,773,120
Commitments and Contingencies (Note 13)		
Capitalization:		
Shareholders’ equity	**4,798,339**	4,480,327
Long-term debt	**2,505,975**	2,763,721
Total capitalization	**7,304,314**	7,244,048
Total liabilities and capitalization	**$ 13,073,669**	$ 12,373,243

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2019	2018
Total shareholders' equity			**$ 4,798,339**	$ 4,480,327
	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Notes	4.88%	August 15, 2019	**750,000**	750,000
Senior Notes	2.72%	November 28, 2022	**300,000**	300,000
Senior Notes	3.51%	October 1, 2024	**500,000**	500,000
Senior Notes	4.28%	December 15, 2028	**500,000**	-
Senior Notes	4.28%	October 1, 2034	**400,000**	400,000
Senior Notes	4.12%	November 28, 2042	**400,000**	400,000
State Authority Financing:				
1988 Series A	3.23%	December 1, 2023	**69,800**	69,800
1985 Series B	3.29%	December 1, 2025	**37,500**	37,500
1985 Series C	3.29%	December 1, 2025	**37,500**	37,500
1986 Series A	3.42%	December 1, 2026	**44,700**	50,000
1987 Series A	3.45%	March 1, 2027	**25,760**	25,760
1987 Series B-1	3.43%	July 1, 2027	**68,200**	68,200
1987 Series B-2	3.48%	July 1, 2027	**25,000**	25,000
2004 Series A	3.43%	July 1, 2029	**115,705**	115,705
Bonds			**424,165**	429,465
Total debt			**3,274,165**	2,779,465
Unamortized debt discount			**(11)**	(7)
Unamortized debt issuance costs			**(18,179)**	(15,737)
Total debt less unamortized costs			**3,255,975**	2,763,721
Current portion of long-term debt			**750,000**	-
Total long-term debt			**2,505,975**	2,763,721
Total capitalization			**$ 7,304,314**	$ 7,244,048

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of dollars)

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Available-For-Sale Securities	Accumulated Other Comprehensive Income (Loss): Pension and Other Postretirement Benefits	Accumulated Other Comprehensive Income (Loss): Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2016	**$ 187,365**	**$ 28,985**	**$ 3,029,331**	**$ 1,671**	**$ (740)**	**$ 931**	**$ 1,321,609**	**$ 4,568,221**
Net income	-	-	-	-	-	-	197,397	197,397
Other comprehensive income:								
Unrealized gains on securities, net of $355 tax expense	-	-	-	549	-	549	-	549
Change in pension and other postretirement obligations, net of $96 tax expense	-	-	-	-	149	149	-	149
Total comprehensive income								198,095
Share based compensation	-	-	304	-	-	-	-	304
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2017	**$ 187,365**	**$ 28,985**	**$ 3,029,635**	**$ 2,220**	**$ (591)**	**$ 1,629**	**$ 1,517,946**	**$ 4,765,560**
Net income	-	-	-	-	-	-	232,807	232,807
Other comprehensive income (loss):								
Unrealized gains on securities, net of $260 tax expense	-	-	-	283	-	283	-	283
Change in pension and other postretirement obligations, net of $9 tax expense	-	-	-	-	(3)	(3)	-	(3)
Total comprehensive income								233,087
Parent tax loss allocation	-	-	32,720	-	-	-	-	32,720
Share based compensation	-	-	20	-	-	-	-	20
Common stock dividends to Parent	-	-	-	-	-	-	(550,000)	(550,000)
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2018	**$ 187,365**	**$ 28,985**	**$ 3,062,375**	**$ 2,503**	**$ (594)**	**$ 1,909**	**$ 1,199,693**	**$ 4,480,327**
Net income	-	-	-	-	-	-	281,629	281,629
Other comprehensive income (loss):								
Unrealized losses on securities, net of $13 tax benefit	-	-	-	(38)	-	(38)	-	(38)
Change in pension and other postretirement obligations, net of $128 tax expense	-	-	-	-	360	360	-	360
Total comprehensive income								281,951
Parent tax loss allocation	-	-	37,121	-	-	-	-	37,121
Impact of adoption of the recognition and measurement of financial assets and liabilities standard	-	-	-	(2,392)	-	(2,392)	2,392	-
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2019	**$ 187,365**	**$ 28,985**	**$ 3,099,496**	**$ 73**	**$ (234)**	**$ (161)**	**$ 1,482,654**	**$ 4,798,339**

The Company had 187,364,863 shares of common stock authorized, issued and outstanding, with a par value of $1 per share and 289,848 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2019 and 2018.

NIAGARA MOHAWK POWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Niagara Mohawk Power Corporation ("the Company"), a New York Corporation, is engaged principally in the regulated energy delivery business in New York State ("NYS"). The Company provides electric service to approximately 1.7 million customers in the areas of eastern, central, northern, and western New York and sells, distributes, and transports natural gas to approximately 0.6 million customers in the areas of central, northern, and eastern New York.

The Company is a wholly-owned subsidiary of Niagara Mohawk Holdings, Inc. ("NMHI"), which 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 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 June 27, 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 New York Public Service Commission ("NYPSC") regulate the rates the Company charges its customers. In certain cases, the rate actions of the FERC and NYPSC 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 gas and electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2019, 2018, and 2017 were $38.7 million, $37.7 million, and $35.5 million, respectively.

The state of New York imposes on corporations a franchise tax that is computed as the higher of a tax based on income or a tax based on capital. To the extent the Company's state tax based on capital is in excess of the state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

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

Income Taxes

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

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

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

Cash and Cash Equivalents

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

Restricted Cash and Special Deposits

Restricted cash consists of collateral paid to the Company's counterparties for outstanding derivative instruments. Special deposits primarily consist of a release of property account for mortgaged property under a mortgage trust indenture and a reserve for potential environmental violations. The Company had restricted cash of zero and $9.8 million and special deposits of $3.0 million and $11.7 million at March 31, 2019 and 2018, respectively.

The following table reconciles cash, cash equivalents, restricted cash and special deposits as reported on the balance sheet, to the cash, cash equivalents, restricted cash, and special deposits as reported on the statements of cash flows:

	Years ended March 31,	
	2019	2018
	(in thousands of dollars)	
Cash and Cash Equivalents as reported on the Balance Sheets	**$ 16,028**	$ 4,743
Restricted Cash and Special Deposits as reported on the Balance Sheets	**3,032**	21,548
Cash, Cash Equivalents, Restricted Cash and Special Deposits reported on the Statement of Cash Flows	**$ 19,060**	$ 26,291

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.

Inventory

Inventory is composed of materials and supplies, purchased Renewable Energy Certificates ("RECs"), and gas in storage. Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized as used. Purchased RECs are stated at cost. There were no significant write-offs of obsolete inventory for the years ended March 31, 2019, 2018, or 2017.

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

The Company had materials and supplies of $43.4 million and $46.6 million, purchased RECs of $0.1 million and zero, and gas in storage of $10.6 million and $4.5 million at March 31, 2019 and 2018, respectively.

Renewable Energy Standard Obligation

RECs and Zero-Emissions Credits ("ZECs") are stated at cost and are used to measure compliance with State renewable energy standards. RECs support new renewable generation resources whereas ZECs support generation by in-state nuclear power plants. RECs and ZECs are held primarily to be utilized in fulfilment of our compliance obligations. At March 31, 2019 and 2018 the Company recorded a renewable energy standard obligation of $40.5 million and $42.2 million, respectively.

Derivative Instruments

The Company uses derivative instruments to manage commodity price risk. All derivative instruments, except those that qualify for the normal purchase normal sale exception, are recorded on the balance sheet at fair value. All commodity costs, including the impact of derivative instruments, are passed on to customers through the Company's commodity rate adjustment mechanisms. Regulatory assets or regulatory liabilities are recorded to defer the recognition of unrealized losses or gains on derivative instruments, respectively. The gains or losses on the settlement of these contracts are recognized as purchased electricity and purchased gas on the statements of operations and comprehensive income and then refunded to, or collected from, customers consistent with regulatory requirements.

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

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

Power Purchase Agreements

The Company enters into power purchase agreements to procure electricity to serve its customers. The Company evaluates whether such agreements are leases, derivative instruments, or executory contracts; and performs an assessment under the guidance for Variable Interest Entities ("VIE"), included in Topic 810, "Consolidations." Power purchase agreements that do not qualify as leases or derivative instruments are accounted for as executory contracts and are, therefore, recognized as the electricity is purchased. In making its determination of the accounting for power purchase agreements, the Company considers many factors, including: the source of the electricity; the level of output from any specified facility that the Company is taking under the contract; the involvement, if any, that the Company has in operating the specified facility; and the pricing mechanisms in the contract.

Natural Gas Long-Term Arrangements

The Company enters into long-term gas contracts to procure gas to serve its customers. Those contracts include Asset Management Agreements, Baseload, and Peaking gas contracts. Similar to the power purchase agreements noted above, the Company evaluates whether such agreements are leases, derivative instruments, or executory contracts; and performs an assessment under the guidance for VIE included in Topic 810, "Consolidations," and applies the appropriate accounting treatment.

Fair Value Measurements

The Company measures derivative instruments, 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;
- 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 NYPSC. The average composite rates for the years ended March 31, 2019, 2018, and 2017 are as follows:

	Composite Rates		
	Years Ended March 31,		
	2019	2018	2017
Electric	**2.6%**	2.2%	2.3%
Gas	**2.3%**	2.1%	2.1%
Common	**3.3%**	3.2%	3.9%

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 $303.9 million and $304.4 million at 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 operations and comprehensive income as non-cash income in other deductions, net. The debt component of AFUDC is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate. The Company recorded AFUDC related to equity of $13.5 million, $12.5 million, and $10.3 million, and AFUDC related to debt of $5.4 million, $4.3 million, and $3.5 million, for the years ended March 31, 2019, 2018, and 2017, respectively. The average AFUDC rates for the years ended March 31, 2019, 2018, and 2017 were 6.7%, 6.8%, and 6.7%, respectively.

Impairment of Long-Lived Assets

The Company tests the impairment of long-lived assets when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. 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, 2018, and 2017, 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 at March 31, 2019 or 2018.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant and equipment, primarily associated with the Company's distribution facilities. 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 applies regulatory accounting guidance and both the depreciation and accretion costs associated with asset retirement obligation are recorded as increases to regulatory assets on the balance sheet. These regulatory assets represent timing differences between the recognition of costs in accordance with U.S. GAAP and costs recovered through the ratemaking process.

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

	Years Ended March 31,	
	2019	2018
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 14,989**	$ 15,187
Accretion expense	**609**	621
Liabilities settled	**(864)**	(819)
Balance as of the end of the year	**$ 14,734**	$ 14,989

The Company had a current portion of asset retirement obligations of $0.4 million included in other current liabilities on the balance sheet at March 31, 2019 and March 31, 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.

Supplemental Executive Retirement Plans

The Company has corporate assets included in other non-current assets on the balance sheet representing funds designated for Supplemental Executive Retirement Plans, nonqualified retirement and deferred compensation benefits. These funds are invested in corporate owned life insurance policies and available-for-sale securities primarily consisting of equity investments and investments in municipal and corporate bonds. The corporate owned life insurance investments are measured at cash surrender value or at fair value, with increases and decreases in the value of these assets recorded in the accompanying statements of operations and comprehensive income.

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 classified within the same line item as other compensation in operating income in an entity's statement of operations and the other components of net benefit cost to be classified outside of operating income on a retrospective basis. In addition, as prescribed by the ASU, 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. Although required by the standard, the Company elected not to retrospectively adjust the accompanying 2018 and 2017 financial statements as management determined that such retrospective application, is not material to the Company's statements of operations and comprehensive income for the years ended March 31, 2018 and 2017 presented herein. The adoption of this ASU did not have a material effect on the Company's results of operations, cash flows, and financial position.

Statements of Cash Flows

In November 2016, the FASB issued ASU No. 2016-18, "Statements of Cash Flows (Topic 230): Restricted Cash," which requires entities to show the changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents in the statements of cash flows. The Company has adopted the new guidance in the current fiscal year and applied it retrospectively for each prior period presented. Cash and restricted cash are presented on a combined basis in the Company's statements of cash flows. As a result of implementing new accounting guidance for the statement of cash flows, the reclassification of the change in restricted cash balances, which was previously classified as investing activities, resulted in a decrease of $14.0 million in the total change in Cash, Cash Equivalents, Restricted Cash and Special Deposits for the year ended March 31, 2018 and a decrease of $4.9 million in the total change in Cash, Cash Equivalents and Special Deposits for the year ended March 31, 2017.

In August 2016, the FASB issued ASU No. 2016-15, "Statements of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which provides guidance about the classification of certain cash receipts and payments within the statements 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. The Company adopted the new guidance in the current fiscal year and applied it retrospectively for each prior period presented. The application of the new guidance did not have a material impact on the Company's presentation of its statements of cash flows.

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 retain earnings which was reclassified from accumulated other comprehensive income for $2.4 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 statements of operations and comprehensive 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 will implement a new lease accounting system in fiscal year 2020, to ensure ongoing compliance with the ASU’s requirements. The Company recognized approximately $236.9 million of operating lease liabilities as right-of-use assets on the balance sheet upon transition at April 1, 2019. Implementation of the new guidance will not materially impact our results of operations or cash flows, as we do not expect significant changes to our pattern of expense recognition as a result of the new standard. The Company’s leases are further discussed in Note 13, “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 Transmission	$	402,213
Electric Distribution		2,154,933
Gas Distribution		644,152
Total Revenue from Contracts with Customers		3,201,298
Revenue from Regulatory Mechanisms		193,231
Other Revenue		17,888
Total Operating Revenues	$	3,412,417

Electric and Gas Distribution: The Company owns and maintains an electric and natural gas distribution network in upstate New York. Distribution revenues are primarily from the sale of electricity, gas, and related services to retail customers. Distribution sales are regulated by the NYPSC, 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. Gas and electric distribution revenues are derived from the regulated sale and distribution of electricity and natural gas to residential, commercial, and industrial customers within the Company’s service territory under the tariff rates. The tariff rates approved by the regulator are designed to recover the costs incurred by the Company for products and services provided and along with a return on investment.

The performance obligation related for distribution sales is to provide electricity and natural gas to the customers on demand. The electricity and natural gas supplied under the tariff represents a single performance obligation as it is a series of distinct goods or services that are substantially the same. The performance obligation is satisfied over time because the customer simultaneously receives and consumes the electricity or natural gas as the Company provides these services. The Company records revenues related to 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 and natural gas provided to customers by the Company, but not yet billed. Unbilled revenues are determined based on estimated unbilled sales volumes for the respective customer classes and then applying the applicable tariff rate to those volumes. Actual amounts billed to customers when the meter readings occur, may be different from the estimated amounts.

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

Electric Transmission: The Company owns and operates transmission facilities, which is used to transmit electricity on behalf of other parties and is subject to regulation by FERC. The Company provides open access to the transmission facilities based on the rates approved by the FERC, which are designed to recover the cost of providing the service along with a return on the investments made by the Company, including Transmission Congestion Contract auctions. The Company is a participant in the NYISO, the organization designated by the FERC for managing the movement of electricity across the New York electric grid. As a participant in the NYISO the Company is compensated by the NYISO for the use of its facilities to transmit electricity.

Transmission services are provided as demanded by the Customers and represents a single performance obligation. The price for the services provided are based on the underlying tariff rates established by FERC related to both the Company and NYISO. The performance obligation is satisfied over time as the transmission services are provided by the Company. The Company records revenue related to transmission services based on the volumes delivered and the approved tariff rates, which corresponds with the amount the Company has the right to invoice, as the Company is entitled to compensation for the performance completed to date.

Revenue from Regulatory Mechanisms: The company records revenues 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 capital trackers, energy efficiency programs, storm deferral, 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 and gas distribution rates both have a revenue decoupling mechanism ("RDM") which allows for annual adjustments to the Company's delivery rates as a result of the reconciliation between allowed revenue and billed revenue. The Company also has other ARPs related to the achievement of certain objectives, demand side management initiatives, and certain other rate making mechanisms. The Company recognizes ARP's with a corresponding offset to a regulatory asset or liability account when the regulatory specified events or conditions have been met, when the amounts are determinable, and are probable of recovery (or payment) through future rate adjustments.

Other Revenues: Includes lease income and other transactions that are not considered contracts with customers.

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:		
Derivative instruments	**$ 82**	$ 55,612
Gas costs adjustment	**2,676**	20,408
Rate adjustment mechanisms	**18,200**	2,373
Revenue decoupling mechanism	**-**	15,229
Other	**1,529**	385
Total	**22,487**	94,007
Non-current:		
Dunkirk settlement deferral	**16,366**	57,000
Environmental response costs	**374,038**	364,067
Postretirement benefits	**41,471**	117,462
Other	**47,907**	72,885
Total	**479,782**	611,414
Regulatory liabilities		
Current:		
Energy efficiency	**374,623**	407,582
Rate adjustment mechanisms	**30,149**	142,222
Revenue decoupling mechanism	**22,612**	2,564
Other	**29,051**	7,079
Total	**456,435**	559,447
Non-current:		
Carrying charges	**62,759**	112,251
Cost of removal	**303,882**	304,440
Economic development fund	**36,691**	109,458
Environmental response costs	**59,355**	91,060
Rate plan deferral credits	**107,292**	-
Regulatory tax liability, net	**812,303**	806,078
Other	**302,224**	366,940
Total	**1,684,506**	1,790,227
Net regulatory liabilities	**$ (1,638,672)**	$ (1,644,253)

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

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

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

Dunkirk settlement deferral: The Company was allowed to defer up to $57.0 million to offset the support services aimed at improving reliability associated with the Dunkirk generating plant and agreements with other generators. Under the Rate Plan joint proposal, the Company allocated $40.6 million of the Dunkirk settlement deferral to Rate Plan Deferral Credits-Electric to be amortized over the term of the rate plan, see the "Rate plan deferral credits" section for additional details. The disposition of the remaining balance will be determined by future NYPSC rulings.

Economic development fund: This is an on-going deferral mechanism for economic development discounts. Under this mechanism, the Company reconciles the economic discounts provided to customers to the amount reflected in rates for future refund to, or recovery from, customers. The timing for disposition of any associated excess deferred balances will be determined by future NYPSC rulings.

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 NYPSC.

Environmental response costs: The regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at sites with which it may be associated. The Company's rate plans provide for specific rate allowances for these costs at a level of $32.1 million per year, with variances deferred for future recovery from, or return to, customers. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates. The regulatory liability represents the excess of amounts received in rates over the Company's actual site investigation and remediation costs.

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

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

Rate adjustment mechanisms: In addition to commodity costs, the Company is subject to a number of additional rate adjustment mechanisms whereby the 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 NYPSC.

Rate plan deferral credits: Under the Rate Plan order, the Company will credit electric customers with a portion of the forecast deferral balance in the amount of $200.4 million and $56.1 million for electric and gas customers, respectively. These recorded credits allow for a gradual transition to full cost-of-service rates, implemented as step increases from Rate Year One (RY1) to Rate Year Two (RY2), from Rate Year Two to Rate Year Three (RY3), and from Rate Year Three to the twelve-months ending (RY4) March 31, 2022. The rate plan deferral credit balances are being amortized over the term of the rate plan ($116.9 million in RY1, $59.3 million in RY2, $19.5 million in RY3 and $4.7 million in RY4 for electric customers, and $32.3 million in RY1, $16.9 million in RY2, $5.3 million in RY3 and $1.6 million in RY4 for gas customers).

Regulatory tax liability, net: Represents over-recovered federal deferred taxes of the Company primarily as a result of regulatory flow through accounting treatment, state income tax rate changes and excess federal deferred taxes as a result of the Tax Cuts and Jobs Act of 2017 ("Tax Act").

Revenue decoupling mechanism ("RDM"): As approved by the NYPSC, the Company has electric and gas RDM's 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.

5. RATE MATTERS

Electric and Gas Filing

On April 28, 2017, the Company filed a proposal to reset electric and natural gas delivery prices beginning in April 2018. On January 19, 2018, the Company reached a settlement agreement with the NYPSC Staff and other parties to the case and filed a Joint Proposal for a three-year rate plan. The proposal reflects the new federal tax law changes and provides a cumulative revenue requirement increase of $240.8 million and $60.8 million for the electric and gas business, respectively, based on a 9.0% return on equity and 48% common equity ratio. On March 15, 2018, the NYPSC issued a final order approving the Joint Proposal and the new rates took effect on April 1, 2018.

As of March 31, 2018, resulting from the order, a new electric rate plan settlement credit of $44.9 million and a new gas rate plan settlement credit of $28.4 million were established. These credits are included in other non-current regulatory liabilities in the preceding table within Note 4, "Regulatory Assets and Liabilities." The Company applied $38.4 million of existing regulatory liabilities towards the creation of these credits. As authorized under the order, The Electric Rate Plan Settlement Deferral Credit balances are being amortized at the rate of $6.2 million per rate year to compensate the write-down of pre-Automated Meter Reading investments. The order authorizes the Company to fund $14.0 million in gas safety programs and compliance improvement programs form the Gas Rate Plan Settlement Deferral Credit balances. Further amortizations relating to meter investments, gas safety or the settlement of other rate plan issues may be authorized in future proceedings.

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 response to the Tax Act, the NYPSC issued an Order Instituting Proceeding under Case 17-M-0815 - Proceeding on Motion of the Commission on Changes in Law that May Affect Rates. This proceeding was instituted to solicit comments on the Tax Act's implications and places the utilities on notice of the NYPSC's intent to protect ratepayers' interest and to ensure that any cost reductions from the changes in federal income taxes are deferred for future ratepayer benefit.

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

The NYPSC's order effectively approved all aspects of the Company's proposal. The NYPSC agreed that the Company should be allowed to defer both the pass back of calendar year 2018 tax savings (to the extent not already returned in the new rate plan) and the amortization of excess ADFIT balances, and use the benefits as a rate moderator when base rates are next revised in 2020/2021. Specifically, the NYPSC directed that no sur-credit is required as the current rate plan already reflects the reduction of the tax rate to 21% and the termination of bonus depreciation. The NYPSC approved the Company's proposal to defer the tax benefit realized for the three-month period (January-March) prior to new rates, of $18.0 million for electric and $4.6 million for gas, to offset future rate increases or investments.

Operations Staffing Audit

In January 2014, the NYPSC initiated an operational audit to review internal staffing levels and use of contractors for the core utility functions of the investor owned utilities operating in New York, including the Company. On June 26, 2014, the NYPSC selected a third party to conduct the audit. On February 21, 2017, the third party submitted its final report, which contained recommendations for all of National Grid's New York utilities designed to improve the staffing and workforce management processes. The report contained 27 recommendations for National Grid. The Company filed its implementation plan on March 23, 2017. On December 15, 2017, the NYPSC issued an Order approving the Company's implementation plan without modification, with updates to be made every four months to the NYPSC on the status of implementation. The Company submitted its most recent update on April 15, 2019.

New York Management Audit

In 2018, the NYPSC initiated a comprehensive management and operations audit of National Grid's three New York electric and gas utilities. New York law requires periodic management audits of all utilities at least once every five years. National Grid last underwent a New York management audit in 2014/2015, when the NYPSC audited our New York gas business. The audit will be process oriented and forward looking, and presents opportunities to obtain feedback on how to improve service to customers and meet regulatory expectations. Areas of focus will include the traditional audit areas of corporate governance, budgeting and finance, customer, work management, and long-term planning, as well as organization design, information systems, gas safety, and grid modernization. The final audit report is due in September 2019.

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	**$ 12,077,145**	$ 11,479,868
Land and buildings	**646,765**	623,054
Assets in construction	**466,830**	458,334
Software and other intangibles	**9,087**	7,895
Total property, plant and equipment	**13,199,827**	12,569,151
Accumulated depreciation and amortization	**(3,692,482)**	(3,519,930)
Property, plant and equipment, net	**$ 9,507,345**	$ 9,049,221

7. DERIVATIVE INSTRUMENTS

The Company utilizes derivative instruments to manage commodity price risk associated with its natural gas and electricity purchases. The Company's commodity risk management strategy is to reduce fluctuations in firm gas and electricity sales prices to its customers.

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

Volumes

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

	March 31,	
	2019	2018
	(in thousands)	
Gas derivative contracts (dths)	**12,641**	11,603
Electric derivative contracts (mwhs)	**13,771**	13,540

Derivative Financial Instruments

The following tables reflect the gross and net amounts of the Company's derivative assets and liabilities at March 31, 2019 and 2018:

March 31, 2019
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets (liabilities) *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets (liabilities) presented in the Balance Sheets *C=A+B*	Gross amounts not offset in the Balance Sheets *D*	Net amount *E=C-D*
Current assets					
Gas contracts	$ 290	$ -	$ 290	$ 110	$ 180
Electric contracts	26,365	-	26,365	11,827	14,538
Other non-current assets					
Gas contracts	55	-	55	-	55
Electric contracts	12,101	-	12,101	2,576	9,525
Total	38,811	-	38,811	14,513	24,298
LIABILITIES:					
Current liabilities					
Gas contracts	(428)	-	(428)	(110)	(318)
Electric contracts	(15,203)	-	(15,203)	(11,827)	(3,376)
Other non-current liabilities					
Gas contracts	-	-	-	-	-
Electric contracts	(9,852)	-	(9,852)	(2,576)	(7,276)
Total	(25,483)	-	(25,483)	(14,513)	(10,970)
Net assets (liabilities)	$ 13,328	$ -	$ 13,328	$ -	$ 13,328

March 31, 2018
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets (liabilities) *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets (liabilities) presented in the Balance Sheets *C=A+B*	Gross amounts not offset in the Balance Sheets *D*	Net amount *E=C-D*
Current assets					
Gas contracts	$ 125	$ -	$ 125	$ -	$ 125
Electric contracts	8,963	-	8,963	-	8,963
Other non-current assets					
Gas contracts	84	-	84	-	84
Electric contracts	1,501	-	1,501	-	1,501
Total	10,673	-	10,673	-	10,673
LIABILITIES:					
Current liabilities					
Gas contracts	(567)	-	(567)	-	(567)
Electric contracts	(40,831)	-	(40,831)	-	(40,831)
Other non-current liabilities					
Gas contracts	-	-	-	-	-
Electric contracts	(24,887)	-	(24,887)	(9,800)	(15,087)
Total	(66,285)	-	(66,285)	(9,800)	(56,485)
Net assets (liabilities)	$ (55,612)	$ -	$ (55,612)	$ (9,800)	$ 45,812

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

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying statements of operations and comprehensive income. All of the Company's derivative instruments are subject to rate recovery as of March 31, 2019 and 2018.

Credit and Collateral

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

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

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

The Company's credit exposure for all commodity derivative instruments, normal purchase normal sale contracts, and applicable payables and receivables, net of collateral, and instruments that are subject to master netting agreements, was an asset of $13.3 million and a liability of $45.8 million as of March 31, 2019 and 2018, respectively.

The aggregate fair value of the Company's commodity derivative instruments with credit-risk-related contingent features that were in a liability position at March 31, 2019 and 2018 was $5.6 million and $56.8 million, respectively. The Company had zero and $9.8 million collateral posted for these instruments at March 31, 2019 and 2018, respectively. At March 31, 2019, if the Company's credit rating were to be downgraded by one, two, or three levels, it would be required to post additional collateral to its counterparties of zero, zero, or $6.0 million, respectively. At March 31, 2018, if the Company's credit rating had been downgraded by one, two, or three levels, it would have been required to post additional collateral to its counterparties of $4.8 million, $14.2 million, or $47.6 million, respectively.

8. 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:				
Derivative instruments				
Gas contracts	$ -	$ 8	$ 337	$ 345
Electric contracts	-	37,647	819	38,466
Available-for-sale securities	23,379	12,545	-	35,924
Total	23,379	50,200	1,156	74,735
Liabilities:				
Derivative instruments				
Gas purchase contracts	-	241	187	428
Electric swap contracts	-	25,055	-	25,055
Total	-	25,296	187	25,483
Net assets	$ 23,379	$ 24,904	$ 969	$ 49,252

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative instruments				
Gas contracts	$ -	$ 32	$ 177	$ 209
Electric swap contracts	-	9,820	644	10,464
Available-for-sale securities	22,778	11,958	-	34,736
Total	22,778	21,810	821	45,409
Liabilities:				
Derivative instruments				
Gas contracts	-	403	164	567
Electric contracts	-	64,979	739	65,718
Total	-	65,382	903	66,285
Net assets (liabilities)	$ 22,778	$ (43,572)	$ (82)	$ (20,876)

Derivative instruments*:* The Company's Level 2 fair value derivative instruments primarily consist of over-the-counter ("OTC") electric and gas swap contracts with pricing inputs obtained from the New York Mercantile Exchange and the Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative instruments. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 95% or higher.

The Company's Level 3 fair value derivative instruments consist of gas option and purchase, and electric option and capacity transactions, which are valued based on internally-developed models. Industry-standard valuation techniques, such as the Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivative instruments valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility, and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. The Company considers non-performance risk and liquidity risk in the valuation of derivative instruments categorized in Level 2 and Level 3.

The significant unobservable inputs used in the fair value measurement of the Company's gas derivative instruments and electric derivative instruments are implied volatility, electric forward curves and gas forward curves. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

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).

9. EMPLOYEE BENEFITS

The Company participates in two non-contributory defined benefit pension plans (the "Pension Plans") and two PBOP plans (the "PBOP Plans," together with the Pension Plans, the "Plans"). The Company calculates benefits under these plans based on age, years of service and pay using March 31 as a measurement date. In addition, the Company also participates in a defined contribution plans for eligible employees. The plans are sponsored by National Grid USA Service Company.

Plan assets are maintained 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 Plan. 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 gas and 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 operations and comprehensive income. Portions of the net periodic benefit costs disclosed below have been capitalized as a component of property, plant and equipment.

Pension Plans

The Pension Plans are composed of both a qualified and a non-qualified plan. The qualified pension plan provides substantially all union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. The qualified pension plan is a cash balance pension plan design in which pay-based credits are applied based on service time and interest credits are applied at rates set forth in the plan. For non-union employees, effective January 1, 2011, pay-based credits are based on a combination of service time and age. The non-qualified pension plans provide additional defined pension benefits to certain eligible executives. The funding policy is determined largely by the Company's rate agreements with the NYPSC. However, the contribution to the qualified pension plan for any year will not be less than the minimum amount required under Internal Revenue Service ("IRS") regulations. During the years ended March 31, 2019, 2018, and 2017, the Company made contributions of approximately zero, $30.9 million, and $30.8 million, respectively, to the qualified pension plans. The Company does not expect to contribute to the Pension Plans during the year ending March 31, 2020.

Benefit payments to Pension Plan participants for the years ended March 31, 2019, 2018, and 2017 were approximately $148.6 million, $127.9 million, and $86.1 million, respectively.

PBOP Plans

The Company's 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. The PBOP Plans are funded based on rate agreements with the NYPSC. During the years ended March 31, 2019, 2018, and 2017, the Company made contributions of approximately zero, $48.4 million, and $49.1 million, respectively, 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, 2018, and 2017 were approximately $69.8 million, $71.0 million, and $59.8 million, respectively.

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2019, 2018, and 2017, the Company recognized an expense in the accompanying statements of operations and comprehensive income of $10.4 million, $9.4 million, and $8.7 million, respectively, for matching contributions.

Net Periodic Benefit Costs

The Company's total pension cost for the years ended March 31, 2019, 2018, and 2017 are $45.3 million, $32.0 million, and $41.4 million, respectively. The Company recognized a settlement loss of $8.2 million during the current fiscal year due to plan payouts that exceeded the threshold as prescribed in ASC 715 included in total cost above.

The Company's total PBOP cost for the years ended March 31, 2019, 2018, and 2017 are $11.4 million, $28.0 million, and $72.9 million, respectively.

Amounts Recognized in OCI and Regulatory Assets/Liabilities

The following tables summarize other pre-tax changes in actuarial gains/losses and prior service costs recognized primarily in regulatory assets and other comprehensive income for the years ended March 31, 2019, 2018, and 2017:

	Pension Plans		
	Years Ended March 31,		
	2019	2018	2017
		(in thousands of dollars)	
Net actuarial gains	**$ (7,386)**	$ (7,179)	$ (42,368)
Amortization of net actuarial loss	**(50,432)**	(46,964)	(52,858)
Amortization of prior service cost, net	**(2,832)**	(3,123)	(3,123)
Total	**$ (60,650)**	$ (57,266)	$ (98,349)
Included in regulatory assets	**$ (60,162)**	$ (57,261)	$ (98,104)
Included in AOCI	**(488)**	(5)	(245)
Total	**$ (60,650)**	$ (57,266)	$ (98,349)

	PBOP Plans		
	Years Ended March 31,		
	2019	2018	2017
		(in thousands of dollars)	
Net actuarial loss (gain)	**$ 39,428**	$ (66,621)	$ (258,040)
Amortization of net actuarial loss	**(16,174)**	(22,533)	(49,786)
Amortization of prior service benefit, net	**91**	540	540
Total	**$ 23,345**	$ (88,614)	$ (307,286)
Included in regulatory assets (liabilities)	**$ 23,345**	$ (88,614)	$ (307,286)
Total	**$ 23,345**	$ (88,614)	$ (307,286)

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

The following tables summarize the Company's amounts in regulatory assets and accumulated other comprehensive income on the balance sheet that have not yet been recognized as components of net actuarial loss at March 31, 2019, 2018, and 2017:

	Pension Plans		
	At March 31,		
	2019	2018	2017
		(in thousands of dollars)	
Net actuarial loss	**$ 48,617**	$ 106,435	$ 160,578
Prior service cost	**5,198**	8,030	11,153
Total	**$ 53,815**	$ 114,465	$ 171,731
Included in regulatory assets	**$ 53,071**	$ 113,233	$ 170,494
Included in AOCI	**744**	1,232	1,237
Total	**$ 53,815**	$ 114,465	$ 171,731

	PBOP Plans		
	At March 31,		
	2019	2018	2017
		(in thousands of dollars)	
Net actuarial (gain) loss	**$ (9,495)**	$ (32,749)	$ 56,405
Prior service benefit	**(425)**	(516)	(1,056)
Total	**$ (9,920)**	$ (33,265)	$ 55,349
Included in regulatory (liabilities) assets	**$ (9,920)**	$ (33,265)	$ 55,349
Total	**$ (9,920)**	$ (33,265)	$ 55,349

The NYPSC's statement of policy requires that prior service costs and gains and losses be amortized over a ten-year period calculated on a vintage year basis. The amount of net actuarial loss and prior service cost to be amortized from regulatory assets during the year ending March 31, 2020 for the Pension Plans is $32.2 million and $1.6 million, respectively, and net actuarial loss and prior service benefit to be amortized from regulatory assets during the year ending March 31, 2020 for the PBOP Plans is $13.1 million and zero, respectively.

Reconciliation of Funded Status to Amount Recognized

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2019	2018	**2019**	2018
		(in thousands of dollars)		
Projected benefit obligation	**$ (1,292,020)**	$ (1,374,041)	**$ (1,739,746)**	$ (1,706,164)
Allocated fair value of assets	**1,661,341**	1,728,154	**1,429,905**	1,425,342
Funded status	**$ 369,321**	$ 354,113	**$ (309,841)**	$ (280,822)
Other non-current assets	**$ 370,431**	$ 355,899	**$ -**	$ -
Current liabilities	**(272)**	(332)	**(4,942)**	(3,700)
Other non-current liabilities	**(838)**	(1,454)	**(304,899)**	(277,122)
Total	**$ 369,321**	$ 354,113	**$ (309,841)**	$ (280,822)

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	$ 131,200	$ 73,685
2021	121,356	76,051
2022	112,319	78,338
2023	106,393	80,716
2024	100,620	82,376
2025-2029	444,768	426,839
Total	$ 1,016,656	$ 818,005

Assumptions Used for Employee Benefits Accounting

	Pension Plans		
	Years Ended March 31,		
	2019	2018	2017
Benefit Obligations:			
Discount rate	**4.10%**	4.10%	4.30%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.00%**	6.00%	6.25%
Net Periodic Benefit Costs:			
Discount rate	**4.10%-4.50%**	4.30%	4.25%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.00%**	6.25%	6.25%

	PBOP Plans		
	Years Ended March 31,		
	2019	2018	2017
Benefit Obligations:			
Discount rate	**4.10%**	4.10%	4.30%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.50%-7.25%**	6.25%-6.75%	6.50%-6.75%
Net Periodic Benefit Costs:			
Discount rate	**4.10%**	4.30%	4.25%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.25%-6.75%**	6.50%-6.75%	6.25%-6.75%

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

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

Assumed Health Cost Trend Rate

	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

The National Grid Retirement Plans Committee is the fiduciary who 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 the National Grid Retirement Plans 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 the Service Company. Life insurance and medical benefits are provided for eligible retirees, dependents, and surviving spouses of the Company.

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

	Pension Plans		**Union PBOP Plans**		**Non-Union PBOP Plans**	
	March 31,		**March 31,**		**March 31,**	
	2019	2018	**2019**	2018	**2019**	2018
U.S. equities	**17%**	20%	**34%**	34%	**45%**	45%
Global equities (including U.S.)	**7%**	7%	**12%**	12%	**0%**	0%
Global tactical asset allocation	**10%**	10%	**17%**	17%	**0%**	0%
Non-U.S. equities	**6%**	10%	**17%**	17%	**25%**	25%
Fixed income securities	**50%**	40%	**20%**	20%	**30%**	30%
Private equity	**4%**	5%	**0%**	0%	**0%**	0%
Real estate	**4%**	5%	**0%**	0%	**0%**	0%
Infrastructure	**2%**	3%	**0%**	0%	**0%**	0%
	100%	100%	**100%**	100%	**100%**	100%

Fair Value Measurements

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

	March 31, 2019				
	Level 1	**Level 2**	**Level 3**	**Not categorized**	**Total**
			(in thousands of dollars)		
Pension Assets:					
Cash and cash equivalents	$ -	$ 36,324	$ -	$ 1,290	$ 37,614
Accounts receivable	59,049	-	-	-	59,049
Accounts payable	(140,310)	-	-	-	(140,310)
Convertible securities	-	151	-	-	151
Equity	102,965	-	-	420,478	523,443
Global tactical asset allocation	47,579	-	-	135,991	183,570
Fixed income securities	-	663,419	-	256,938	920,357
Preferred securities	-	6,949	-	-	6,949
Private equity	-	-	-	120,600	120,600
Real estate	-	-	-	75,722	75,722
Other	341	-	-	-	341
Total	**$ 69,624**	**$ 706,843**	**$ -**	**$ 1,011,019**	**$ 1,787,486**

	Level 1	Level 2	Level 3	Not categorized	Total
PBOP Assets:					
Cash and cash equivalents	$ 16,067	$ -	$ -	$ 685	$ 16,752
Accounts receivable	3,196	-	-	-	3,196
Equity	192,759	-	-	732,534	925,293
Global tactical asset allocation	99,567	-	-	93,493	193,060
Fixed income securities	-	292,050	-	-	292,050
Other	(255)	-	-	-	(255)
Total	**$ 311,334**	**$ 292,050**	**$ -**	**$ 826,712**	**$ 1,430,096**

	March 31, 2018				
	Level 1	**Level 2**	**Level 3**	**Not categorized**	**Total**
			(in thousands of dollars)		
Pension Assets:					
Cash and cash equivalents	$ 356	$ 36,556	$ -	$ 1,244	$ 38,156
Accounts receivable	84,635	-	-	-	84,635
Accounts payable	(152,299)	-	-	-	(152,299)
Equity	177,366	-	-	457,622	634,988
Global tactical asset allocation	-	-	-	144,987	144,987
Fixed income securities	-	641,932	-	271,958	913,890
Preferred securities	-	8,178	-	-	8,178
Private equity	-	-	-	109,225	109,225
Real estate	-	-	-	72,650	72,650
Other	1,052	-	-	-	1,052
Total	**$ 111,110**	**$ 686,666**	**$ -**	**$ 1,057,686**	**$ 1,855,462**
PBOP Assets:					
Cash and cash equivalents	$ 15,707	$ -	$ -	$ 604	$ 16,311
Accounts receivable	2,293	-	-	-	2,293
Accounts payable	(81)	-	-	-	(81)
Equity	284,326	-	-	735,481	1,019,807
Global tactical asset allocation	38,824	-	-	86,119	124,943
Fixed income securities	-	293,793	-	-	293,793
Other	(240)	-	-	-	(240)
Total	**$ 340,829**	**$ 293,793**	**$ -**	**$ 822,204**	**$ 1,456,826**

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 net asset value ("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.

Global tactical asset allocation: Assets held in global tactical asset allocation funds are managed by investment managers who use both top-down and bottom-up valuation methodologies to value asset classes, countries, industrial sectors, and individual securities in order to allocate and invest assets opportunistically. 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 as a practical expedient per fund share. These investments are excluded from the fair value hierarchy. Investments with redemption restrictions and that use NAV 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 as 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.

10. 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	$ 750,000
2021	-
2022	-
2023	300,000
2024	69,800
Thereafter	2,154,365
Total	$ 3,274,165

The Company's debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants such as restrictions on the level of indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the Company's debt and may restrict the Company's ability to draw upon its facilities or access the capital markets. 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 $1.0 billion of short-term debt internally or externally. 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 as of March 31, 2019 and 2018. Refer to Note 14, "Related Party Transactions" under "Intercompany Money Pool" for short-term debt outstanding with associated companies.

Since May 19, 2016, the NYPSC authorized the Company to issue up to $2.1 billion of incremental long-term debt in one or more transactions through March 31, 2020. The Company has the option to issue up to $429.5 million of the total authorization for a refunding of the Company's existing debt. On November 29, 2018, the Company issued $500.0 million of unsecured long-term debt at 4.28% with a maturity date of December 15, 2028.

State Authority Financing Bonds

The Company had approximately $429.5 million of tax-exempt revenue bonds in a variable interest rate mode ("TE Bonds") issued by the New York State Energy Research and Development Authority ("NYSERDA"). The Company pledged to NYSERDA collateral, in the form of first mortgage bonds ("Pledged Bonds"), to secure the repayment of the NYSERDA TE bonds. The Pledged Bonds were issued under its 1937 Mortgage Trust Indenture, as amended and supplemented from time to time, that established a blanket lien (the "Indenture") (i.e. mortgage lien) on substantially all of the Company's operating properties.

In September and October 2018, the Company requested and received approval from NYSERDA to convert the TE Bonds into a fixed rate mode which was fully completed on October 11, 2018. In connection with the mode conversion the Company i) cancelled the Insurance Policy, ii) replaced the Pledge Bonds with an unsecured note which eliminated the Pledge Bonds and effectively discharged the mortgage lien under the Indenture and iii) made other modifications to NYSERDA TE Bonds transactional documents. The TE bonds were converted from a variable interest rate mode into a fixed rate interest mode ranging from 3.23% to 3.48%. These conversions were accounted for as extinguishments in accordance with ASC 470, "Debt." Prior to the conversion the bonds bore interest at short-term interest rates ranging from 0.84% to 5.53% and 0.66% to 4.69% for the years ended March 31, 2019 and 2018, respectively.

Dividend Restrictions

The Company is limited by the various rate plans, NYPSC orders, and FERC orders with respect to the amount of dividends the Company can pay. If the Company's total debt exceeds 55% of its total capital excluding goodwill but does not exceed 57%, then the Company will be permitted to pay dividends up to an amount equal to but no greater than 50% of its net income for the previous twelve months until its average total debt for the most recent six month period is less than or equal to 55%. If the Company's total capital exceeds 57% then the Company may not pay dividends until the average total debt for the most recent six months ending is less than or equal to 55%. As long as the bond ratings on the least secure forms of debt issued by the Company and National Grid plc remain investment grade and do not fall to the lowest investment grade rating (with one or more negative watch downgrade notices issued with respect to such debt), the Company is allowed to pay dividends. During the years ended March 31, 2019, 2018 and 2017, the Company was in compliance with all such covenants.

The Company's filed rate plan includes a ratemaking capital structure of approximately 52% debt and 48% equity through the combination of long-term debt issuance and dividend payments. In September 2017, the Company paid dividends on common stock of $550.0 million to NMHI to align the capital structure more closely to its filed rate plan.

Cumulative Preferred Stock

The Company has certain issues of non-participating cumulative preferred stock outstanding where the security is guaranteed by National Grid plc and can be redeemed at the option of the Company. There are no mandatory redemption provisions on the Company's cumulative preferred stock. A summary of cumulative preferred stock is as follows:

	Shares Outstanding		**Amount**		
	March 31,		**March 31,**		**Call**
Series	**2019**	2018	**2019**	2018	**Price**
	(in thousands of dollars, except per share and number of shares data)				
$100 par value -					
3.40% Series	**57,524**	57,524	**$ 5,753**	$ 5,753	$ 103.50
3.60% Series	**137,152**	137,152	**13,715**	13,715	104.85
3.90% Series	**95,171**	95,171	**9,517**	9,517	106.00
Golden Share	**1**	1	**-**	-	Non-callable
Total	**289,848**	289,848	**$ 28,985**	$ 28,985	

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

The Company did not redeem any preferred stock during the years ended March 31, 2019, 2018, or 2017. The annual dividend requirement for cumulative preferred stock was $1.1 million for each of the years ended March 31, 2019, 2018 and 2017.

11. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2019	2018	2017
		(in thousands of dollars)	
Current tax expense:			
Federal	**$ 9,170**	$ 138,572	$ 83,337
State	**7,724**	24,955	21,446
Total current tax expense	**16,894**	163,527	104,783
Deferred tax expense (benefit):			
Federal	**55,210**	(44,716)	16,857
State	**11,494**	(4,003)	(1,344)
Total deferred tax expense (benefit)	**66,704**	(48,719)	15,513
Amortized investment tax credits (1)	**(1,276)**	(1,806)	(1,670)
Total deferred tax expense (benefit)	**65,428**	(50,525)	13,843
Total income tax expense	**$ 82,322**	$ 113,002	$ 118,626

(1) Investment tax credits ("ITC") are accounted for using the deferral and gross up method of accounting and amortized over the depreciable life of the property giving rise to the credits.

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2019, 2018, and 2017 are 22.6%, 32.7%, and 37.5% respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 21.0%, 31.55%, and 35.0% respectively, to the actual tax expense:

	Years Ended March 31,		
	2019	2018	2017
		(in thousands of dollars)	
Computed tax	**$ 76,430**	$ 109,103	$ 110,608
Change in computed taxes resulting from:			
Equity-based compensation and dividends	**(978)**	(4,112)	(1,608)
Investment tax credits	**(1,276)**	(1,806)	(1,670)
State income tax, net of federal benefit	**15,183**	14,297	13,066
Temporary differences flowed through	**(4,224)**	(3,981)	(2,305)
Other items, net	**(2,813)**	(499)	535
Total changes	**5,892**	3,899	8,018
Total income tax expense	**$ 82,322**	$ 113,002	$ 118,626

The Company is included in the NGNA and subsidiaries consolidated federal income tax return and New York 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 Cuts and Jobs Act of 2017 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, 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 is 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 31.55%. For the fiscal year ended March 31, 2019 and future period, the federal income tax rate is 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 $685.2 million of which $1.6 million was recorded to deferred income tax expense and $686.8 million recorded as a regulatory liability for the refund of excess deferred income taxes to the ratepayers ("excess ADIT"). During the current period, the Company adjusted the remeasurement of the net deferred income tax liability by $15.3 million 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 $950.5 million ($702.1 million post-tax).

Deferred Tax Components

	March 31,	
	2019	2018
	(in thousands of dollars)	
Deferred tax assets:		
Allowance for doubtful accounts	**$ 44,793**	$ 41,302
Environmental remediation costs	**102,860**	100,118
Future federal benefit on state taxes	**25,334**	20,398
Regulatory liabilities - other	**261,676**	298,119
Regulatory tax liabilities	**223,394**	221,491
Other	**61,219**	65,510
Total deferred tax assets	**719,276**	746,938
Deferred tax liabilities:		
Property-related differences	**1,572,179**	1,513,220
Regulatory assets - environmental response costs	**86,538**	75,077
Other	**35,131**	73,128
Total deferred tax liabilities	**1,693,848**	1,661,425
Net deferred income tax liabilities	**974,572**	914,487
Deferred investment tax credits	**13,228**	13,997
Deferred income tax liabilities, net	**$ 987,800**	$ 928,484

Net Operating Losses

The amounts and expiration dates of the Company's net operating losses carryforward as of March 31, 2019 are as follows:

Expiration of net operating losses:	Carryforward Amount	Expiration Period
Federal	**9,564**	**2036**

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

The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income, net, in the accompanying statements of operations and comprehensive income. As of March 31, 2019 and 2018, the Company has accrued for interest related to unrecognized tax benefits of $43.9 million and $27.4 million, respectively. During the years ended March 31, 2019, 2018, and 2017 the Company recorded interest expense of $16.3 million, $6.6 million, and $6.6 million, respectively. No tax penalties were recognized during the years ended March 31, 2019, 2018 or 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.

During the year ended March 31, 2019, the Company reached a settlement with the IRS for the tax years ended August 24, 2007, March 31, 2008 and March 31, 2009. The outcome of the settlement did not have a material impact to the Company's tax results of operations, financial position, or cash flows. The IRS continues its examination of the next audit cycle which includes 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 $102.9 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 New York is in the process of examining the Company's New York State income tax returns for the years ended March 31, 2013 through March 31, 2015. The income tax returns for the subsequent years through March 31, 2019 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

12. ENVIRONMENTAL MATTERS

The normal ongoing operations and historic activities of the Company are subject to various federal, state, and local environmental laws and regulations. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without regard to fault, even if the activities were lawful when they occurred.

The United States Environmental Protection Agency ("EPA"), and the New York State Department of Environmental Conservation ("DEC"), as well as private entities, have alleged that the Company is a potentially responsible party under state or federal law for the remediation of numerous sites. The Company's most significant liabilities relate to former Manufactured Gas Plant ("MGP") facilities formerly owned or operated by the Company. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA and the DEC. Expenditures incurred for the years ended March 31, 2019, 2018, and 2017 were $9.8 million, $10.2 million, and $21.0 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $374.0 million and $364.1 million at March 31, 2019 and 2018, respectively. These costs are expected to be incurred over approximately 41 years, and these undiscounted amounts have been recorded as estimated liabilities on the balance sheet. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders effective April 1, 2018, NYPSC has decreased the annual rate allowance from $42.0 million to $32.1 million ($27.3 million in electric base rates and $4.8 million in gas base rates). Any annual spend above the $32.1 million rate allowance is deferred for future recovery. Previous rate orders have provided for similar recovery mechanisms (with different rate allowances and thresholds). Accordingly, as of March 31, 2019 and 2018, the Company has recorded environmental regulatory assets of $374.0 million and $364.1 million, respectively, and environmental regulatory liabilities of $59.4 million and $91.1 million, respectively.

The Company believes that its ongoing operations, and its approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws. Where the Company has regulatory recovery, it believes that the obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position.

13. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company has various operating leases relating to office space and an electric transmission line. Total rental expense for operating leases included in operations and maintenance expense in the accompanying statements of operations and comprehensive income was $10.4 million, $4.4 million, and $4.7 million, for the years ended March 31, 2019, 2018, and 2017, respectively.

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	$ 46,747
2021	42,115
2022	35,262
2023	29,221
2024	23,176
Thereafter	67,311
Total	$ 243,832

Purchase Commitments

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

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2019 are summarized in the table below:

(in thousands of dollars) Years Ending March 31,	Energy Purchases
2020	$ 165,206
2021	162,712
2022	117,581
2023	114,886
2024	111,398
Thereafter	437,646
Total	$ 1,109,429

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.

Nuclear Contingencies

As of March 31, 2019 and 2018, the Company had a liability of $174.0 million and $170.4 million, respectively, recorded in other non-current liabilities on the balance sheet, for the disposal of nuclear fuel irradiated prior to 1983. The Nuclear Waste Policy Act of 1982 provides three payment options for liquidating such liability and the Company has elected to delay payment, with interest, until the year in which Constellation Energy Group Inc., which purchased the Company's nuclear assets, initially plans to ship irradiated fuel to an approved Department of Energy ("DOE") disposal facility.

The 2010 Federal budget (which became effective October 1, 2009) eliminated almost all funding for the creation of the Yucca Mountain repository. A Blue Ribbon Commission ("BRC") on America's Nuclear Future, appointed by the U.S. Energy Secretary, released a report on January 26, 2012, detailing comprehensive recommendations for creating a safe, long-term solution for managing and disposing of the nation's spent nuclear fuel and high-level radioactive waste.

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

Other Contingencies

At 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 $11.9 million and $12.5 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.

14. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates		**Accounts Payable to Affiliates**	
	March 31,		**March 31,**	
	2019	2018	**2019**	2018
	(in thousands of dollars)			
Massachusetts Electric Company	**$ 9**	$ 8,252	**$ 4**	$ -
National Grid Engineering Services, LLC	**62**	6,104	**458**	-
NGUSA	**5**	-	**5,466**	5,953
NGUSA Service Company	**23,718**	-	**99,466**	113,530
Other	**494**	597	**254**	720
Total	**$ 24,288**	$ 14,953	**$ 105,648**	$ 120,203

Advance from Affiliate

The Company has board authorization to borrow up to $500.0 million from NGUSA and $450.0 million from NMHI as deemed necessary for working capital needs. At March 31, 2019 and 2018, the Company had no outstanding advance from affiliate.

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool in which it participates. The Company is a participant in the Regulated Money Pool and can both borrow and invest funds. Investments in the Regulated Money Pool bear interest in accordance with the terms of the Regulated Money Pool Agreement. As the Company fully participates in the Regulated Money Pool rather than settling intercompany charges with cash, all changes in the intercompany money pool balance are reflected as investing or financing activities in the accompanying 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 $525.4 million and $133.7 million at March 31, 2019 and 2018, respectively. The average interest rates for the intercompany money pool were 2.4%, 1.6%, and 1.1% for the years ended March 31, 2019, 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 to the Company, are mostly related to traditional administrative support functions, of which for the years ended March 31, 2019, 2018, and 2017 were $419.9 million, $377.2 million, and $495.6 million, respectively.