nationalgrid

National Grid Generation LLC and Subsidiaries

Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED

DECEMBER 31, 2017

I hereby certify that I am Vice-President, US Controller of National Grid Generation LLC and that the enclosed consolidated financial statements for the twelve months ended December 31, 2017 have been prepared in accordance with generally accepted accounting principles, and are, in my opinion, materially correct.

Kate Sturgess, Vice-President, US Controller

4/18/18

Date

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES

TABLE OF CONTENTS

Independent Auditor's Report	3
Consolidated Statements of Income Years Ended December 31, 2017 and 2016	4
Consolidated Statements of Cash Flows Years Ended December 31, 2017 and 2016	5
Consolidated Balance Sheets December 31, 2017 and 2016	6
Consolidated Statements of Capitalization December 31, 2017 and 2016	8
Consolidated Statements of Changes in Member's Equity Years Ended December 31, 2017 and 2016	9
Notes to the Consolidated Financial Statements	10
1 - Nature of Operations and Basis of Presentation	10
2 - Summary of Significant Accounting Policies	11
3 - Property, Plant, and Equipment	16
4 - Fair Value Measurements	16
5 - Employee Benefits	16
6 - Capitalization	17
7 - Income Taxes	19
8 - Environmental Matters	22
9 - Commitments and Contingencies	23
10 - Related Party Transactions	24

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
National Grid Generation LLC

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Predecessor Auditors' Opinion on 2016 Financial Statements

The consolidated financial statements of the Company as of and for the year ended December 31, 2016 were audited by other auditors whose report, dated May 31, 2017, expressed an unmodified opinion on those statements.

Deloitte & Touche LLP

April 18, 2018

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

	Years Ended December 31,	
	2017	2016
Operating revenues	$ 471,323	$ 489,292
Operating expenses:		
Operations and maintenance	168,206	188,022
Depreciation	52,864	52,745
Other taxes	197,479	192,430
Total operating expenses	418,549	433,197
Operating income	52,774	56,095
Other income and (deductions):		
Interest on long-term debt	(738)	(418)
Other interest, including affiliate interest	(10,998)	(9,182)
Loss from equity investments	(66)	(133)
Other income, net	8,263	2,616
Total other deductions, net	(3,539)	(7,117)
Income before income taxes	49,235	48,978
Income tax (benefit) expense	(26,093)	19,868
Net income	$ 75,328	$ 29,110

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

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

	Years Ended December 31,	
	2017	2016
Operating activities:		
Net income	$ 75,328	$ 29,110
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	52,864	52,745
(Benefit from) provision for deferred income taxes	(61,072)	8,580
Bad debt expense	81	(3,334)
Loss from equity investments, net of dividends received	2,036	133
Loss on sale/disposal of assets	772	-
Decommissioning charges, net of payments	885	804
Share-based compensation	36	31
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenues	2,389	10,133
Inventory	87	(587)
Emission credits and emission credits reserve	249	(390)
Prepaid and accrued taxes	88,061	(36,419)
Accounts payable and other liabilities	(17,351)	6,264
Other, net	6,936	404
Net cash provided by operating activities	151,301	67,474
Investing activities:		
Capital expenditures	(46,775)	(30,716)
Proceeds from sale of assets	227	-
Affiliated money pool investing and receivables/payables, net	199,522	(45,945)
Investment in joint venture	(123)	(1,035)
Other	(6,282)	-
Net cash provided by (used in) investing activities	146,569	(77,696)
Financing activities:		
Common dividends to Parent	(280,000)	-
Payments on long-term debt	(17,870)	(17,730)
Parent tax loss allocation	-	27,952
Net cash (used in) provided by financing activities	(297,870)	10,222
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of period	-	-
Cash and cash equivalents, end of period	$ -	$ -
Supplemental disclosures:		
Interest paid	$ (7,174)	$ (7,176)
Income taxes (paid) refunded	(4,181)	3,780
Significant non-cash items:		
Capital-related accruals included in accounts payable	4,688	1,458
Parent tax loss allocation	4,775	-

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

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

	December 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Accounts receivable, net of allowance	$ 6,358	$ 3,180
Accounts receivable from affiliates	6,791	7,253
Intercompany money pool	39,337	232,290
Unbilled revenues	5,190	4,556
Inventory	66,272	75,789
Prepaid taxes	-	17,729
Other	2,307	2,315
Total current assets	126,255	343,112
Equity investments	271	1,352
Property, plant, and equipment, net	675,114	678,972
Other non-current assets	4,445	11,375
Total assets	$ 806,085	$ 1,034,811

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

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

	December 31, 2017	December 31, 2016
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	$ 49,570	$ 58,100
Accounts payable to affiliates	24,727	18,620
Current portion of long-term debt	17,870	17,870
Taxes accrued	75,649	9,260
Interest accrued	926	1,001
Current portion of emission credit reserve	25,339	-
Other	4,978	4,625
Total current liabilities	199,059	109,476
Other non-current liabilities:		
Asset retirement obligations	17,312	16,429
Deferred income tax liabilities, net	83,311	144,127
Emission credit reserve	-	34,520
Other	59,698	65,823
Total other non-current liabilities	160,321	260,899
Capitalization:		
Member's equity	207,170	407,031
Long-term debt	239,535	257,405
Total capitalization	446,705	664,436
Total liabilities and capitalization	$ 806,085	$ 1,034,811

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

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

			December 31,	
			2017	2016
Total member's equity			**$ 207,170**	$ 407,031
Long-term debt:	Interest Rate	Maturity Date		
State Authority Financing Bonds:				
Pollution Control Revenue Bonds - Series 1999A	Variable	October 1, 2028	**41,125**	41,125
Electric Facilities Revenue Bonds - Series 1997A	Variable	December 1, 2027	**24,880**	24,880
			66,005	66,005
Promissory Notes to National Grid North America Inc.	3.13% - 3.25%	June 2027 - April 2028	**191,400**	209,270
Total debt			**257,405**	275,275
Current portion of long-term debt			**17,870**	17,870
Long-term debt			**239,535**	257,405
Total capitalization			**$ 446,705**	**$ 664,436**

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

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

	Additional Paid-in Capital	Retained Earnings	Total
Balance as of December 31, 2015	**$ 346,512**	**$ 3,426**	**$ 349,938**
Net income	-	29,110	29,110
Parent tax loss allocation	27,952	-	27,952
Share-based compensation	31	-	31
Balance as of December 31, 2016	**$ 374,495**	**$ 32,536**	**$ 407,031**
Net income	-	75,328	75,328
Parent tax loss allocation	4,775	-	4,775
Share-based compensation	36	-	36
Common dividends to Parent	(228,000)	(52,000)	(280,000)
Balance as of December 31, 2017	**$ 151,306**	**$ 55,864**	**$ 207,170**

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

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

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

The Company is a wholly-owned subsidiary of KeySpan Corporation ("KeySpan" or the "Parent"), which is a wholly-owned subsidiary of National Grid USA ("NGUSA"), 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.

Through its wholly-owned subsidiary, National Grid Generation Ventures LLC, the Company owns a 50% interest in Island Park Energy Center LLC, formed to construct, install, hold, own, protect, finance, manage, operate and maintain projects consisting of the repowering of the E.F. Barrett Steam Unit and Barrett CT Units all located in Nassau County, New York.

Additionally, National Grid Generation Ventures LLC owns a 50% interest in three LLCs (LI Solar Generation LLC, LI Energy Storage System LLC, and LI Peaker Generation LLC). These LLCs were formed to jointly respond to LIPA's Request for Proposals ("RFPs") for generation, energy storage and demand response resources and to jointly develop, construct, install, hold, own, protect, finance, manage, operate and maintain the respective RFP projects (none were awarded) or future proposals for similar projects.

The Company uses the equity method of accounting for its investments in affiliates when it has the ability to exercise significant influence over the operating and financial policies, but does not control the affiliates. The Company's share of the earnings or losses of such affiliates is included as a gain or loss from equity investments in the accompanying consolidated statements of income.

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

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

Supplemental Cash Flow Information

	2017	2016
	(in thousands of dollars)	
Supplemental disclosure of noncash financing and investing activities		
Capital-related accruals included in accounts payable	**$4,688**	$1,458
Parent tax loss allocation	**$4,775**	-

Capital-related accruals included in accounts payable were treated as non-cash items for the years ended December 31, 2017 and 2016.

For the year ended December 31, 2016, parent tax loss allocations in the amount of $27.95 million were reported under financing activities in the cash flow statement.

As of December 31, 2017 and 2016, the intercompany money pool was netted against accounts payable to affiliates in order to reflect the settlement of outstanding pension-related intercompany balances through the money pool.

The Company has evaluated subsequent events and transactions through April 18, 2018, the date of issuance of these consolidated financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the consolidated financial statements as of and for the year ended December 31, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Revenue Recognition

Revenues are recognized for sales of capacity and energy to LIPA under terms of the PSA, with rates approved by the Federal Energy Regulatory Commission ("FERC"). Please see Note 9, "Commitments and Contingencies", for additional information on the PSA. The Company records unbilled revenues for the estimated amount of energy delivered from the bill date to the end of the accounting period.

Income Taxes

Federal and state income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the consolidated financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses, and general business credit carryforwards.

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

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary determines its tax provision based on the separate return method, modified by benefits-for-loss allocation pursuant to a tax sharing agreement between NGNA and its subsidiaries. The 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. The tax sharing agreement also requires NGNA to allocate its parent tax losses, excluding deductions from acquisition indebtedness, to each subsidiary in the consolidated federal tax return with taxable income. The allocation of NGNA's parent tax losses to its subsidiaries is accounted for as a capital contribution and is performed in conjunction with the annual intercompany cash settlement process following the filing of the federal tax return.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined taking into account historical collection and write-off experience and management's assessment of collectability from LIPA. The collectability of receivables is continuously assessed and, if circumstances

change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies and carbon dioxide ("Co2") emission credits. Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; the Company wrote off $0.3 million and $0.5 million in obsolete inventory for the years ended December 31, 2017 and 2016, respectively. The Company's carbon dioxide emission credits are valued at the lower of weighted average cost or net realizable value and are held primarily for consumption or may be sold to third-party purchasers.

The Company had materials and supplies of $39.4 million and $39.5 million at December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016, the Company recorded emission allowance credits of $26.9 million and $36.3 million and a compliance reserve of $25.3 million and $34.5 million, respectively.

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

In 2017, the Company netted Co2 allowances surrendered with the corresponding reserve for the interim periods 2016 and 2017 in the amount of $17.26 million. In prior years, the Company reflected such netting only after the three year compliance period and not for the interim compliance periods.

Property, Plant, and Equipment

Property, plant, and equipment is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of property, plant, and equipment is capitalized. The capitalized cost of additions to property, plant, and equipment includes costs such as direct material, labor and benefits, and capitalized interest.

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates. The average composite rates for the years ended December 31, 2017 and 2016 were 2.9%. The average service life for each of the years ended December 31, 2017 and 2016 was 39 years.

Capitalized Interest

Companies classified as non-regulated for U.S. GAAP reporting do not follow Accounting Standards Codification ("ASC") 980, "Regulated Operations". Under U.S. GAAP, companies not applying ASC 980, "Regulated Operations", are required to capitalize interest in accordance with ASC 835, "Interest", which does not include an equity component.

The Company had capitalized interest in the amount of $0.8 million and $0.5 million for the years ended December 31, 2017 and 2016, respectively. The average capitalized interest rates for the years ended December 31, 2017 and 2016 were 0.84% and 1.22%, respectively.

Asset Retirement Obligations

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

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

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

	Years Ended December 31,	
	2017	2016
	(in thousands of dollars)	
Balance as of the beginning of the year	$ 16,429	$ 15,632
Accretion expense	886	873
Liabilities settled	(1)	(189)
Liabilities incurred in the current year	-	84
Revisions to present values of estimated cash flows	-	29
Others - Tax adjustment	(2)	-
Balance as of the end of the year	$ 17,312	$ 16,429

Employee Benefits

The Company follows the accounting guidance for multi-employer accounting to record pension and postretirement benefits other than pension ("PBOP") expenses. Under multi-employer accounting, expenses are allocated to the Company and the liability is recorded at the Parent. The Company makes required contributions to the plan.

New and Recent Accounting Guidance

Accounting Guidance Recently Adopted

Measurement of Inventory

In July 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-11, "Simplifying the Measurement of Inventory". The new guidance requires that inventory be measured at the lower of cost and net realizable value (other than inventory measured using "last-in, first out" and the "retail inventory method"). The application of this guidance did not have a material impact on the results of operations, cash flows, or financial position of the Company since the Company's inventory was stated at cost upon adoption and the cost represents the net realizable value. Materials and supplies are measured at cost. The adoption of the guidance in the year ended December 31, 2017 did not change the Company's methodology of measuring inventory.

Consolidation

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." The new guidance eliminates entity specific consolidation guidance for limited partnerships. It also revises other

aspects of the consolidation analysis, including how kick-out rights, fee arrangements and related parties are assessed. The application of this guidance did not have a material impact on the results of operations, cash flows, or financial position of the Company.

Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting (Topic 718)," which simplifies several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. Most notably, entities are required to recognize all excess tax benefits and shortfalls as income tax expense or benefit in the income statement within the reporting period in which they occur. The application of this guidance did not have a material impact on the results of operations, cash flows, or financial position of the Company.

Accounting Guidance Not Yet Adopted

Statement of Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments (Topic 230)," which provides guidance about the classification of certain cash receipts and payments within the statement of cash flows, including debt prepayment or extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and policies, and distributions received from equity method investments. For the Company, the requirements of the new standard will be effective for the fiscal year ended December 31, 2018, and interim periods thereafter, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on the presentation of the Company's consolidated statements of cash flows.

Income Taxes

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," which eliminates the exception for all intra-entity sales of assets other than inventory. As a result, a reporting entity would recognize the tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. For the Company, the requirements of the new standard will be effective for the fiscal year ended December 31, 2018, and interim periods thereafter, with early adoption permitted. The application of this guidance is not expected to have a material impact on the results of operations, cash flows, or financial position of the Company.

Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendment replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For the Company, the requirements of the new standard will be effective for the fiscal year ended December 31, 2021, and interim periods within, with early adoption permitted from the fiscal year ended December 31, 2019 and interim periods within. The Company is currently evaluating the impact of the new guidance on the presentation, results of operations, cash flows, and financial position of the Company.

Revenue Recognition

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

The FASB has issued a number of additional recent ASUs related to revenue recognition, whose effective date and transition requirements are the same as those for ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)", which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," which provides guidance in the new revenue standard on identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (ASC 606) Narrow-Scope Improvements and Practical Expedients", providing additional clarity on various aspects of Topic 606, including a) Assessing the Collectability Criterion and Accounting for Contracts That Do Not Meet the Criteria for Step 1, b) Presentation of Sales Taxes and Other Similar Taxes Collected from Customers, c) Noncash Consideration, d) Contract Modifications at Transition, e) Completed Contracts at Transition, and f) Technical Correction. Lastly, in December 2016, the FASB issued ASU No. 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers." The amendments in this Update cover a variety of corrections and improvements to the Codification related to the new revenue recognition standard (ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)").

The Company has undertaken detailed reviews of its revenue arrangements and is in the process of finalizing its assessment of the impact of the new standard. Based on work to date, the Company does not believe that the standard will have a material impact on the presentation of its results of operations, cash flows, or financial position. However, the Company will be required to make significant additional qualitative and quantitative financial statement disclosures under ASC 606, "Revenue from Contracts with Customers", pertaining to its revenue earning mechanisms.

Leases

In February 2016, the FASB issued a new lease accounting standard, ASU No. 2016-02, "Leases (Topic 842)." The key objective of the new standard is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, a dual model has been retained, with leases to be designated as operating leases or finance leases. Expenses will be recognized on a straight-line basis for operating leases, and a front-loaded basis for finance leases. For the Company, the new standard is effective for the fiscal year ended December 31, 2019, and interim periods thereafter, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. The Company is currently evaluating the impact of the new guidance on its results of operations, cash flows, and financial position.

Financial Instruments – Classification and Measurement

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The new guidance principally affects the accounting for equity investments and financial liabilities where the fair value option has been elected, as well as the disclosure requirements for financial instruments. For the Company, the new guidance is effective for the fiscal year ended December 31, 2018 and interim periods thereafter, with early adoption permitted for fiscal years or interim periods that have not yet been issued. The Company is currently evaluating the impact of the new guidance on the presentation, results of operations, cash flows, and financial position of the Company.

Stock Compensation

In May 2017, the FASB issued ASU No. 2017-09, "Stock Compensation (Topic 718): Scope of Modification Accounting", which provides clarity on the application of modification accounting upon a change to the terms or conditions of a share-based payment award. For the Company, the requirements of the new standard will be effective for the fiscal year ended December 31, 2018, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on the presentation, results of operations, cash flows, and financial position of the Company.

Pension and Postretirement Benefits

In March 2017, the FASB issued ASU No. 2017-07, "Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost", which changes certain presentation and disclosure requirements for employers that sponsor defined benefit pension and other postretirement benefit plans. The ASU requires the service cost component of the net benefit cost to be in the same line item as other compensation in operating income and the other components of net benefit cost to be presented outside of operating income on a retrospective basis. In addition, only the service cost component will be eligible for capitalization when applicable, on a prospective basis. For the Company, the requirements of the new standard will be effective for the fiscal year ended December 31, 2018, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on its results of operations, cash flows, and financial position.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform the prior year's data to the current year's presentation. These reclassifications had no effect on the Company's results of operations or cash flows.

3. PROPERTY, PLANT, AND EQUIPMENT

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

	December 31,	
	2017	2016
	(in thousands of dollars)	
Plant and machinery	**$ 1,638,646**	$ 1,626,291
Land and buildings	**330,094**	327,422
Assets in construction	**52,919**	29,679
Software and other intangibles	**8,364**	8,364
Total property, plant, and equipment	**2,030,023**	1,991,756
Accumulated depreciation and amortization	**(1,354,909)**	(1,312,784)
Property, plant, and equipment, net	**$ 675,114**	$ 678,972

4. FAIR VALUE MEASUREMENTS

The fair value of the Company's long-term debt is based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of the Company's long-term debt is the same as its amortized cost on the consolidated balance sheets. Please see Note 6, "Capitalization", for additional information.

All other financial instruments in the accompanying consolidated balance sheets such as accounts receivable, accounts payable, and the intercompany money pool are stated at cost, which approximates fair value.

5. EMPLOYEE BENEFITS

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

The Pension Plans provide union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives.

The PBOP plan provides 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 Plans' assets are commingled and cannot be allocated to an individual company. The Plans' costs are first directly charged to the Company based on the Company's employees that participate in the Plans. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. Pension and PBOP expense are included within operation expenses in the accompanying statements of income.

Contributions to the plan are made by KeySpan directly on behalf of its participating subsidiaries. KeySpan makes contributions to the KeySpan Retirement Income Plan, the KeySpan Benefit Plan for Retired (East) Union Employees, KeySpan Life Insurance Plan for Retired (East) Management Employees, and the KeySpan Medical Plan for Retired (East) Management Employees.

All pension and PBOP costs associated with the Plan either directly charged or allocated from affiliated service companies are settled through the Company's Intercompany money pool (refer to the Intercompany Money Pool section of Note 10, "Related Party Transactions"). The amounts settled through the money pool are considered as the Company's contributions to the Plans. As of December 31, 2017, all costs have been settled.

The Company's gross pension and PBOP costs directly charged and allocated from affiliated service companies for the years ended December 31, 2017 and 2016 are as follows:

	Years Ended December 31,	
	2017	2016
	(in thousands of dollars)	
Pension	**$ 18,938**	$ 20,913
PBOP	**2,006**	8,527
	$ 20,944	$ 29,440

Gross pension and PBOP costs include $2.9 million and $3.3 million of capitalized costs for the years ended December 31, 2017 and 2016, respectively.

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended December 31, 2017 and 2016, the Company recognized an expense in the accompanying consolidated statements of income of $0.8 million and $0.5 million, respectively, for matching contributions.

Other Benefits

At December 31, 2017 and 2016, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR") of $4.9 million and $5.7 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.

6. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to December 31, 2017 are as follows:

(in thousands of dollars)		
Years Ended December 31,		
2018	$	17,870
2019		17,870
2020		17,870
2021		17,870
2022		17,870
Thereafter		168,055
Total	$	257,405

Debt Authorizations

Since January 12, 2015, the Company has had regulatory approval from the FERC to issue up to $250 million of short-term debt. The authorization, which was renewed with an effective date of January 11, 2017, is effective for a period of two years and expires on January 10, 2019. The Company had no short-term debt outstanding to third-parties as of December 31, 2017 or 2016

State Authority Financing Bonds

At December 31, 2017 and 2016, $41.1 million of 1999 Series A Pollution Control Revenue Bonds due October 1, 2028 were outstanding. The interest rate ranged from 0.37% to 18.0% for the year ended December 31, 2017 and 0.19% to 1.57% for the year ended December 31, 2016.

The Company also has outstanding $24.9 million of variable rate 1997 Series A Electric Facilities Revenue Bonds due December 1, 2027 at December 31, 2017 and 2016. The interest rates on these bonds is reset weekly and ranged from 0.77% to 1.77% during the year ended December 31, 2017 and from 0.08% to 0.99% during the year ended December 31, 2016. These bonds are backed by a standby letter of credit and reimbursement agreement which includes a percent of indebtedness covenant that cannot exceed 70%. During the years ended December 31, 2017 and 2016, the Company was in compliance with this covenant.

Promissory Notes

On November 20, 2015, the Company entered into multiple intercompany loans with NGNA totaling $227 million, composed of a $165 million intercompany loan with an interest rate of 3.25% due to mature on April 30, 2028 and a $62 million intercompany loan with an interest rate of 3.13% due to mature on June 1, 2027. The intercompany loans have an annual sinking fund requirement totaling $17.9 million. The Company had outstanding debt of $191.4 million and $209.3 million as of December 31, 2017 and 2016, respectively, of which $17.9 million is included in current portion of long-term debt on the accompanying balance sheet as of December 31, 2017 and 2016, respectively.

Restrictions on Payment of Dividends

The Company is obligated to meet certain non-financial covenants pursuant to the participation agreement with New York State Energy Research and Development Authority. During the years ended December 31, 2017 and 2016, the Company was in compliance with all such covenants.

Pursuant to FERC regulations, payment of dividends would not be permitted if, after giving effect to such payment of dividends, member’s equity becomes less than 30% of total capitalization. At December 31, 2017 and 2016 member’s equity was 44.6% and 59.7% of total capitalization, respectively. Under these provisions, none of the Company’s retained earnings at December 31, 2017 or 2016 were restricted as to payment of dividends.

On July 27, 2017, the Company paid a dividend of $280 million to the Parent.

7. INCOME TAXES

The components of federal and state income tax expense are as follows:

	Years Ended December 31,	
	2017	2016
	(in thousands of dollars)	
Current tax expense:		
Federal	**$ 27,586**	$ 9,108
State	**7,393**	2,181
Total	**34,979**	11,289
Deferred tax expense (benefit):		
Federal	**(57,632)**	6,655
State	**(3,440)**	1,924
Total deferred tax expense (benefit)	**(61,072)**	8,579
Total income tax expense (benefit)	**$(26,093)**	$ 19,868

Statutory Rate Reconciliation

The Company's effective tax rates for the years Ended December 31, 2017 and 2016 are -53% and 40.56%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended December 31,	
	2017	2016
	(in thousands of dollars)	
Computed tax	**$17,232**	$ 17,143
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**2,686**	2,668
Federal rate change	**(44,548)**	-
Other items - net	**(1,463)**	57
Total	**(43,325)**	2,725
Federal and state income taxes	**$ (26,093)**	$ 19,868

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.

There was no material change in the Company's deferred tax liability for the decrease in the tax rate from 7.1% to 6.5% applicable to New York entities beginning with the calendar year ended December 31, 2016. Likewise, there was no material change in the Company's deferred tax liability for the increase in the Metropolitan Transportation Authority surcharge from 25.6% to 28%.

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was signed into law. The Tax Act includes significant changes to various federal tax provisions applicable to the Company, including provisions specific to regulated public utilities. The most significant changes include the reduction in the corporate federal income tax rate from 35% to 21% effective January 1, 2018, and the limitation of the net operating loss deduction for net operating losses generated in tax years starting after December 31, 2017 to 80% of taxable income with an indefinite carryforward period. The Tax Act provisions related to regulated public utilities eliminate 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.

In accordance with ASC 740, "Income Taxes", the effects of changes in tax law are required to be recognized in the period of enactment, which for the Company is the period ended December 31, 2017. In subsequent periods, the federal income tax rate will be 21%. In addition, ASC 740, "Income Taxes", 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%. The Company recognized a net decrease in its deferred tax liability in the amount of $44.5 million. Because the Company is not subject to ASC 980, "Regulated Operations", the resulting tax benefit is reported in continuing operations on the statement of income.

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. The Financial Accounting Standards Board staff subsequently issued guidance stating that private companies may apply SAB 118 to the financial statements. 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. If a company cannot determine a provisional amount, the company should continue to apply existing accounting guidance for income taxes based on the provisions of the tax laws that were in effect immediately prior to the enactment of the Tax Act.

The Company has made a reasonable estimate for the measurement and accounting of the effects of the Tax Act, which have been reflected in the December 31, 2017 financial statements based on management's interpretation of the Tax Act and information available. The items reflected as provisional amounts are related to accelerated depreciation for tax purposes of certain property placed in service after September 27, 2017, the allocation of excess deferred taxes between customers and shareholders, and certain property-related temporary differences. The final impact may differ from the recorded amounts to the extent refinements are made as a result of changes in management's interpretations and assumptions, additional guidance, or technical corrections that may be issued.

Deferred Tax Components

Significant components of the Company's net deferred tax assets and liabilities at December 31, 2017 and December 31, 2016 are as follows:

	Years Ended December 31,	
	2017	2016
	(in thousands of dollars)	
Deferred tax assets:		
Net operating losses	**$ 7,552**	$ 16,954
Reserves not currently deducted	**9,257**	12,678
Future federal benefit on state taxes	**6,663**	12,177
Pensions, OPEB, and other employee benefits	**1,322**	1,629
Other items	**5,166**	15,039
Total deferred tax assets [(1)]	**29,960**	58,477
Deferred tax liabilities:		
Property-related differences	**99,404**	154,978
Property taxes	**13,867**	47,626
Total deferred tax liabilities	**113,271**	202,604
Net deferred income tax liability	**$ 83,311**	$ 144,127

(1) The Company established a valuation allowance for deferred tax assets in the amount of $4 thousand related to expiring charitable contribution carryforwards at December 31, 2016.

Net Operating Losses

The following table presents the amounts and expiration dates of net operating losses as of December 31, 2017:

Expiration of net operating losses:	Federal	New York	New York City
	(in thousands of dollars)		
3/31/2033	$36,879	$ -	$ -
3/31/2034	206	-	-
3/31/2035	3,044	32,556	166
3/31/2036	1,240	-	-

Unrecognized Tax Benefits

As of December 31, 2017 and December 31, 2016, the Company's unrecognized tax benefits totaled $21.6 million and $21 million, respectively, of which $10.3 million would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying balance sheet.

The following table presents changes to the Company's unrecognized tax benefits:

	Years Ended December 31,	
	2017	2016
	(in thousands of dollars)	
Beginning balance	**$ 21,019**	$ 20,756
Gross increases related to prior period	**623**	-
Gross decreases related to prior period	**-**	(62)
Gross increases related to current period	**-**	325
Ending balance	**$ 21,642**	$ 21,019

As of December 31, 2017 and 2016, the Company has accrued for interest related to unrecognized tax benefits of $18.9 million and $16.7 million, respectively. During the years ended December 31, 2017 and 2016, the Company recorded interest expense of $2.3 million in each year. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other deductions, net, in the accompanying consolidated statements of income. No tax penalties were recognized during the years ended December 31, 2017 or 2016.

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.

The Company is included in NGNA and subsidiaries' administrative appeal with the Internal Revenue Service ("IRS") related to the issues disputed in the examination cycles for the years ended March 31, 2008 and March 31, 2009. A settlement with the IRS is expected in the next fiscal year. The Company does not believe that the outcome of the settlement will have a material impact to its results of operations, financial position, or cash flows. The IRS continues its next examination cycle, which includes income tax returns for the years ended March 31, 2010 through March 31, 2012. The examination is expected to conclude by the end of the next fiscal year. The income tax returns for the years ended March 31, 2013 through March 31, 2017 remain subject to examination by the IRS.

The Company was included in the KeySpan Corporation and subsidiaries' New York State ("NYS") combined corporate income tax returns for the periods ended December 31, 2003 through March 31, 2008. The State of New York is in the process of examining the NYS combined income tax return for KeySpan Corporation and subsidiaries for the period starting January 1, 2003 through March 31, 2008. In August 2015, NYS issued a preliminary audit report which seeks to de-combine the Company from the KeySpan and subsidiaries' combined NYS tax return. The Company has established a reserve of $10.3 million, net of federal benefit, related to this audit. A settlement with the State of New York is expected in the next twelve months. The income tax returns for the years ended March 31, 2009 through March 31, 2017 remain subject to examination.

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

Jurisdiction	**Tax Year**
Federal	March 31, 2010
New York	December 31, 2003
New York City	December 31, 2003

8. ENVIRONMENTAL MATTERS

Ordinary business operations subject the Company to various federal, state, and local laws, rules, and regulations dealing with the environment, including air, water, and hazardous waste. The Company's business operations are regulated by

various federal, regional, state, and local authorities, including the U.S. Environmental Protection Agency ("EPA"), the New York State Department of Environmental Conservation ("DEC"), the New York City Department of Environmental Protection, and the Nassau and Suffolk County Departments of Health.

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

Air

The Company's generating facilities are subject to increasingly stringent emissions limitations under current and anticipated future requirements of the EPA and the DEC. In addition to efforts to improve both ozone and particulate matter air quality, there has been an increased focus on greenhouse gas emissions in recent years. The Company's previous investments in low NO_x boiler combustion modifications, the use of natural gas firing systems at its steam electric generating stations, and the compliance flexibility available under cap and trade programs have enabled the Company to achieve its prior emission reductions in a cost-effective manner. These investments include the installation of enhanced NO_x controls and efficiency improvement projects at certain of the Company's Long Island based electric generating facilities. The total cost of these improvements was approximately $103 million, all of which have been placed in service as of the date of this report; a mechanism for recovery from LIPA of these investments has been established. The Company has developed a compliance strategy to address anticipated future requirements and is closely monitoring the regulatory developments to identify any necessary changes to its compliance strategy. At this time, the Company is unable to predict what effect, if any, these future requirements will have on its consolidated financial position, results of operations, and cash flows.

Water

Additional capital expenditures associated with the renewal of the surface water discharge permits for the Company's steam electric power plants have been required by the DEC pursuant to Section 316 of the Clean Water Act to mitigate the plants' alleged cooling water system impacts to aquatic organisms. Final permits have been issued for Port Jefferson and Northport. Capital improvements have been completed at Port Jefferson and are in the design, procurement, and construction phase for Northport. The Company continues to engage in discussions with the DEC regarding the nature of capital upgrades or other mitigation measures necessary to reduce any impacts at E.F. Barrett. Total capital costs for these improvements at Northport and E.F. Barrett are estimated to be approximately $84 million. Costs associated with these capital improvements are reimbursable from LIPA under the PSA.

9. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

The Company has various capital commitments related to the construction of property, plant, and equipment. The Company's commitments under these contracts for the years subsequent to December 31, 2017 are summarized in the table below:

Years Ending December 31,	Capital Expenditures
(in thousands of dollars)	
2018	11,267
2019	696
Total	$ 11,963

There are no commitments past 2019.

Legal Matters

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

On September 29, 2014, a jury rendered a verdict in favor of a worker for asbestos-related injuries involving his limited work as a subcontractor at one of the Company's Long Island power plants during its construction in the 1960's and early 1970's. Judgment was entered against National Grid on January 28, 2015 and a motion to appeal was filed by the Company. On February 14, 2017 the Company received a decision denying our motion for leave to appeal on the case. The judgment amount of approximately $7.9 million, inclusive of New York State judgment rate interest, was remitted to the plaintiff on February 17, 2017. The Company's cost and expenses related to asbestos litigation are subject to reimbursement pursuant to the PSA more fully described below.

Power Supply Agreement

Effective May 28, 2013, the Company provides services to LIPA under an amended and restated ("A&R") PSA. Under the A&R PSA, the Company has a return on equity of 9.75% and a capital structure of 50% debt and 50% equity. The Company's annual revenue requirement for the year ended December 31, 2017 was $448.8 million. The A&R PSA has a term of fifteen years, provided LIPA has the option to terminate the agreement as early as April 2025 on two years advance notice. The Company accounts for the A&R PSA as an operating lease.

The A&R PSA provides potential penalties to the Company if it does not maintain the output capability of the generating facilities, as measured by annual industry-standard tests of operating capability, plant availability, and efficiency. These penalties may total $4 million annually. Although the A&R PSA provides LIPA with all of the capacity from the generating facilities, LIPA has no obligation to purchase energy from the generating facilities and can purchase energy on a least-cost basis from all available sources consistent with existing transmission interconnection limitations of the transmission and distribution system. The Company must, therefore, operate its generating facilities in a manner such that the Company can remain competitive with other producers of energy. To date, the Company has dispatched to LIPA and LIPA has accepted the level of energy generated at the agreed to price per megawatt hour. Under the terms of the A&R PSA, LIPA is obligated to pay for capacity at rates that reflect recovery of an agreed level of the overall cost of maintaining and operating the generating facilities, including recovery of depreciation and return on its investment in plant. The capacity charge is approximately 95% of the annual revenue requirement and is adjusted each year using cost escalation and inflation factors applied to the prior year's capacity charge. A monthly variable maintenance charge is billed for each unit of energy actually acquired from the generating facilities. The billings to LIPA under the A&R PSA do not include a provision for fuel costs, as such fuel is owned by LIPA.

10. 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**	
	December 31,		**December 31,**	
	2017	2016	**2017**	2016
	(in thousands of dollars)			
KeySpan Corporation	**$ -**	$ -	**$ 9,781**	$ 10,099
National Grid Electric Services, LLC	**-**	-	**3,241**	3,326
National Grid Engineering Services, LLC	**6,791**	7,253	**-**	-
New England Power Company	**-**	-	**2,115**	2,115
NGUSA	**-**	-	**4,075**	6
NGUSA Service Company	**-**	-	**4,467**	2,035
Niagara Mohawk Power Corporation	**-**	-	**444**	444
Other Affiliates	**-**	-	**604**	595
Total	**$ 6,791**	$ 7,253	**$ 24,727**	$ 18,620

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool in which it participates. The Company is a participant in the Unregulated Money Pool and can both borrow and invest funds. Borrowings from the Unregulated Money Pool bear interest in accordance with the terms of the Unregulated Money Pool Agreement. As the Company fully participates in the Unregulated Money Pool rather than settling intercompany charges with cash, all changes in the intercompany money pool balance and accounts receivable from affiliates and accounts payable to affiliates balances are reflected as investing or financing activities in the accompanying consolidated statements of cash flows. In addition, for the purpose of presentation in the consolidated statements of cash flows, it is assumed all amounts settled through the intercompany money pool are constructive cash receipts and payments, and therefore are presented as such.

The Unregulated Money Pool is funded by operating funds from participants. Collectively, NGUSA and KeySpan have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Unregulated Money Pool, if necessary. The Company had short-term intercompany money pool investments of $39.3 million and $232.3 million at December 31, 2017 and 2016, respectively. The average interest rates for the intercompany money pool were 1.44% and 0.98% for the years ended December 31, 2017 and 2016, respectively.

The intercompany money pool was netted against accounts payable to affiliates in order to reflect the settlement of outstanding pension-related intercompany balances through the money pool. As of December 31, 2017, the Company had accounts payable to affiliates net of accounts receivable from affiliates in the amount of $17.9 million, which relates to normal operations and will be settled in the near future.

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, total transmission and distribution expenditures. Lastly, all other costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment, and operations and maintenance expense.

Charges from the service companies of NGUSA, including but not limited to non-power goods and services, to the Company for the years ended December 31, 2017 and 2016 were $221.2 million and $302.5 million, respectively.