nationalgrid

Nantucket Electric Company

Financial Statements

For the years ended March 31, 2018 and 2017

NANTUCKET ELECTRIC COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Nantucket Electric Company

We have audited the accompanying financial statements of Nantucket Electric Company (the "Company"), which comprise the balance sheet and statement of capitalization as of March 31, 2018, and the related statements of income, comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nantucket Electric Company as of March 31, 2018, 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 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 August 25, 2017, expressed an unmodified opinion on those statements.

Deloitte & Touche LLP

August 27, 2018

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

	Years Ended March 31, 2018	Years Ended March 31, 2017
Operating revenues	**$ 21,982**	$ 30,595
Operating expenses:		
Purchased electricity	**1,094**	7,693
Operations and maintenance	**11,006**	12,161
Depreciation	**2,546**	3,619
Other taxes	**622**	617
Total operating expenses	**15,268**	24,090
Operating income	**6,714**	6,505
Other income and (deductions):		
Interest on long-term debt	**(702)**	(652)
Other interest, including affiliate interest	**(364)**	(171)
Other income, net	**1,070**	576
Total other income (deductions), net	**4**	(247)
Income before income taxes	**6,718**	6,258
Income tax expense	**2,406**	2,464
Net income	**$ 4,312**	$ 3,794

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

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

	Years Ended March 31,	
	2018	2017
Net income	**$ 4,312**	$ 3,794
Other comprehensive income, net of taxes:		
Unrealized gains on securities	**5**	18
Total other comprehensive income	**5**	18
Comprehensive income	**$ 4,317**	$ 3,812
Related tax (expense) benefit:		
Unrealized gains on securities	**$ (7)**	$ (12)
Total tax expense	**$ (7)**	$ (12)

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

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

	Years Ended March 31, 2018	2017
Operating activities:		
Net income	**$ 4,312**	$ 3,794
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**2,546**	3,619
Benefit from deferred income taxes	**(503)**	(960)
Bad debt expense	**(208)**	51
Amortization of debt discount and issuance costs	**120**	120
Net postretirement benefits (contributions) expense	**(3)**	106
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenues	**(169)**	156
Inventory	**21**	81
Regulatory assets and liabilities, net	**2,729**	3,055
Prepaid and accrued taxes	**406**	1,493
Accounts payable and other liabilities	**575**	154
Other, net	**(96)**	(70)
Net cash provided by operating activities	**9,730**	11,599
Investing activities:		
Capital expenditures	**(4,949)**	(3,354)
Intercompany money pool and affiliated receivables/payables, net	**(4,114)**	(9,796)
Cost of removal	**(433)**	(245)
Other	**(57)**	(37)
Net cash used in investing activities	**(9,553)**	(13,432)
Financing activities:		
Parent tax loss allocation	**-**	1,819
Other	**(46)**	(57)
Net cash (used in) provided by financing activities	**(46)**	1,762
Net increase (decrease) in cash and cash equivalents	**131**	(71)
Cash and cash equivalents, beginning of year	**40**	111
Cash and cash equivalents, end of year	**$ 171**	$ 40
Supplemental disclosures:		
Interest paid, net of interest received	**$ (429)**	(150)
Income taxes refunded (paid)	**2,543**	(1)
Significant non-cash items:		
Capital-related accruals	**65**	94
Parent tax loss allocation - previously recorded in financing	**1,478**	-

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

NANTUCKET ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 171**	$ 40
Accounts receivable	**2,349**	1,859
Allowance for doubtful accounts	**(129)**	(160)
Accounts receivable from affiliates	**14,610**	12,379
Intercompany money pool	**66,480**	60,335
Unbilled revenues	**941**	1,085
Inventory	**139**	160
Regulatory assets	**2**	366
Prepaid taxes	**68**	85
Other	**2**	13
Total current assets	**84,633**	76,162
Property, plant and equipment, net	**73,261**	70,426
Other non-current assets:		
Regulatory assets	**4,717**	4,763
Goodwill	**15,706**	15,706
Other	**1,113**	1,077
Total other non-current assets	**21,536**	21,546
Total assets	**$ 179,430**	$ 168,134

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

NANTUCKET ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2018		March 31, 2017	
LIABILITIES AND CAPITALIZATION				
Current liabilities:				
Accounts payable	**$**	**2,072**	$	1,715
Accounts payable to affiliates		**20,387**		16,125
Taxes accrued		**2,904**		3,993
Customer deposits		**149**		198
Interest accrued		**55**		22
Regulatory liabilities		**23,434**		21,216
Distributed generation study		**18**		8
Other		**606**		453
Total current liabilities		**49,625**		43,730
Other non-current liabilities:				
Regulatory liabilities		**5,261**		1,625
Asset retirement obligations		**7**		7
Deferred income tax liabilities, net		**4,101**		8,470
Postretirement benefits		**5,380**		5,110
Other		**2,169**		2,088
Total other non-current liabilities		**16,918**		17,300
Capitalization:				
Shareholder's equity		**62,346**		56,597
Long-term debt		**50,541**		50,507
Total capitalization		**112,887**		107,104
Total liabilities and capitalization	**$**	**179,430**	$	168,134

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

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

			March 31,	
			2018	2017
Total shareholder's equity			**$ 62,346**	$ 56,597
Long-term debt:	Interest Rate	Maturity Date		
2004 $10 million MIFA tax-exempt	Variable	March 1, 2039	**10,000**	10,000
2005 $28 million MIFA tax-exempt	Variable	December 1, 2040	**28,000**	28,000
2007 $13.3 million 1996 MDFA tax-exempt	Variable	August 1, 2042	**13,300**	13,300
Total debt			**51,300**	51,300
Unamortized debt discount			**(759)**	(793)
Long-term debt			**50,541**	50,507
Total capitalization			**$ 112,887**	$ 107,104

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

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

			Accumulated Other Comprehensive Income			
	Common Stock	Additional Paid-in Capital	Unrealized Gain on Available-For-Sale Securities	Total Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance as of March 31, 2016	$ -	$ 26,340	$ 83	$ 83	$ 24,600	$ 51,023
Net income	-	-	-	-	3,794	3,794
Other comprehensive loss:						
Unrealized gains on securities, net of $12 tax expense	-	-	18	18	-	18
Total comprehensive income						3,812
Parent tax loss allocation	-	1,819	-	-	-	1,819
Tax-sharing agreement allocation	-	-	-	-	(57)	(57)
Balance as of March 31, 2017		$ 28,159	$ 101	$ 101	$ 28,337	56,597
Net income	-	-	-	-	4,312	4,312
Other comprehensive loss:						
Unrealized gains on securities, net of $7 tax expense	-	-	5	5	-	5
Total comprehensive income						4,317
Parent tax loss allocation	-	1,478	-	-	(46)	1,432
Balance as of March 31, 2018	$ -	$ 29,637	$ 106	$ 106	$ 32,603	$ 62,346

The Company had 1,201 shares of common stock authorized, with 1 share issued and outstanding at a par value of $1 per share at March 31, 2018 and 2017.

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

NANTUCKET ELECTRIC COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nantucket Electric Company ("the Company") is a retail distribution company providing electric service to approximately 13,500 customers on the Island of Nantucket.

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

Pursuant to a settlement agreement associated with NGUSA's purchase of the Company in 1996, which was approved by the Massachusetts Department of Public Utilities ("DPU"), the Company is considered, along with its affiliate Massachusetts Electric Company ("Massachusetts Electric") as one regulated entity for the purpose of recovering its costs and establishing its rates assessed to its customers, with the exception of the recovery of the Company's investment in two undersea electric cables. In the recovery of certain regulatory assets, funding of the recovery is from the customers of both companies. However, the mechanism by which recovery is ultimately achieved is through a single regulatory asset recorded on the balance sheet of Massachusetts Electric. The Company's share of these costs and recoveries are reflected through a return on equity mechanism between the Company and Nantucket Electric, as discussed in Note 12, "Related Party Transactions."

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

The Company has evaluated subsequent events and transactions through August 27, 2018, 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, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC") and the DPU regulate the rates the Company charges its customers. In certain cases, the rate actions of the FERC and DPU can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. 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.

As approved by the DPU, the Company is allowed to pass through commodity-related costs to customers and also bills for approved rate adjustment mechanisms. In addition, the Company has an electric revenue decoupling mechanism ("RDM") which requires the Company to adjust its base rates annually to reflect the over or under recovery of the Company's targeted base distribution revenues from the prior fiscal year.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues).

Income Taxes

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

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

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

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience, and management's assessment of collectability from individual customers, as appropriate. The collectability of receivables is continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible. The Company recorded bad debt expense within operations and maintenance in the statements of income.

Inventory

Inventory is composed of materials and supplies as well as gas in storage. 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; there were no material write-offs of obsolete inventory for the years ended March 31, 2018 or 2017.

Fair Value Measurements

The Company measures available-for-sale securities 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 measured based on the fair value of the underlying investments but may not be readily redeemable at that fair value.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Property, Plant and Equipment

Property, plant and equipment is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of property, plant and equipment is capitalized. The capitalized cost of additions to property, plant and equipment includes costs such as direct material, labor and benefits, and an allowance for funds used during construction ("AFUDC").

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the FERC and DPU. The average composite rates for the years ended March 31, 2018 and 2017 are as follows:

	Electric	
	Years Ended March 31,	
	2018	2017
Composite rates	**3.1%**	4.6%

Depreciation expense includes a component for estimated future 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 had cumulative costs recovered in excess of costs incurred of $1.1 million at March 31, 2018 and 2017.

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. AFUDC equity is reported in the accompanying statements of income as non-cash income in other income net and AFUDC debt 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 base and corresponding depreciation expense.

Impairment of Long-Lived Assets

The Company tests the impairment of long-lived assets annually or 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 future 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, 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 ASU 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 one-step approach 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 considered not 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 allocated amount of goodwill.

The fair value of the Company was calculated in the annual goodwill impairment test for the year ended March 31, 2018 utilizing both income and market approaches. The Company uses a 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment of the goodwill carrying value was required at March 31, 2018 or 2017.

Available-For-Sale Securities

The Company provides certain executives with nonqualified retirement and deferred compensation benefits which have been partially secured through separate fund arrangements. As a result, the Company holds available-for-sale securities that include equities, municipal bonds, and corporate bonds. These investments are recorded at fair value and are included in other non-current assets on the balance sheet. Changes in the fair value of these assets are recorded within other comprehensive income.

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.

Employee Benefits

The Company participates with other subsidiaries in defined benefit pension plans and postretirement benefit other than pension ("PBOP") plans for its employees, administered by NGUSA. The Company recognizes its portion of the pension and PBOP plans' funded status on the balance sheet as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The pension and PBOP plans' assets are commingled and allocated to measure and record pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

Going Concern

Current U.S. GAAP guidance requires management to evaluate whether there is substantial doubt surrounding an entity's ability to continue as a going concern. If management concludes that substantial doubt exists additional disclosures relating to management's evaluation and conclusion are required. Management is not aware of any indicators giving rise to substantial doubt about the Company's ability to continue to operate and to meet its obligations as they become due.

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. The adoption of the guidance did not change the Company's methodology of measuring inventory.

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.

Goodwill

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which eliminates Step 2 from the goodwill impairment test. For the Company, the requirements of the new standard will be effective for the fiscal year ended March 31, 2022, with early adoption permitted. The Company early adopted the ASU in the year ended March 31, 2018 for its annual goodwill impairment testing. 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, 2018 or 2017.

Accounting Guidance Not Yet Adopted

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 March 31, 2019, and interim periods within the reporting period, with early adoption permitted. The implementation of the ASU will not have a material impact on the net income of the Company since the Company defers the difference between actual pension costs and the amounts used to establish rates (See Note 7, “Employee Benefits” for additional details).

Statement of Cash Flows

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)," which requires entities to show the changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents in the 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 standards will be effective for the fiscal year ended March 31, 2019, and interim periods therein, 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.

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 March 31, 2019, 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 March 31, 2022, and interim periods within, with early adoption permitted from the fiscal year ended March 31, 2020 and interim periods within. The Company is currently evaluating the impact of the new guidance on the presentation, results of its operations, cash flows, and financial position.

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 March 31, 2019, including interim periods therein, 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 (Accounting Standards Codification (“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 the results of its 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 March

31, 2020, 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 the results of its 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 March 31, 2019, and interim periods thereafter, with early adoption permitted for fiscal years or interim periods that have not yet been issued. The application of this guidance is not expected to have a material impact on the presentation, results of its 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. 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,	
	2018	2017
	(in thousands of dollars)	
Regulatory assets		
Current:		
Energy efficiency	**$ -**	$ 15
Rate adjustment mechanisms	**2**	351
Total	**2**	366
Non-current:		
Postretirement benefits	**4,713**	4,394
Regulatory deferred tax asset	**-**	365
Other	**4**	4
Total	**4,717**	4,763
Regulatory liabilities		
Current:		
Energy efficiency	**6,077**	5,902
Rate adjustment mechanisms	**16,188**	14,264
Other	**1,169**	1,050
Total	**23,434**	21,216
Non-current:		
Cost of removal	**1,125**	1,148
Regulatory tax liability, net	**3,499**	-
Second cable deferral	**500**	406
Other	**137**	71
Total	**5,261**	1,625
Net regulatory liabilities	**$ (23,976)**	$ (17,712)

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

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

Postretirement benefits: The regulatory asset represents the Company's deferral related to the underfunded status of its pension and PBOP plans.

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

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

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

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

4. RATE MATTERS

As described in Note 1, "Nature of Operations and Basis of Presentation," the Company and Massachusetts Electric are considered as one regulated entity for the purpose of recovering its costs and establishing its rates assessed to its customers. For certain regulatory assets and liabilities, including incremental storm costs of qualifying storm events, site investigation and remediation costs, solar generation costs, and any other costs incurred by the companies when taken as a single entity, the funding of the recovery or means of refund is from or to the customers of both companies, with a single regulatory asset or liability recorded on the balance sheet of Massachusetts Electric. As discussed in the "Related Party Reimbursement" section in Note 12, "Related Party Transactions," the Company's share of such costs and recoveries are reflected through the DPU-approved return on equity mechanism between the Company and Massachusetts Electric.

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

Rate Case Filing

In November 2015, the Company, together with its affiliate, Massachusetts Electric, filed an application for new base distribution rates to become effective October 1, 2016. The DPU approved an overall increase in base distribution revenue of approximately $170 million based upon a 9.9% return on equity and an overall capital structure of 50.69% equity, 49.22% long-term debt and 0.09% preferred stock. This increase in revenue includes capital and solar assets placed in service after the last rate case test year of December 2008 and previously recovered through separate factors. This rate settlement remains in effect.

Tax Cuts and Jobs Act

On March 15, 2018 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 2017. 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. This NOI will be used by the FERC to build a record on the tax issues affecting FERC-jurisdictional rates and will be used to determine whether additional action is needed.

The MA DPU issued an order opening an investigation docketed as DPU 18-15 to examine the effect of the Tax Act on the rates of the investor-owned utilities in Massachusetts. The DPU order explains that the statutory reduction in the federal corporate income tax rates pursuant to the Tax Act constitutes evidence that the rates being charged by each utility may no longer be just and reasonable as of January 1, 2018. To address this issue, the DPU has ordered each utility, as of January 1, 2018, to account for any revenues associated with the difference between the previous and current corporate income tax rates, and also establish a regulatory liability for excess recovery in rates of accumulated deferred income taxes resulting from the lower federal corporate income tax rate. The order requires utilities to file a plan for how it will refund these amounts by May 1, 2018, with an expectation that a rate reduction shall go into effect by July 1, 2018. To the extent that a utility seeks to implement any part of its rate adjustment, including the refund of excess deferred taxes, on a date later than

July 1, 2018, that party must demonstrate that customers will not be harmed by the proposal and that the proposal is otherwise in the public interest. The filing was submitted to the DPU on May 1, 2018. On June 29, 2018 , the MA DPU ordered rates to be reduced on July 1, 2018 to reflect the lower federal tax rates in the current approved rate plans, with all else held equal. The order deferred the decision on the flow back of excess deferred income taxes and the effect of the tax reduction, from the period of January 1, 2018 through June 30, 2018, to a future date.

Service Quality Performance

Nantucket Electric reported a service quality penalty of approximately $0.1 million for its calendar year 2017 performance on the System Average Interruption Duration Index (SAIDI) metric of the DPU's service quality guidelines. The Company's request for a waiver of the service quality guidelines which would eliminate this penalty is currently pending before the DPU. The Company cannot currently predict the outcome of the waiver request.

5. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2018	2017
	(in thousands of dollars)	
Plant and machinery	**$ 118,096**	$ 115,181
Land and buildings	**4,565**	4,531
Assets in construction	**2,847**	1,229
Total property, plant and equipment	**125,508**	120,941
Accumulated depreciation and amortization	**(52,247)**	(50,515)
Property, plant and equipment, net	**$ 73,261**	$ 70,426

6. FAIR VALUE MEASUREMENTS

The following tables present available-for-sale securities 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, 2018 and 2017:

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

	March 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Assets:				
Available-for-sale securities	$ 434	$ 569	$ -	$ 1,003

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).

Other Fair Value Measurements

The Company's balance sheet reflects long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at both March 31, 2018 and 2017 was $51.3 million.

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

7. EMPLOYEE BENEFITS

EMPLOYEE BENEFITS

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

Plan assets are maintained for all of NGUSA and its subsidiaries in commingled trusts. In respect of cost determination, plan assets are allocated to the Company based on the Company's proportionate share of the Plan's projected benefit obligation. The Plan's costs are first directly charged to the Company based on the Company's employees that participate in the 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 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 expense are included within operations and maintenance expense in the accompanying statements of income. Portions of the net periodic benefit costs disclosed below have been capitalized as a component of property, plant and equipment.

Pension Plans

The Pension Plan is a defined benefit plan which provides union employees, as well as non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. During the years ended March 31, 2018 and 2017, the Company made contributions of approximately $0.2 million in each year to the qualified pension plans. The Company expects to contribute approximately $0.2 million to the qualified pension plan during the year ending March 31, 2019.

Benefit payments to Pension Plan participants for the years ended March 31, 2018 and 2017 were approximately $0.2 million and $1.5 million, respectively.

PBOP Plans

The PBOP plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. During the years ended March 31, 2018 and 2017, the Company made no contributions to the PBOP Plans. The Company does not expect to contribute to the PBOP Plans during the year ending March 31, 2019.

Benefit payments to PBOP plan participants for the years ended March 31, 2018 and 2017 were approximately $0.2 million and $0.1 million, respectively.

Net Periodic Benefit Costs

The Company's net periodic benefit pension cost for the years ended March 31, 2018 and 2017 was $0.2 million and $0.3 million, respectively.

The Company's net periodic benefit PBOP cost for the years ended March 31, 2018 and 2017 was $0.2 million in each year.

Amounts Recognized in Regulatory Assets

The following tables summarize the Company's changes in actuarial gains/losses and prior service costs recognized in regulatory assets for the years ended March 31, 2018 and 2017:

	Pension Plans	
	Years Ended March 31,	
	2018	2017
	(in thousands of dollars)	
Net actuarial loss (gain)	**$ 148**	$ (569)
Amortization of net actuarial loss	**(178)**	(204)
Amortization of prior service cost, net	**(1)**	(1)
Total	**$ (31)**	$ (774)
Recognized in regulatory assets	**$ (31)**	$ (774)
Total	**$ (31)**	$ (774)

	PBOP Plans	
	Years Ended March 31,	
	2018	2017
	(in thousands of dollars)	
Net actuarial loss	**$ 412**	$ 217
Amortization of net actuarial loss	**(61)**	(76)
Amortization of prior service credit, net	**-**	3
Total	**$ 351**	$ 144
Recognized in regulatory assets	**$ 351**	$ 144
Total	**$ 351**	$ 144

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

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

	Pension Plans	
	March 31,	
	2018	2017
	(in thousands of dollars)	
Net actuarial loss	**$ 2,527**	$ 2,557
Prior service cost	**2**	3
Total	**$ 2,529**	$ 2,560
Recognized in regulatory assets	**$ 2,529**	$ 2,560
Total	**$ 2,529**	$ 2,560

	PBOP Plans	
	March 31,	
	2018	2017
	(in thousands of dollars)	
Net actuarial loss	**$ 1,340**	$ 989
Prior service cost	**1**	1
Total	**$ 1,341**	$ 990
Recognized in regulatory assets	**$ 1,341**	$ 990
Total	**$ 1,341**	$ 990

The amount of net actuarial loss and prior service cost to be amortized from regulatory assets during the year ending March 31, 2019 for the Pension Plans is $ 0.2 million and zero, respectively, and net actuarial loss and prior service benefit to be amortized from regulatory assets during the year ending March 31, 2019 for the PBOP Plans is $0.1 million and zero, respectively.

Amounts Recognized on the Balance Sheet

The following table summarizes the portion of the funded status that is recognized on the Company's balance sheet at March 31, 2018 and 2017:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2018	2017	**2018**	2017
	(in thousands of dollars)			
Projected benefit obligation	**$ (9,034)**	$ (8,423)	**$ (3,012)**	$ (2,606)
Fair value of plan assets	**6,452**	5,755	**(9)**	(26)
Total	**$ (2,582)**	$ (2,668)	**$ (3,021)**	$ (2,632)
Current liabilities	**$ (42)**	$ (42)	**$ (181)**	$ (148)
Other non-current liabilities	**(2,540)**	(2,626)	**(2,840)**	(2,484)
Total	**$ (2,582)**	$ (2,668)	**$ (3,021)**	$ (2,632)

Expected Benefit Payments

Based on current assumptions, the following benefit payments are expected subsequent to March 31, 2018 in respect of the Company:

(in thousands of dollars) Years Ended March 31,	Pension Plans	PBOP Plans
2019	$ 229	$ 110
2020	237	121
2021	244	118
2022	252	126
2023	262	131
2024-2028	1,438	864
Total	$ 2,662	$ 1,470

Assumptions Used for Employee Benefits Accounting

	Pension Plans	
	Years Ended March 31,	
	2018	2017
Benefit Obligations:		
Discount rate	**4.10%**	4.30%
Rate of compensation increase	**3.50%**	3.50%
Expected return on plan assets	**6.25%**	6.50%
Net Periodic Benefit Costs:		
Discount rate	**4.30%**	4.25%
Rate of compensation increase	**3.50%**	3.50%
Expected return on plan assets	**6.50%**	6.50%

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

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

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

Assumed Health Cost Trend Rate

	March 31,	
	2018	2017
Health care cost trend rate assumed for next year		
Pre 65	**7.50%**	7.00%
Post 65	**5.75%**	6.00%
Prescription	**10.25%**	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**	2025
Post 65	**2026**	2024
Prescription	**2027**	2025

Plan Assets

NGUSA, as the Plans' sponsor, manages the benefit plan investments to minimize the long-term cost of operating the Plans, with a reasonable level of risk. Risk tolerance is determined as a result of a periodic asset/liability study which analyzes the Plans' liabilities and funded status and results in the determination of the allocation of assets across equity and fixed income securities. 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. Small investments are also approved for 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 asset allocation study. Investment risk and return are reviewed by NGUSA's investment committee on a quarterly basis.

The Pension Plan is a trusted non-contributory defined benefit plan covering all eligible represented employees of the Company and eligible non-represented employees of the participating National Grid companies. The PBOP Plans are both a contributory and non-contributory, trusteed, employee life insurance and medical benefit plan sponsored by NGUSA. Life insurance and medical benefits are provided for eligible retirees, dependents, and surviving spouses of NGUSA.

The target asset allocations for the benefit plans as of March 31, 2018 and 2017 are as follows:

	Pension Plans		PBOP Union		PBOP Non-Union	
	March 31,		March 31,		March 31,	
	2018	2017	**2018**	2017	**2018**	2017
			(in thousands of dollars)			
US Equities	**20%**	20%	**34%**	34%	**45%**	45%
Global equities (including US)	**7%**	7%	**12%**	12%	**0%**	0%
Global tactical asset allocation	**10%**	10%	**17%**	17%	**0%**	0%
Non-US equities	**10%**	10%	**17%**	17%	**25%**	25%
Fixed income securities	**40%**	40%	**20%**	20%	**30%**	30%
Private equity	**5%**	5%	**0%**	0%	**0%**	0%
Real estate	**5%**	5%	**0%**	0%	**0%**	0%
Infrastructure	**3%**	3%	**0%**	0%	**0%**	0%
Total	**100%**	100%	**100%**	100%	**100%**	100%

Fair Value Measurements

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

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

	March 31, 2017				
	Level 1	Level 2	Level 3	Not Categorized	Total
	(in thousands of dollars)				
Pension assets					
Cash and cash equivalents	$ 1,319	$ 559	$ -	$ 32,822	$ 34,700
Accounts receivable	21,974	-	-	-	21,974
Accounts payable	(22,054)	-	-	-	(22,054)
Equity	317,258	-	-	594,349	911,607
Fixed income securities	-	599,858	-	205,392	805,250
Preferred securities	-	3,756	-	-	3,756
Private equity	-	-	-	131,865	131,865
Real estate	-	-	-	117,692	117,692
Other	350	-	-	102,857	103,207
Total	$ 318,847	$ 604,173	$ -	$ 1,184,977	$ 2,107,997
PBOP Assets					
Cash and cash equivalents	$ 11,203	$ -	$ -	$ 651	$ 11,854
Accounts receivable	1,526	-	-	-	1,526
Accounts payable	(3,483)	-	-	-	(3,483)
Equity	164,420	-	-	268,140	432,560
Fixed income securities	234	145,904	-	-	146,138
Other	13,177	-	-	74,922	88,099
Total	$ 187,077	$ 145,904	$ -	$ 343,713	$ 676,694

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 per fund share, derived from the underlying securities’ quoted prices in active markets, and they are excluded from the fair value hierarchy. Investments in commingled funds 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 per fund share, and are excluded from the fair value hierarchy. Investments in commingled funds with redemption restrictions and that use NAV 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 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.

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2018 and 2017, the Company recognized an expense in the accompanying statements of income of $39 thousand and $42 thousand, respectively, for matching contributions.

Other Benefits

At March 31, 2018 and 2017, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR") of $33 thousand and $35 thousand, 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.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table represents the changes in the Company's AOCI for the years ended March 31, 2018 and 2017:

		Unrealized Gain (Loss) on Available-For-Sale Securities
		(in thousands of dollars)
Balance as of March 31, 2016	$	83
Other comprehensive income before reclassifications:		
Gain on investment (net of $17 tax expense)		43
Amounts reclassified from other comprehensive income:		
Gain on investment (net of $5 tax benefit) (1)		(25)
Net current period other comprehensive income		18
Balance as of March 31, 2017	$	101
Other comprehensive income before reclassifications:		
Gain on investment (net of $21 tax benefit)		46
Amounts reclassified from other comprehensive income:		
Gain on investment (net of $28 tax expense) (1)		(41)
Net current period other comprehensive loss		5
Balance as of March 31, 2018	**$**	**106**

(1) Amounts are reported as other income, net in the accompanying statements of income.

9. CAPITALIZATION

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

(in thousands of dollars) Years Ending March 31,		
2019	$	-
2020		-
2021		-
2022		-
2023		-
Thereafter		51,300
Total	$	51,300

The Company's debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants such as restrictions on the level of indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the Company's debt and may restrict the Company's ability to draw upon its facilities or access the capital markets. During the years ended March 31, 2018 and 2017, the Company was in compliance with all such covenants.

Debt Authorizations

Since January 12, 2015, the Company had regulatory approval from the FERC to issue up to $15 million of short-term debt. The authorization was renewed and is effective for a period of two years that expires on January 10, 2019. The Company had no short-term debt outstanding as of March 31, 2018 and March 31, 2017.

Electric Revenue Bonds

At March 31, 2018, the Company had $51.3 million outstanding of Electric Revenue Bonds in the form of tax-exempt commercial paper with maturity dates ranging from 2039 through 2042. The debt is remarketed at periods of 1-270 days and had variable interest rates ranging from for 0.90% and 1.80% and from 0.45% and 1.10% for the years ended March 31, 2018 and 2017, respectively. The bonds were issued by the Massachusetts Development Finance Agency in connection with the Company's financing of its first and second underground and submarine cable projects.

The Company has a Standby Bond Purchase Agreement ("SBPA") of $51.3 million, which expires on November 20, 2019. The SBPA is available to provide liquidity support for $51.3 million of the Company's long-term bonds in the form of tax-exempt commercial paper. The Company has classified this debt as long-term due to its intent and ability to refinance the debt on a long-term basis if it is not able to remarket it. At March 31, 2018 and 2017, there were no bond purchases made by the banks participating in this agreement.

Massachusetts Electric unconditionally guarantees the full and prompt payment of the principal, premium, if any, and interest on the tax-exempt bonds issued by the Massachusetts Development Finance Agency in connection with the Company's financing of its first and second underground and submarine cable projects. Massachusetts Electric would be required to make any principal, premium, or interest payments if the Company failed to pay.

Dividend Restrictions

Pursuant to provisions in connection with the prior mergers, payment of dividends on common stock are not permitted if, after giving effect to such payment of dividends, common equity becomes less than 30% of total capitalization. At March 31, 2018 and March 31, 2017 common equity was 55% and 52% of total capitalization, respectively. Under these provisions, none of the Company's retained earnings at March 31, 2018 and March 31, 2017 were restricted as to common dividends.

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2018	2017
	(in thousands of dollars)	
Current tax expense:		
Federal	**$ 2,255**	$ 2,707
State	**654**	717
Total current tax expense	**2,909**	3,424
Deferred tax benefit:		
Federal	**(393)**	(754)
State	**(110)**	(206)
Total deferred tax benefit	**(503)**	(960)
Total income tax expense	**$ 2,406**	$ 2,464

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2018 and 2017 are 35.8% and 39.4%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 30.79% and 34%, respectively, to the actual tax expense:

	Years Ended March 31,	
	2018	2017
	(in thousands of dollars)	
Computed tax	**$ 2,068**	$ 2,128
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**377**	337
Adjustments related to prior year, federal and state	**-**	14
Other items, net	**(39)**	(15)
Total Changes	**338**	336
Total income tax expense	**$ 2,406**	$ 2,464

The Company is included in the NGNA and subsidiaries consolidated federal income tax return and Massachusetts unitary state income tax return. The Company has joint and several liability for any potential assessments against the consolidated group.

On December 22, 2017, the Tax Act was signed into law. The Tax Act includes significant changes to various federal tax provisions applicable to the Company, including provisions specific to regulated public utilities. The most significant changes include the reduction in the corporate federal income tax rate from 35% 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.

On August 3, 2018, the Internal Revenue Service and the US Department of Treasury released proposed regulations associated with the expanded depreciation rules under Section 168(k) enacted as part of the Tax Act. The Company is evaluating the potential impact of the proposed regulations and will include a potential adjustment to its financial statements in the next fiscal year when final regulations are issued.

In accordance with Accounting Standards Codification ("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, is a blended tax rate of 30.79%. In subsequent periods, the federal income tax rate will be 21%. 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%.

The Company recognized a decrease in its net deferred income tax liability in the amount of $2.8 million, with the offset recorded as a regulatory liability for the refund of excess deferred income taxes to the ratepayers.

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 FASB 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. 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 has been reflected in the March 31, 2018 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

	Years Ended March 31,	
	2018	2017
	(in thousands of dollars)	
Deferred tax assets:		
Future federal benefit on state taxes	**$ 220**	$ 516
Postretirement benefits and other employee benefits	**1,702**	2,404
Regulatory liabilities - taxes	**1,033**	-
Regulatory liabilities - other	**6,987**	9,318
Other items	**205**	253
Total deferred tax assets	**10,147**	12,491
Deferred tax liabilities:		
Property related differences	**12,826**	18,709
Regulatory assets - other	**-**	300
Regulatory assets - postretirement benefits	**1,367**	1,890
Other items	**55**	62
Total deferred tax liabilities	**14,248**	20,961
Deferred income tax liabilities, net	**$ 4,101**	$ 8,470

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 statements of income. As of both March 31, 2018 and 2017, the Company has accrued for interest related to unrecognized tax benefits of $0.3 million. During each of the years ended March 31, 2018 and 2017, the Company recorded interest expense of $0.1 million. No tax penalties were recognized during the years ended March 31, 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.

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 August 24, 2007, March 31, 2008 and March 31, 2009. The Company is not expecting to reach a settlement with the IRS in the next fiscal year. The Company does not believe that the outcome of the settlement will have a material impact on its results of operations, financial position, or cash flows. The IRS continues its examination of the next cycle which includes income tax returns for the years ended March 31, 2010 through March 31, 2012. The examination is not expected to conclude in the next fiscal year. The income tax returns for the years ended March 31, 2013 through March 31, 2018 remain subject to examination by the IRS.

The state of Massachusetts is in the process of examining the Company's income tax returns for the years ended March 31, 2010 through March 31, 2012. The income tax returns for the years ended March 31, 2013 through March 31, 2018 remain subject to examination by the state of Massachusetts.

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

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

11. COMMITMENTS AND CONTINGENCIES

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.

12. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

The Company records short-term receivables from, and payables to, certain of its affiliates in the ordinary course of business. The amounts receivable from, and payable to, its affiliates do not bear interest and are settled through the intercompany money pool. A summary of 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,**	
	2018	2017	**2018**	2017
	(in thousands of dollars)			
Massachusetts Electric Company	**$ -**	$ -	**$ 19,459**	$ 15,786
NGUSA Service Company	**14,430**	12,259	**499**	-
Other	**180**	120	**429**	339
Total	**$ 14,610**	$ 12,379	**$ 20,387**	$ 16,125

Advance from Affiliate

Since January 2015, the Company had FERC and board authorization to borrow up to $10 million from NGUSA as deemed necessary for working capital needs. The advance is non-interest bearing. At March 31, 2018 and 2017, respectively, 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 from 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 and accounts receivable from affiliates and accounts payable to affiliates balances are reflected as investing or financing activities in the accompanying statements of cash flows. In addition, 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 billion from National Grid plc for working capital needs including funding of the Regulated Money Pool, if necessary. The Company had short-term intercompany money pool investments of $66.5 million and $60.3 million at March 31, 2018 and March 31, 2017, respectively. The average interest rates for the intercompany money pool were 1.6% and 1.07% for the years ended March 31, 2018 and March 31, 2017, respectively.

Related Party Reimbursement

In accordance with the Credit and Operating Support Agreement dated March 26, 1996, Massachusetts Electric will reimburse the Company an amount equal to the difference between the Company's actual net income for the year and the net income necessary for the Company to earn its DPU approved Return on Equity ("ROE") for the fiscal year, currently 9.90%. This reimbursement shall constitute additional revenue to the Company and expense to Massachusetts Electric. To the extent the Company's actual ROE for the year exceeds its allowed ROE, there will be no reimbursement to Massachusetts Electric. For the years ended March 31, 2018 and 2017, Massachusetts Electric reimbursed the Company $5.6 million and $7.6 million, respectively, which is reflected in revenues and the intercompany balances on the accompanying financial statements.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, and total transmission and distribution expenditures. Lastly, all other costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment and operations and maintenance expense.

Charges from the service companies of NGUSA, including but not limited to non-power goods and services, to the Company for the years ended March 31, 2018 and 2017 were $4.3 million and $5.1 million, respectively.