nationalgrid

KeySpan Corporation and Subsidiaries

Consolidated Financial Statements

For the years ended March 31, 2017 and 2016

KEYSPAN CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

Independent Auditor's Report 3

Consolidated Statements of Income 4
Years Ended March 31, 2017 and 2016

Consolidated Statements of Comprehensive Income 5
Years Ended March 31, 2017 and 2016

Consolidated Statements of Cash Flows 6
Years Ended March 31, 2017 and 2016

Consolidated Balance Sheets 7
March 31, 2017 and 2016

Consolidated Statements of Capitalization 9
March 31, 2017 and 2016

Consolidated Statements of Changes in Shareholders' Equity 10
Years Ended March 31, 2017 and 2016

Notes to the Consolidated Financial Statements 11
- 1 - Nature of Operations and Basis of Presentation 11
- 2 - Summary of Significant Accounting Policies 12
- 3 - Regulatory Assets and Liabilities 23
- 4 - Rate Matters 25
- 5 - Property, Plant and Equipment 27
- 6 - Derivative Instruments 27
- 7 - Fair Value Measurements 30
- 8 - Employee Benefits 33
- 9 - Accumulated Other Comprehensive Income 41
- 10 - Capitalization 41
- 11 - Income Taxes 45
- 12 - Environmental Matters 49
- 13 - Commitments and Contingencies 51
- 14 - Related Party Transactions 54

Report of Independent Auditors

To the Board of Directors of
KeySpan Corporation

We have audited the accompanying consolidated financial statements of KeySpan Corporation and its subsidiaries, which comprise the consolidated balance sheets as of March 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, cash flows, capitalization, and changes in shareholder's equity for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KeySpan Corporation and its subsidiaries as of March 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 27, 2017

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KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in millions of dollars)

	Years Ended March 31,	
	2017	2016
Operating revenues:		
Gas distribution	**$ 3,759**	$ 3,469
Electric services	**480**	494
Other	**21**	25
Total operating revenues	**4,260**	3,988
Operating expenses:		
Purchased gas	**1,237**	1,019
Operations and maintenance	**1,514**	1,487
Depreciation	**402**	392
Other taxes	**609**	602
Total operating expenses	**3,762**	3,500
Operating income	**498**	488
Other income and (deductions):		
Interest on long-term debt	**(191)**	(178)
Other interest, including affiliate interest	**(41)**	(68)
Income from equity investments	**30**	34
Gain on sale of assets	**-**	76
Unrealized gains on investment in Dominion Midstream Partners, LP	**15**	53
Impairment charge	**(15)**	-
Other income, net	**66**	22
Total other deductions, net	**(136)**	(61)
Income before income taxes	**362**	427
Income tax expense	**133**	178
Income from continuing operations	**229**	249
Loss from discontinued operations, net of taxes	**(14)**	(14)
Net income	**$ 215**	$ 235

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions of dollars)

	Years Ended March 31,	
	2017	2016
Net income	**$ 215**	$ 235
Other comprehensive income (loss), net of taxes:		
Unrealized gains (losses) on securities	**1**	(1)
Change in pension and other postretirement obligations	**215**	36
Total other comprehensive income	**216**	35
Comprehensive income	**$ 431**	$ 270
Related tax (expense) benefit:		
Unrealized (gains) losses on securities	**(1)**	$ 1
Change in pension and other postretirement obligations	**(150)**	(25)
Total tax expense	**$ (151)**	$ (24)

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions of dollars)

	Years Ended March 31,	
	2017	2016
Operating activities:		
Net income	**$ 215**	$ 235
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**402**	392
Regulatory amortizations	**101**	108
Provision for deferred income taxes	**147**	96
Bad debt expense	**43**	65
Loss (income) from equity investments, net of dividends received	**16**	(9)
Gain on sale of assets	**-**	(76)
Unrealized gains on investment in Dominion Midstream Partners, LP	**(15)**	(53)
Impairment of non-operating assets	**15**	-
Allowance for equity funds used during construction	**(11)**	(2)
Net postretirement benefits (contributions) expense	**(213)**	13
Environmental remediation payments	**(71)**	(62)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**(211)**	351
Inventory	**43**	(28)
Regulatory assets and liabilities, net	**53**	(103)
Derivative instruments	**4**	1
Prepaid and accrued taxes	**(85)**	31
Accounts payable and other liabilities	**41**	(11)
Other, net	**(4)**	17
Net cash provided by operating activities	**470**	965
Investing activities:		
Capital expenditures	**(1,301)**	(1,136)
Affiliated regulated money pool investing and receivables/payables, net	**423**	(431)
Affiliated unregulated money pool investing and receivables/payables, net	**440**	(282)
Repayment of advances to affiliate	**44**	272
Cost of removal	**(98)**	(60)
Contributions in equity investments	**(50)**	(1)
Other	**(37)**	11
Net cash used in investing activities	**(579)**	(1,627)
Financing activities:		
Payments on long-term debt	**(938)**	(138)
Proceeds from long-term debt	**700**	1,221
Payment of debt issuance costs	**(3)**	-
Affiliated regulated money pool borrowing and receivables/payables, net	**227**	(460)
Affiliated unregulated money pool borrowing and receivables/payables, net	**72**	(16)
Parent loss tax allocation	**43**	43
Net cash provided by financing activities	**101**	650
Net decrease in cash and cash equivalents	**(8)**	(12)
Net cashflow from discontinued operations - operating	**11**	13
Cash and cash equivalents, beginning of year	**22**	21
Cash and cash equivalents, end of year	**$ 25**	$ 22
Supplemental disclosures:		
Interest paid	**$ (203)**	$ (185)
Income taxes (paid) refunded	**(5)**	17
Significant non-cash items:		
Capital-related accruals included in accounts payable	**93**	98

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions of dollars)

	March 31, 2017	March 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 25**	$ 22
Accounts receivable	**844**	770
Allowance for doubtful accounts	**(112)**	(130)
Accounts receivable from affiliates	**917**	937
Intercompany money pool	**1,391**	1,822
Advances to affiliates	**1,755**	1,799
Unbilled revenues	**265**	189
Inventory	**217**	246
Regulatory assets	**141**	157
Derivative instruments	**10**	6
Other	**155**	116
Total current assets	**5,608**	5,934
Equity investments	**155**	121
Property, plant and equipment, net	**11,685**	10,680
Other non-current assets:		
Regulatory assets	**2,713**	2,248
Goodwill	**3,766**	3,766
Derivative instruments	**-**	2
Loan to affiliate	**80**	80
Postretirement benefits asset	**13**	8
Financial investments	**415**	375
Other	**116**	102
Total other non-current assets	**7,103**	6,581
Total assets	**$ 24,551**	$ 23,316

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions of dollars)

	March 31,	
	2017	2016
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 467**	$ 428
Accounts payable to affiliates	**239**	227
Current portion of long-term debt	**26**	938
Taxes accrued	**31**	64
Interest accrued	**86**	65
Regulatory liabilities	**303**	236
Intercompany money pool	**2,712**	2,012
Derivative instruments	**8**	11
Other	**141**	141
Total current liabilities	**4,013**	4,122
Other non-current liabilities:		
Regulatory liabilities	**1,447**	1,472
Asset retirement obligations	**66**	63
Deferred income tax liabilities, net	**2,250**	1,887
Postretirement benefits	**1,101**	1,918
Environmental remediation costs	**1,421**	690
Derivative instruments	**10**	1
Other	**268**	336
Total other non-current liabilities	**6,563**	6,367
Commitments and contingencies (Note 13)		
Capitalization:		
Shareholders' equity	**9,862**	9,388
Long-term debt	**4,113**	3,439
Total capitalization	**13,975**	12,827
Total liabilities and capitalization	**$ 24,551**	$ 23,316

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(in millions of dollars)

	Interest Rate	Maturity Date	March 31, 2017	March 31, 2016
Total shareholders' equity			**$ 9,862**	$ 9,388
Long-term debt:				
Notes Payable[1]	2.74% - 9.75%	April 2016 - March 2046	**3,568**	3,378
Promissory Notes to National Grid North America Inc.	3.13% - 3.25%	June 2027 - April 2028	**209**	227
Gas Facilities Revenue Bonds	Variable	December 2020 - July 2026	**230**	230
Gas Facilities Revenue Bonds[2]	4.70% - 6.95%	April 2020 - July 2026	**-**	411
First Mortgage Bonds	6.90% - 8.80%	July 2022 - April 2028	**75**	75
State Authority Financing Bonds	Variable	December 2027 - October 2028	**66**	66
Total debt			**4,148**	4,387
Unamortized debt premium			**10**	11
Unamortized debt issuance costs			**(19)**	(21)
Current portion of long-term debt			**26**	938
Long-term debt			**4,113**	3,439
Total capitalization			**$ 13,975**	$ 12,827

[1] See Note 10, "Capitalization" under "Notes Payable" for additional details.

[2] During March 2016, The Brooklyn Union Gas Company issued Notice of Optional Redemption letters to the bond holders of the fixed interest rate gas facilities revenue bonds. The Brooklyn Union Gas Company fully repaid these bonds during April 2016 and hence these bonds are classified within current portion of long-term debt at March 31, 2016.

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in millions of dollars)

	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)			Retained Earnings	Total
		Unrealized Gain (Loss) on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Total Accumulated Other Comprehensive Income (Loss)		
Balance as of March 31, 2015	**$ 7,384**	**$ (14)**	**$ (511)**	**$ (525)**	**$ 2,216**	**$ 9,075**
Net income	-	-		-	235	235
Other comprehensive income (loss):						
Unrealized losses on securities, net of $1 tax benefit	-	(1)	-	(1)	-	(1)
Change in pension and other postretirement obligations, net of $25 tax expense	-	-	36	36	-	36
Total comprehensive income						270
Parent loss tax allocation	43	-	-	-	-	43
Balance as of March 31, 2016	**$ 7,427**	**$ (15)**	**$ (475)**	**$ (490)**	**$ 2,451**	**$ 9,388**
Net income	-	-		-	215	215
Other comprehensive income:						
Unrealized gains on securities, net of $1 tax expense	-	1	-	1	-	1
Change in pension and other postretirement obligations, net of $150 tax expense	-	-	215	215	-	215
Total comprehensive income						431
Parent loss tax allocation	43	-	-	-	-	43
Balance as of March 31, 2017	**$ 7,470**	**$ (14)**	**$ (260)**	**$ (274)**	**$ 2,666**	**$ 9,862**

The Company had 100 shares of common stock authorized, issued and outstanding, with a par value of $0.10 per share and 2 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $1 per share at March 31, 2017 and 2016.

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

KEYSPAN CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

KeySpan Corporation ("KeySpan" or "the Company") is a public utility holding company operating in New York City, Long Island, and Massachusetts. KeySpan 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.

KeySpan has two major lines of business, "Gas Distribution" and "Electric Services," and operates various energy services and investment companies.

Gas Distribution

The Company's Gas Distribution business consists of four gas distribution subsidiaries. The Brooklyn Union Gas Company ("Brooklyn Union") provides gas distribution services to customers in the New York City boroughs of Brooklyn, Queens, and Staten Island. KeySpan Gas East Corporation ("KeySpan Gas East") provides gas distribution services to customers in the Long Island Counties of Nassau and Suffolk, and the Rockaway Peninsula of Queens County, New York. Boston Gas Company ("Boston Gas") and Colonial Gas Company ("Colonial Gas") provide gas distribution services to customers in Massachusetts.

Electric Services

Genco provides energy services and supply capacity to and produce energy for the use of customers of the Long Island Power Authority ("LIPA") on Long Island, New York. The services provided to LIPA through the Power Supply Agreement ("PSA"), which was amended and restated for a maximum term of 15 years in May 2013, provide LIPA with electric generating capacity, energy conversion, and ancillary services from the Company's Long Island generating units.

Prior to December 31, 2013, the Company provided operation, maintenance and construction services, and significant administrative services relating to the Long Island electric transmission and distribution system owned by LIPA. These activities, primarily settlement of legacy contingencies, are reflected as discontinued operations in the accompanying consolidated financial statements for the years ended March 31, 2017 and 2016.

Energy Investments

The Company's Energy Investments business consists of development investments such as natural gas pipelines, as well as certain other domestic energy-related investments. The Company has a wholly-owned subsidiary, National Grid LNG LLC, which is engaged in the business of receiving, storing, and redelivering liquefied natural gas ("LNG") in liquid and gaseous states, through facilities located in Providence, Rhode Island.

The Company's consolidated financial statements also include a 26.25% interest in Millennium Pipeline Company LLC ("Millennium"), which is accounted for under the equity method of accounting.

On September 29, 2015, the Company contributed its 20.4% interest in Iroquois Gas Transmission System LP, which was accounted for under the equity method of accounting, to Dominion Midstream Partners, LP ("DM") in exchange for approximately 6.8 million common units (representing approximately a 9% interest) of DM. DM was formed to grow a portfolio of natural gas terminaling, processing, storage, and transportation assets. The transaction resulted in a gain on sale of assets of $74 million in the year ended March 31, 2016. The Company has elected the fair value option with respect to its investment in DM and as such, any changes in the fair value of these common units are recorded as unrealized gains

on investment in Dominion Midstream Partners, LP in the accompanying consolidated statements of income. The Company's investment in DM is included within financial investments on the consolidated balance sheet.

Grid NY LLC, a direct wholly-owned subsidiary, was formed on October 10, 2014 to own a 28.261% equity interest in New York Transco LLC ("NY Transco LLC"), a New York limited liability company, which was formed pursuant to the articles of organization filed on November 14, 2014 for the purpose of planning, construction, owning, operating, maintaining, and expanding transmission facilities in the state of New York. The Company has made multiple capital contributions since inception, totaling $31.5 million.

Through a wholly-owned subsidiary, the Company has an investment in Algonquin Gas Transmission LLC ("NGA"), which was formed along with other non-affiliated companies to expand the existing Algonquin Gas Transmission system in a project named Access Northeast. During 2016, a series of adverse regulatory decisions in New England created significant doubt regarding the future prospects of the project and created uncertainty of its economic success. As a result, in December 2016 the Company recorded an impairment charge of $15.3 million representing the full amount of its investment in the project. The Company will continue to consider alternative models and opportunities for utilizing the pipeline project.

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 income from equity investments in the accompanying consolidated statements of income.

The accompanying consolidated 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 as applicable. The consolidated financial statements reflect the ratemaking practices of the applicable regulatory authorities.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Non-controlling interests of majority-owned subsidiaries are calculated based upon the respective non-controlling interest ownership percentages. All intercompany transactions have been eliminated in consolidation.

Under its holding company structure, the Company has no independent operations or source of income of its own and conducts all of its operations through its subsidiaries. As a result, the Company depends on the earnings and cash flow of, and dividends or distributions from, its subsidiaries to provide the funds necessary to meet its debt and contractual obligations. Furthermore, a substantial portion of the Company's consolidated assets, earnings, and cash flow is derived from the operations of its regulated utility subsidiaries, whose legal authority to pay dividends or make other distributions to the Company is subject to regulation by state regulatory authorities.

The Company has evaluated subsequent events and transactions through September 27, 2017, 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 March 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.

Regulatory Accounting

The New York Public Service Commission ("NYPSC") and the Massachusetts Department of Public Utilities ("DPU") regulate the rates the Company's regulated subsidiaries charge their customers in the applicable states. In certain cases, the rate

actions of the NYPSC and DPU can result in accounting that differs from non-regulated companies. In these cases, the subsidiaries defer costs (as regulatory assets) or recognize 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 consolidated balance sheet consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

Gas *Distribution*

Revenues are recognized for gas distribution services provided on a monthly billing cycle basis. The Company's regulated gas subsidiaries record unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the accounting period.

With respect to base distribution rates, the state regulators have approved revenue decoupling mechanisms ("RDM"), which require the Company's regulated gas subsidiaries to adjust their base rates periodically to reflect the over or under recovery of allowed revenues per customer. Prior to January 1, 2017, the RDM of Brooklyn Union and KeySpan Gas East (the "New York Gas Companies") applied only to their firm residential heating sales and transportation customers. Under the new rate plan (as discussed in Note 4, "Rate Matters" under "Rate Case Filing") the RDM was expanded to include commercial and industrial customers. The RDM requires the New York Gas Companies to adjust its base rates annually to reflect the over or under recovery of the New York Gas Companies' allowed revenues per customer from the prior year (May-April).

The Company's regulated gas subsidiaries' tariff includes a cost of gas adjustment factor which requires a periodic reconciliation of recoverable gas costs, revenues, and other operating expenses. Any difference is deferred pending recovery from, or refund to, customers.

Electric Services

Electric 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 13, "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.

Other Taxes

The Company's subsidiaries collect taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2017 and 2016 were $51 million and $63 million, respectively.

The state of New York imposes on corporations a franchise tax that is computed as the higher of a tax based on income or a tax based on capital. To the extent the Company's New York state ("NYS") tax based on capital is in excess of the state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying consolidated financial statements. The Company was in an excess position this year.

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 current and deferred taxes based on the separate return method, modified by benefits-for-loss allocation pursuant to a tax sharing agreement between NGNA and its subsidiaries. To the extent that the consolidated return group settles cash differently than the amount reported as realized under the benefit-for-loss allocation, the difference is accounted for as either a capital contribution or as a distribution and is reflected within the accompanying consolidated statements of changes in stockholders' equity as parent loss tax allocation.

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.

Inventory

Inventory is comprised of materials and supplies, emission credits, and gas in storage.

Materials and supplies are stated at the lower of weighted average cost or market 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, 2017 or 2016.

Emission credits are comprised of sulfur dioxide, nitrogen oxide ("NOx"), and carbon dioxide credits. Emission credits are valued at the lower of weighted average cost or market and are held primarily for consumption or may be sold to third-party purchasers.

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

The Company had materials and supplies of $75 million and $84 million, emission credits of $37 million and $23 million, and gas in storage of $105 million and $139 million at March 31, 2017 and 2016, respectively.

Derivative Instruments

The Company uses derivative instruments (including option, purchase, and swap contracts) to manage commodity price risk. All derivative instruments are recorded on the consolidated balance sheet at their fair value. All commodity costs, including the impact of derivative instruments, are passed on to customers through the Company's gas cost adjustment

mechanisms. Therefore, gains or losses on the settlement of these contracts are initially deferred and then refunded to, or collected from, customers consistent with regulatory requirements.

The Company's accounting policy is to not offset fair value amounts recognized for derivative instruments and related cash collateral receivable or payable with the same counterparty under a master netting agreement, and to record and present the fair value of the derivative instrument on a gross basis, with related cash collateral recorded within restricted cash and special deposits on the consolidated balance sheet. There was no related cash collateral as of March 31, 2017 or 2016.

Natural Gas Long-Term Arrangements

Certain of the Company's subsidiaries enter into long-term gas contracts to procure commodity to serve its gas customers. Those contracts include Asset Management Agreements, Baseload, and Peaking gas contracts. The Company evaluates whether such agreements are derivative instruments or executory contracts and applies the appropriate accounting treatment.

Fair Value Measurements

The Company measures derivative instruments, available-for-sale securities, and financial assets for which it has elected the fair value option 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") for the regulated subsidiaries and capitalized interest for non-regulated projects.

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 state authorities. The average composite rates for the years ended March 31, 2017 and 2016 are as follows:

	Electric		**Gas**	
	Years Ended March 31,		**Years Ended March 31,**	
	2017	2016	**2017**	2016
Composite rates	**2.9%**	2.9%	**2.7%**	2.9%

Depreciation expense, for regulated subsidiaries, 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 $911 million and $908 million at March 31, 2017 and 2016, respectively.

Allowance for Funds Used During Construction

The regulated subsidiaries record AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the consolidated 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. The Company recorded AFUDC related to equity of $11 million and $2 million and AFUDC related to debt of $7 million and $3 million for the years ended March 31, 2017 and 2016, respectively. The average AFUDC rates for the years ended March 31, 2017 and 2016 were 3.6% and 1.3%, respectively.

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, 2017 and 2016, there were no impairment losses recognized for long-lived assets other than in relation to NGA as previously discussed in Note 1, "Nature of Operations and Basis of Presentation."

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 each of the Company's respective reporting units below its carrying amount. The Company tests its goodwill based upon two identified reporting units, aligned with its jurisdictional operational model. Goodwill is tested for impairment using a two-step approach. The first step compares the estimated fair value of each reporting unit 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, then a second step is performed to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The fair value of each reporting unit was calculated in the annual goodwill impairment test for the year ended March 31, 2017 utilizing both income and market approaches. Key assumptions in the income approach include the discount rate of 5.4% (2016: 5.0%) and the terminal growth rate of 2.0% (2016: 2.0%). The key assumption in the market approach is the EBITDA multiplier of 12 (2016: 10). The Company generally uses a 50% weighting for each valuation methodology, as it

believes that each methodology provides equally valuable information. In response to recently received rate orders in 2016, the fair values of the New York Gas Companies were calculated utilizing solely the income approach for the year ended March 31, 2017. The Company believes that due to the recent rate orders received from these companies' respective regulators, this approach provides the most reliable information. Based on the resulting fair values from the annual analyses, the relative headroom in the two reporting units ranged from 14% to 16%, and as a result the Company determined that no adjustment of the goodwill carrying value was required at March 31, 2017 or 2016.

Financial Investments

Financial investments are comprised of available-for-sale securities, the Company's investment in DM (as discussed in Note 1, "Nature of Operations and Basis of Presentation"), and funds designated for Supplemental Executive Retirement Plans.

The Company holds available-for-sale securities that include equities, municipal bonds, and corporate bonds. These investments are recorded at fair value. Changes in the fair value of these assets are recorded within other comprehensive income.

Both the Company's investment in DM and the available-for-sale are recorded at fair value and included in the tables in Note 7, "Fair Value Measurements."

The Company also has corporate assets representing funds designated for Supplemental Executive Retirement Plans. These funds are invested in corporate owned life insurance policies and available-for-sale securities primarily consisting of equity investments and investments in municipal and corporate bonds. The corporate owned life insurance investments are measured at cash surrender value, not recorded at fair value, with increases and decreases in the value of these assets recorded in the accompanying consolidated statements of income.

The following table presents the financial investments recorded on the consolidated balance sheet:

	March 31,	
	2017	2016
	(in millions of dollars)	
Available-for-sale securities	**$ 10**	$ 8
Dominion Midstream Partners, LP	**217**	202
Supplemental Executive Retirement Plans	**188**	165
Total	**$ 415**	$ 375

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 gas distribution and electric generation 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 consolidated balance sheet. These regulatory assets represent timing differences between the recognition of costs in accordance with U.S. GAAP and costs recovered through the rate-making process.

Employee Benefits

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

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2017

Presentation of Financial Statements – Balance Sheet Classification of Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, "Simplifying the Presentation of Debt Issuance Costs." The new guidance requires that debt issuance costs related to term loans, be presented in the balance sheets as a direct deduction from the carrying value of debt. The guidance was adopted and retrospectively applied as described in Note 10, "Capitalization."

Presentation of Financial Statements – Going Concern, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued amendments on reporting about an entity's ability to continue as a going concern in ASU 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205 - 40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The amendments provide guidance about management's responsibility 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, the amendments require additional disclosures relating to management's evaluation and conclusion. 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 fall due.

Accounting Guidance Not Yet Adopted

Pension and Postretirement Benefits

In March 2017, the FASB issued ASU 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, 2020, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on the presentation, results of its operations, cash flows, and financial position.

Goodwill

In January 2017, the FASB issued ASU 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, 2023, with early adoption permitted. The Company currently anticipates adopting the ASU in the year ended March 31, 2018.

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. For the Company, the requirements of the new standard will be effective for the fiscal year ended March 31, 2020, and interim periods thereafter, with early adoption permitted.

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 March 31, 2020, and interim periods thereafter, with early adoption permitted.

The Company is currently evaluating the impact of the new guidance on the presentation of its 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 March 31, 2020, and interim periods thereafter, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on the results of its operations, cash flows, and financial position.

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 thereafter, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on the results of its operations, cash flows, and financial position.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which changes the criteria for recognizing revenue from a contract with a customer. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers – Deferral of the Effective Date”, which effectively defers by one year the effective date of ASU 2014-09. The underlying principle of “Revenue from Contracts with Customers” 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.

Additionally, there were subsequent amendments to ASU 2014-09. In March 2016, the FASB issued ASU 2016-08, 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 2016-12, providing additional clarity on various aspects of Topic 606. 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.

The new revenue recognition guidance and related amendments must be adopted using either a full retrospective approach or a modified retrospective approach. For the Company, the new guidance is effective for the fiscal year ended March 31, 2019, and interim periods within the reporting period, with early adoption permitted.

The Company continues to assess the impacts this guidance may have on its results of its operations, cash flows and financial position. In performing this assessment the Company is utilizing an implementation team comprising both internal and external resources. The key areas of focus include but not limited to: reviewing the potential new disclosures regarding the nature, amount, timing and uncertainty of revenue and related cash flows; developing an implementation approach and process for complying with these new disclosures; and evaluating existing contracts and revenue streams for potential changes in the amounts and timing of recognizing revenues under the new guidance. While there continues to be ongoing activities in all these areas, the Company has preliminarily concluded that it expects to apply the new guidance using the modified retrospective method.

Leases

In February 2016, the FASB issued a new lease accounting standard, ASU 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, 2021, 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. The Company's leases are discussed in Note 13, "Commitments and Contingencies" under "Operating Lease Obligations."

Financial Instruments – Classification and Measurement

In January 2016, the FASB issued ASU 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, 2020, and interim periods thereafter, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on the results of its operations, cash flows, and financial position.

Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." The new guidance requires that inventory be measured at the lower of cost or net realizable value (other than inventory measured using "last-in, first out" and the "retail inventory method"). For the Company, the new guidance, which must be applied prospectively, is effective for the fiscal year ended March 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 since the Company's gas in storage is fully recoverable from customers and material and supplies inventory is stated at the lower of cost or market.

Consolidation

In February 2015, the FASB issued ASU 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 new guidance, which requires either modified retrospective or full retrospective basis application, is effective for the fiscal year ended March 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 Statement Revision

During 2017, management determined that certain transactions were not properly recorded in the Company's previously issued financial statements. The Company has corrected the errors by revising the prior period financial statements presented herein, the impacts of which are described below. The Company concluded that the errors were not material to the 2017 and 2016 financial statements. These adjustments are as follows:

Adjustments

During a review of the regulatory account balances of Brooklyn Union and KeySpan Gas East for fiscal year 2017, management determined it had over accrued a regulatory liability for interest related to under-funded pension and PBOP plans. A cumulative adjustment of $13.1 million (net of income taxes) was recorded, of which $12.5 million was recorded as an increase to opening retained earnings as of April 1, 2015. Additionally, an increase of $0.6 million was recorded to net income for the year ended March 31, 2016.

During fiscal year 2015, Boston Gas recorded an adjustment in accordance with a DPU order to recognize carrying charges on its PBOP liability balances. However, that adjustment was not properly reflected in regulatory deferral. The Company recorded a cumulative adjustment of $5.1 million (net of income taxes) to the PBOP regulatory account of which $2.1 million was recorded as a decrease to opening retained earnings as of April 1, 2015. Additionally, a decrease of $3.0 million was recorded to net income for the year ended March 31, 2016.

As described in Note 8 "Employee Benefits," certain pension costs and liabilities for the KeySpan pension and PBOP plans held by NGUSA are allocated to KeySpan through intercompany balances based upon an approved allocation formula. A portion of the allocated expense and employee benefits balances related to the unregulated operations of the Company is reflected in other comprehensive income and accumulated other comprehensive income. Management identified an error in accounting for these items which resulted in (i) an increase of $215 million and $165 million in accumulated other comprehensive income at March 31, 2016 and 2015, respectively, (ii) a decrease of $50 million in other comprehensive income for the year ended March 31, 2016, (iii) a $374 million decrease in accounts receivable from affiliates at March 31, 2016, and iv) a decrease in deferred tax liabilities of $151 million at March 31, 2016. The Company also corrected other non-current assets at March 31, 2016 by $8 million.

In addition, the Company has corrected other account balances that were improperly recorded. A cumulative adjustment of $0.7 million (net of income taxes) was recorded, of which $0.2 million was recorded as an increase to opening retained earnings as of April 1, 2015. Additionally, a decrease of $0.9 million was recorded to net income for the year ended March 31, 2016.

All of the above errors also impacted cash flow related to operating, investing, and financing activities by $84 million, $117 million, and $33 million, respectively for the year ended March 31, 2016.

Discontinued Operations Misclassifications

In connection with the preparation of the 2017 financial statements, management identified errors in certain amounts recorded within discontinued operations in the March 31, 2016 Consolidated Statement of Income. Approximately $4 million of expenses originally reported as discontinued operations should have been reflected within continuing operations along with a corresponding $2 million income tax benefit misclassification. There was also an $11 million error in cash flows from financing activities between continuing and discontinued operations, which when corrected increased cash flows for continuing operations from financing activities and decreased cash flows from for discontinued operations from financing activities by the same amount.

Presentation Reclassifications

In addition to the adjustment discussed above, certain reclassifications have been made to the consolidated balance sheet to conform prior year's data to the current year's presentation. The reclassifications are 1) the retrospective adoption of ASU 2015-03 (refer to Note 10, "Capitalization,") and 2) certain balances within current assets and liabilities relating to intercompany money pool and accounts receivable from affiliates and accounts payable to affiliates.

	As Previously Reported	Adjustments	Discontinued Operations Misclassifications	Presentation Reclassifications	As Revised
			(in millions of dollars)		
Consolidated Statement of Income	**March 2016**				**March 2016**
Total operating revenues	$ 3,987	$ 1	$ -	$ -	$ 3,988
Total operating expenses	3,497	3	-	-	3,500
Operating income	490	(2)	-	-	488
Total other deductions, net	(53)	(4)	(4)	-	(61)
Income before income taxes	437	(6)	(4)	-	427
Income tax expense	183	(3)	(2)	-	178
Income from continuing operations	254	(3)	(2)	-	249
Net loss from discontinued operations, net of taxes	(16)	-	2	-	(14)
Net income	238	(3)	-	-	235
Consolidated Statement of Comprehensive Income	**March 2016**				**March 2016**
Other comprehensive income	$ 85	$ (50)	$ -	$ -	$ 35
Comprehensive income	323	(53)	-	-	270
Consolidated Statement of Cash Flows	**March 2016**				**March 2016**
Net cash provided by operating activities	$ 1,049	$ (84)	$ -	$ -	$ 965
Net cash used in investing activities	(1,744)	117	-	-	(1,627)
Net cash provided by financing activities	672	(33)	11	-	650
Net cashflow from discontinued operations - financing	11	-	(11)	-	-

	As Previously Reported	Adjustments	Discontinued Operations Misclassifications	Presentation Reclassifications	As Revised
			(in millions of dollars)		
Consolidated Balance Sheet	**March 2016**				**March 2016**
Total current assets	$ 6,314	$ (380)	$ -	$ -	$ 5,934
Property, plant and equipment, net	10,682	(2)	-	-	10,680
Total other non-current assets	6,709	4	-	(11)	6,702
Total assets	23,705	(378)	-	(11)	23,316
Total current liabilities	4,144	-	-	(22)	4,122
Total other non-current liabilities	6,516	(170)	-	21	6,367
Long-term debt	3,449	-	-	(10)	3,439
Total liabilities and capitalization	23,705	(378)	-	(11)	23,316
Accumulated other comprehensive income (loss)					
March 31, 2016	(275)	(215)	-	-	(490)
March 31, 2015	(360)	(165)	-	-	(525)
Retained earnings					
March 31, 2016	2,444	7	-	-	2,451
March 31, 2015	2,206	10	-	-	2,216
Shareholders' equity					
March 31, 2016	9,596	(208)	-	-	9,388
March 31, 2015	9,230	(155)	-	-	9,075

3. REGULATORY ASSETS AND LIABILITIES

The Company records regulatory assets and liabilities that result from the ratemaking process. Regulatory deferrals are recorded by legal entity and separate company results and positions can result in both assets and liabilities. The following table presents the regulatory assets and regulatory liabilities recorded on the consolidated balance sheet:

	March 31,	
	2017	2016
	(in millions of dollars)	
Regulatory assets		
Current:		
Gas costs adjustment	**$ 114**	$ 119
Local distribution adjustment clause	**10**	1
Revenue decoupling mechanism	**2**	22
Other	**15**	15
Total	**141**	157
Non-current:		
Environmental response costs	**1,733**	1,105
Postretirement benefits	**348**	597
Recovery of acquisition premium	**184**	192
Temperature control/interruptible sharing	**153**	125
Other	**295**	229
Total	**2,713**	2,248
Regulatory liabilities		
Current:		
Energy efficiency	**42**	46
Gas costs adjustment	**61**	75
Profit sharing	**52**	54
Revenue decoupling mechanism	**134**	43
Other	**14**	18
Total	**303**	236
Non-current:		
Carrying charges	**129**	72
Cost of removal	**911**	908
Delivery rate adjustment	**128**	128
Environmental response costs	**11**	106
Excess earnings	**95**	95
Other	**173**	163
Total	**1,447**	1,472
Net regulatory assets	**$ 1,104**	$ 697

Carrying charges: The Company records carrying charges on regulatory balances (with the exception of cost of removal and environmental response costs), 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.

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.

Delivery rate adjustment: The NYPSC authorized a combined annual surcharge of $15.0 million for recovery of regulatory assets ("Delivery Rate Surcharge") in January 2008 and 2009, which increased incrementally by $5.0 million in rate years two through five for Brooklyn Union and by $10.0 million for KeySpan Gas East, respectively, and aggregating to a maximum of approximately $175.0 million over the term of a previous rate agreement, which capped at $127.9 million. The timing for disposition of any associated deferred balances will be determined by future PSC rulings.

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

Environmental response costs: The regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at former manufactured gas plant ("MGP") sites and related facilities. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates. The regulatory liability represents the excess of amounts received in rates over the Company's actual site investigation and remediation ("SIR") costs.

Excess earnings: At the end of each rate year (calendar year), the New York Gas Companies are required to provide the NYPSC with a computation of its return on common equity capital ("ROE"). Under the new rate plan commencing calendar year 2017, if the ROE in the rate year exceeds 9.5% the New York Gas Companies are required to defer a portion of the revenue equivalent associated with any over earnings for the benefit of customers. Previously, the threshold for earnings sharing was 9.4% and the sharing mechanism was calculated based upon a cumulative average ROE over rate years 2013 and 2014 with 80% of any excess earnings applied as a credit against the SIR deferral balance.

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

Local distribution adjustment clause: Boston Gas and Colonial Gas (the "Massachusetts Gas Companies") are required to adjust gas distribution rates semi-annually to recover or refund sundry costs, including energy efficiency expenditures, pension and PBOP costs, residential assistance costs, service quality penalties, and miscellaneous other amounts due to or from customers.

Postretirement benefits: Represents the excess costs of the Company's pension and PBOP plans over amounts received in rates that are to be recovered in future periods and the non-cash accrual of net actuarial gains and losses. Also included within this amount are certain pension deferral amounts recorded prior to the acquisition of KeySpan by NGUSA, which were recovered in rates over a ten year period that ended in August 2017.

Profit sharing: Represents a portion of deferred margins from off-system sale transactions. Under current rate orders, the Massachusetts Gas Companies are required to return 90% of margins earned from such optimization transactions to firm customers. The amounts deferred on the consolidated balance sheet will be refunded to customers over the next year.

Recovery of acquisition premium: Represents the unrecovered amount (plus related taxes) by which the purchase price paid exceeded the net book value of Colonial Gas' assets in the 1998 acquisition of Colonial Gas by Eastern Enterprises, Inc. In exchange for certain rate concessions and the achievement of certain merger savings targets, the DPU has allowed Colonial Gas to recover the acquisition premium through rates for the next 23 years (through August 2039).

Revenue decoupling mechanism: The Company has RDM as described in Note 2, "Summary of Significant Accounting Policies" under "Revenue Recognition." For the New York Gas Companies, as approved by the NYPSC, the RDM allows for annual adjustment to the New York Gas Companies' delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. For the Massachusetts Gas Companies, the DPU approved a RDM

which allows for seasonal (peak/off peak) adjustments to the Massachusetts Gas Companies' delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. Any difference between the allowed revenue per customer and the actual revenue per customer is recorded as a regulatory asset or regulatory liability.

Temperature control/interruptible ("TC/IT") sharing: For the New York Gas Companies, under the existing rate agreement, effective from January 1, 2017, the revenue requirement reflects certain levels of imputed TC/IT margins. Differences between the actual margins and imputed margins are fully credited or surcharged to the ratepayers. Under the previous rate agreement, differences between the actual margins and imputed margins were shared 90% by ratepayers and 10% by shareholders.

Other: The Company has several other regulatory deferrals including property taxes, rate mitigation, and capital tracker.

4. RATE MATTERS

The New York Gas Companies

Rate Case Filing

On January 29, 2016, the New York Gas Companies filed to adjust their base gas rates, to be effective from January 1, 2017. The filing requested to increase gas delivery base revenues. On September 7, 2016, the New York Gas Companies filed a Joint Proposal establishing a three year rate plan beginning January 1, 2017 and ending December 31, 2019. The NYPSC issued an order approving the Joint Proposal on December 15, 2016 and the new rates went into effect beginning January 1, 2017.

The rate plan provided for a revenue increase of $384.0 million in the first year, an additional $60.6 million in the second year, and an additional $75.9 million in the third year, for a cumulative three year increase of $1,349 million. In an effort to mitigate the potential bill impacts that the revenue increases would have on customers in the first year, the revenue increases will be levelized over the three year rate period. As such, for U.S. GAAP reporting, revenues are recognized equal to the amounts actually billed to customers during each period rather than per the provisions of the rate plan. The settlement is based upon a 9% return on equity and 48% common equity ratio and includes an earning sharing mechanism in which customers will share earnings in excess of 9.5%.

Key provisions of the settlement include funding for removal of a specific mileage of leak prone pipe ("LPP") in each rate year. Additionally, recovery of proactive LPP replacement costs incurred for repairs in excess of this mileage are permitted and recovered through the Gas Safety and Reliability Surcharge. This also includes a positive revenue adjustment mechanism for unit cost savings versus those specific in rates.

The New York Gas Companies have various capital tracker mechanisms that reconcile the New York Gas Companies' capital expenditures to the amounts permitted in rates. The Net Utility Plant and Depreciation Expense tracker is a downward only reconciliation that applies to the New York Gas Companies' aggregate total average net plant and depreciation expense combined. The reconciliation is summed at the end of Rate Year Three (December 31, 2019) to determine whether any underspend is owed to customers. Under the City/State Construction Reconciliation, the New York Gas Companies are authorized to defer 90% of the revenue requirement impact difference (excluding operations and maintenance expense) between actual and forecast city/state construction costs for future recovery from or return to customers.

The New York Gas Companies' RDM was adjusted to include revenue-per-class RDMs for industrial and commercial customers not previously subject to the RDM.

The New York Gas Companies' SIR expense has also been moved from a surcharge to base rates. For Brooklyn Union, beginning in January 2018, to the extent that the difference between actual SIR expense and the Forecast Rate Allowance exceeds $25 million on a cumulative basis, Brooklyn Union will utilize its SIR Recovery Surcharge. The surcharge is designed

to provide recovery for the differences between actual SIR expenses and the amounts allowed in rates and will be calculated annually and be limited to an amount no greater than 2% of Brooklyn Union's prior year aggregate revenues.

Operations Audit

In August 2013, the NYPSC initiated an operational audit using a third party to review the accuracy of the customer service, electric reliability, and gas safety data reported by the investor owned utilities operating in New York, including the New York Gas Companies. On December 19, 2013, the NYPSC selected a third party to conduct the audit, which commenced in February 2014. On April 20, 2016, the NYPSC released the third party audit report publicly and adopted the majority of recommendations in the report. The audit report found that the New York Gas Companies, in general, are meeting their obligations to supply self-reported data. The report contains recommendations to improve internal controls and allow for greater consistency in reporting among the New York utilities. The recommendations do not affect current rate case performance targets or mechanisms and may be considered for potential implementation in future rate plans. The New York Gas Companies filed their plan to implement the audit recommendations with the NYPSC on May 19, 2016. On March 10, 2017, the NYPSC issued an Order approving the New York Gas Companies' implementation plan without modification, with quarterly updates to be made to the NYPSC on the status of implementation. The New York Gas Companies filed their first implementation plan update on July 10, 2017.

Operations Staffing Audit

In January 2014, the NYPSC initiated an operational audit to review internal staffing levels and use of contractors for the core utility functions of the investor owned utilities operating in New York, including the New York Gas Companies. On June 26, 2014, the NYPSC selected a third party to conduct the audit. On February 21, 2017, the third party submitted its final report, which contained recommendations for all of National Grid's New York utilities designed to improve the staffing and workforce management processes. The report contained 26 recommendations for National Grid. The New York Gas Companies filed their implementation plan on March 23, 2017 and anticipate an order regarding the plan later this year.

The Massachusetts Gas Companies

General Rate Case

In November 2010, the DPU issued an order in the Massachusetts Gas Companies' 2010 rate case approving a revenue increase of $58 million based upon a 9.75% ROE and a 50% equity ratio. The Massachusetts Gas Companies filed two motions in response. These motions resulted in a final revenue increase of $65.3 million.

Gas System Enhancement Plan

The Gas System Enhancement Plan (''GSEP'') is a program designed to accelerate the replacement of the Massachusetts Gas Companies' existing infrastructure pursuant to the Massachusetts' 2014 Gas Leaks Act. The Massachusetts Gas Companies' plan is to replace all leak-prone infrastructure by 2022.

In calendar years 2015, 2016, and 2017, the DPU approved the Massachusetts Gas Companies' GSEP for calendar years 2015, 2016, and 2017, respectively, and the associated gas system enhancement adjustment factors ("GSEAFs"). The approved GSEAFs are designed to provide concurrent recovery of the revenue requirement associated with the Massachusetts Gas Companies' capital costs for the replacement of eligible leak prone pipe and ancillary equipment pursuant to Massachusetts' 2014 Gas Leaks Act. This program replaced the Targeted Infrastructure Replacement ("TIR") Program in 2015; however, recovery of the revenue requirement TIR Program investment will continue until recovery commences through new base distribution rates.

The approved GSEAFs are designed to recover from all firm sales and transportation customers a revenue requirement of approximately $58.3 million, $28.9 million, and $9.7 million for 2017, 2016, and 2015, respectively. For Boston Gas, approximately $5.5 million of the requested revenue requirement for 2017 exceeds the 1.5% revenue cap established in the GSEP legislation, so will be deferred from recovery until such time as Boston Gas has room under the GSEP revenue cap to

recover the deferred amount or in the next rate case that covers the period of investment. Additionally, on October 31, 2016, the DPU approved the Massachusetts Gas Companies' GSEP reconciliation filing for 2015, which reconciled the 2015 revenue requirement on 2015 actual GSEP capital investment with revenue billed through the GSEAFs, and proposed to credit customers $3.3 million as a result of this reconciliation effective November 1, 2016. The DPU approved the Massachusetts Gas Companies' filing and the associated Gas System Enhancement Reconciliation Adjustment Factors on October 31, 2016 but deemed approximately $18 million of project costs ineligible for the GSEP program due to the timing of the projects. These projects were subsequently included in the following TIR program filing submitted on May 1, 2017. The DPU order further directed the Massachusetts Gas Companies to reconcile the revenue requirement associated with approximately $18 million of project costs incurred in 2015 in its May 1, 2017 GSEP reconciliation filing. On October 31, 2017, the Massachusetts Gas Companies will submit their 2018 GSEP for calendar year 2018.

5. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2017	2016
	(in millions of dollars)	
Plant and machinery	**$ 11,247**	$ 10,345
Land and buildings	**807**	767
Assets in construction	**842**	629
Software and other intangibles	**285**	285
Total property, plant and equipment	**13,181**	12,026
Accumulated depreciation and amortization	**(1,496)**	(1,346)
Property, plant and equipment, net	**$ 11,685**	$ 10,680

6. DERIVATIVE INSTRUMENTS

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

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

Volumes

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

	March 31,	
	2017	2016
	(in thousands)	
Gas option contracts	**6,650**	12,250
Gas purchase contracts	**46,598**	38,371
Gas swap contracts	**51,509**	49,886
Total	**104,757**	100,507

Amounts Recognized on the Consolidated Balance Sheet

	Asset Derivatives			Liability Derivatives	
	March 31,			March 31,	
	2017	2016		**2017**	2016
	(in millions of dollars)			*(in millions of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	**$ 3**	$ 1	Gas purchase contracts	**$ 7**	$ 2
Gas swap contracts	**7**	5	Gas swap contracts	**1**	9
	10	6		**8**	11
Other non-current assets:			Other non-current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	**-**	2	Gas purchase contracts	**9**	-
	-	2	Gas swap contracts	**1**	1
Total	**$ 10**	$ 8		**10**	1
			Total	**$ 18**	$ 12

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying consolidated statements of income. All of the Company's derivative instruments are subject to rate recovery as of March 31, 2017 and 2016.

Credit and Collateral

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

The credit policy for commodity transactions is managed and monitored by the Finance Committee to National Grid plc's Board of Directors ("Finance Committee"), which is responsible for approving risk management policies and objectives for

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

The EPRMC monitors counterparty credit exposure and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduce its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support, and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties.

The Company's credit exposure for all commodity derivative instruments, applicable payables and receivables, and instruments that are subject to master netting agreements was a liability of $6.9 million and $8.8 million as of March 31, 2017 and 2016, respectively.

The aggregate fair value of the Company's commodity derivative instruments with credit-risk-related contingent features that were in a liability position at March 31, 2017 and 2016 was $0.7 million and $8.1 million, respectively. The Company had no collateral posted for these instruments at March 31, 2017 or 2016. If the Company's credit rating were to be downgraded by one or two levels, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post $1.3 million additional collateral to its counterparties at March 31, 2017.

Offsetting Information for Derivative Instruments Subject to Master Netting Arrangements

March 31, 2017
Gross Amounts Not Offset in the Consolidated Balance Sheets
(in millions of dollars)

	Gross amounts of recognized assets	Gross amounts offset in the Consolidated Balance Sheets	Net amounts of assets presented in the Consolidated Balance Sheets	Financial instruments	Cash collateral received	Net amount
ASSETS:	*A*	*B*	*C=A+B*	*Da*	*Db*	*E=C-D*
Derivative instruments						
Gas purchase contracts	$ 3	$ -	$ 3	$ -	$ -	$ 3
Gas swap contracts	7	-	7	-	-	7
Total	$ 10	$ -	$ 10	$ -	$ -	$ 10

	Gross amounts of recognized liabilities	Gross amounts offset in the Consolidated Balance Sheets	Net amounts of liabilities presented in the Consolidated Balance Sheets	Financial instruments	Cash collateral paid	Net amount
LIABILITIES:	*A*	*B*	*C=A+B*	*Da*	*Db*	*E=C-D*
Derivative instruments						
Gas purchase contracts	$ 16	$ -	$ 16	$ -	$ -	$ 16
Gas swap contracts	2	-	2	-	-	2
Total	$ 18	$ -	$ 18	$ -	$ -	$ 18

March 31, 2016
Gross Amounts Not Offset in the Consolidated Balance Sheets
(in millions of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of assets presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative instruments						
Gas purchase contracts	$ 3	$ -	$ 3	$ -	$ -	$ 3
Gas swap contracts	5	-	5	-	-	5
Total	$ 8	$ -	$ 8	$ -	$ -	$ 8

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of liabilities presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative instruments						
Gas purchase contracts	$ 2	$ -	$ 2	$ -	$ -	$ 2
Gas swap contracts	10	-	10	-	-	10
Total	$ 12	$ -	$ 12	$ -	$ -	$ 12

7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value on the consolidated balance sheet on a recurring basis and their level within the fair value hierarchy as of March 31, 2017 and 2016:

	March 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	(in millions of dollars)			
Assets:				
Derivative instruments				
Gas purchase contracts	$ -	$ -	$ 3	$ 3
Gas swap contracts	-	7	-	7
Investment in Dominion Midstream Partners, LP	217	-	-	217
Available-for-sale securities	9	1	-	10
Total	226	8	3	237
Liabilities:				
Derivative instruments				
Gas purchase contracts	-	10	6	16
Gas swap contracts	-	2	-	2
Total	-	12	6	18
Net assets (liabilities)	$ 226	$ (4)	$ (3)	$ 219

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
	(in millions of dollars)			
Assets:				
Derivative instruments				
Gas purchase contracts	$ -	$ -	$ 3	$ 3
Gas swap contracts	-	5	-	5
Investment in Dominion Midstream Partners, LP	-	202	-	202
Available-for-sale securities	6	2	-	8
Total	6	209	3	218
Liabilities:				
Derivative instruments				
Gas purchase contracts	-	-	2	2
Gas swap contracts	-	10	-	10
Total	-	10	2	12
Net assets	$ 6	$ 199	$ 1	$ 206

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

The Company's Level 3 fair value derivative instruments primarily consist of OTC gas option contracts and gas purchase contracts, which are valued based on internally-developed models. Industry-standard valuation techniques, such as the Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. A derivative is designated Level 3 when it is valued based on a forward curve that is internally developed, extrapolated or derived from market observable curves with correlation coefficients less than 95%, where optionality is present, or if non-economic assumptions are made. The internally developed forward curves have a high level of correlation with published curves and are reviewed by the middle office.

Available-for-sale securities: Available-for-sale securities are included in financial investments on the consolidated 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).

Investment in DM: As of March 31, 2016 the Company's investment in DM was valued based on Level 1 quoted market prices for DM common units, combined with a discount to the quoted market price, which was calculated using Level 2 inputs, to reflect restrictions on the transfer of the units and resulting lack of marketability. As of March 31, 2017 the restrictions on the transfer of the units are no longer in place and as such the Company's investment in DM was valued solely based on Level 1 quoted market prices for DM common units. Transfers are recognized at the end of each period, and as such the investment was transferred from Level 2 to Level 1 in the amount of $162 million.

Changes in Level 3 Derivative Instruments

	Years Ended March 31,	
	2017	2016
	(in millions of dollars)	
Balance as of the beginning of the year	**$ 1**	$ 22
Net losses included in regulatory assets and liabilities	**(16)**	(24)
Settlements	**12**	3
Balance as of the end of the year	**$ (3)**	$ 1

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers into or out of Level 3, during the years ended March 31, 2017 or 2016.

For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivative instruments valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility, and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. The forward curves used for financial reporting are developed and verified by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative instruments categorized in Level 2 and Level 3.

Quantitative Information About Level 3 Fair Value Measurements

The following tables provide information about the Company's Level 3 valuations:

Commodity	Level 3 Position	Fair Value as of March 31, 2017			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in millions of dollars)					
Gas	Purchase contracts	$ 2	$ (6)	$ (4)	Discounted Cash Flow	Forward Curve (A)	$1.67 - $10.89/dth
Gas	Cross commodity contracts	1	-	1	Discounted Cash Flow	Forward Curve	$23.32 - $238.00/dth
	Total	$ 3	$ (6)	$ (3)			

(A) Includes deals with valuation assumptions on gas supply.

Commodity	Level 3 Position	Fair Value as of March 31, 2016			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in millions of dollars)					
Gas	Purchase contracts	$ -	$ (2)	$ (2)	Discounted Cash Flow	Forward Curve (A)	$1.89/dth
Gas	Cross commodity contracts	3	-	3	Discounted Cash Flow	Forward Curve	$10.48 - $271.83/dth
	Total	$ 3	$ (2)	$ 1			

(A) Includes deals with valuation assumptions on gas supply.

The significant unobservable inputs listed above would have a direct impact on the fair values of the Level 3 instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of the Company's gas purchase derivative instruments are forward commodity prices, implied volatility, and valuation assumptions pertaining to peaking gas deals based on forward gas curves. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

Other Fair Value Measurements

The Company's consolidated balance sheets reflect 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 March 31, 2017 and 2016 was $4.6 billion and $5.0 billion, respectively.

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

8. EMPLOYEE BENEFITS

The Company sponsors several pension and PBOP Plans. In general, the Company calculates benefits under these plans based on age, years of service, and pay using March 31 as a measurement date. In addition, NGUSA also sponsors defined contribution plans for eligible employees.

Pension Plans

The Pension Plans are comprised of both qualified and non-qualified plans. The qualified pension plans provide substantially all union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. The qualified pension plans are a cash balance pension plan design in which pay-based credits are applied based on service time and interest credits are applied at rates set forth in the plan. For non-union employees, effective January 1, 2011, pay-based credits are based on a combination of service time and age. The non-qualified pension plans provide additional defined pension benefits to certain eligible executives. The Company funds the qualified plans by contributing at least the minimum amount required under Internal Revenue Service ("IRS") regulations. The Company expects to contribute $170.7 million to the qualified pension plans during the year ending March 31, 2018.

PBOP Plans

The Company's PBOP Plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. The Company funds these plans based on the requirements of the various regulatory jurisdictions in which it operates. The Company expects to contribute $82.0 million to the PBOP Plans during the year ending March 31, 2018.

Defined Contribution Plans

NGUSA has two defined contribution pension plans that cover substantially all employees. For the years ended March 31, 2017 and 2016, the Company recognized an expense in the accompanying statements of income of $6.7 million and $4.9 million, respectively.

Components of Net Periodic Benefit Costs

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2017	2016	**2017**	2016
	(in millions of dollars)			
Service cost	**$ 61**	$ 64	**$ 25**	$ 29
Interest cost	**193**	189	**74**	75
Expected return on plan assets	**(239)**	(231)	**(69)**	(61)
Amortization of prior service cost (credit), net	**3**	3	**(5)**	(5)
Amortization of net actuarial loss	**180**	165	**33**	36
Total cost	**$ 198**	$ 190	**$ 58**	$ 74

All of the Company's regulated subsidiaries have regulatory recovery of these costs and therefore have recorded related regulatory assets (liabilities) on the consolidated balance sheet. The Company records amounts for its unregulated subsidiaries within operations and maintenance expense in the accompanying consolidated statements of income.

Amounts Recognized in AOCI and Regulatory Assets

The following tables summarize other pre-tax changes in plan assets and benefit obligations recognized primarily in regulatory assets and accumulated other comprehensive income for the years ended March 31, 2017 and 2016:

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2017	2016	**2017**	2016
	(in millions of dollars)			
Net actuarial (gain) loss	**$ (128)**	$ 142	**$ (264)**	$ (13)
Prior service cost	**9**	-	**-**	-
Amortization of net actuarial gain	**(180)**	(165)	**(33)**	(36)
Amortization of prior service (cost) credit, net	**(3)**	(3)	**5**	5
Total	**$ (302)**	$ (26)	**$ (292)**	$ (44)
Included in regulatory assets	**$ (109)**	$ (5)	**$ (120)**	$ (4)
Included in AOCI	**(193)**	(21)	**(172)**	(40)
Total	**$ (302)**	$ (26)	**$ (292)**	$ (44)

The Company's regulated subsidiaries have regulatory recovery of these obligations and therefore amounts are included in regulatory assets on the consolidated balance sheet. Costs of non-regulated subsidiaries are recorded as part of AOCI on the consolidated balance sheet.

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

The following tables summarize the Company's amounts in regulatory assets and other comprehensive income on the balance sheet that have not yet been recognized as components of net actuarial loss at March 31, 2017, and 2016:

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2017	2016	**2017**	2016
	(in millions of dollars)			
Net actuarial loss	**$ 704**	$ 1,012	**$ (23)**	$ 274
Prior service cost (credit), net	**23**	17	**(14)**	(19)
Total	**$ 727**	$ 1,029	**$ (37)**	$ 255
Included in regulatory assets	**$ 261**	$ 370	**$ 2**	$ 122
Included in AOCI	**466**	659	**(39)**	133
Total	**$ 727**	$ 1,029	**$ (37)**	$ 255

The amount of expected net actuarial loss and prior service cost to be amortized from regulatory assets and AOCI during the year ending March 31, 2018 for the Pension Plans and PBOP Plans is $182.0 million and $(1.0) million, respectively.

Reconciliation of Funded Status to Amount Recognized

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2017	2016	**2017**	2016
	(in millions of dollars)			
Change in benefit obligation:				
Benefit obligation as of the beginning of the year	**$ (4,662)**	$ (4,723)	**$ (1,838)**	$ (1,906)
Service cost	**(61)**	(64)	**(24)**	(29)
Interest cost	**(193)**	(189)	**(74)**	(75)
Net actuarial gain (loss)	**35**	95	**212**	91
Benefits paid	**222**	219	**86**	88
Other	**(9)**	-	**(6)**	(7)
Benefit obligation as of the end of the year	**(4,668)**	(4,662)	**(1,644)**	(1,838)
Change in plan assets:				
Fair value of plan assets as of the beginning of the year	**3,683**	3,718	**891**	920
Actual return (loss) on plan assets	**332**	(6)	**121**	(17)
Company contributions	**215**	190	**276**	76
Benefits paid	**(222)**	(219)	**(86)**	(88)
Fair value of plan assets as of the end of the year	**4,008**	3,683	**1,202**	891
Funded status	**$ (660)**	$ (979)	**$ (442)**	$ (947)

The benefit obligation shown above is the projected benefit obligation ("PBO") for the Pension Plans and the accumulated benefit obligation ("ABO") for the PBOP Plans. The Company is required to reflect the funded status of its Pension Plans above in terms of the PBO, which is higher than the ABO, because the PBO includes the impact of expected future compensation increases on the pension obligation. The aggregate ABO balance for the Pension Plans was approximately $4.5 billion at March 31, 2017 and 2016.

Amounts Recognized on the Consolidated Balance Sheet

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2017	2016	**2017**	2016
	(in millions of dollars)			
Non-current assets	**$ -**	$ -	**$ 13**	$ 8
Current liabilities	**(12)**	(13)	**(2)**	(3)
Non-current liabilities	**(648)**	(966)	**(453)**	(952)
Total	**$ (660)**	$ (979)	**$ (442)**	$ (947)

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2017:

(in millions of dollars) Years Ending March 31,	Pension Benefits	PBOP Benefits
2018	$ 236	$ 71
2019	243	74
2020	250	77
2021	256	81
2022	263	84
Thereafter	1,386	450
Total	$ 2,634	$ 837

Assumptions Used for Employee Benefits Accounting

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2017	2016	**2017**	2016
Benefit Obligations:				
Discount rate	**4.30%**	4.25%	**4.30%**	4.25%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%
Expected return on plan assets	**6.50%**	6.50%	**6.50% - 6.75%**	6.25% - 6.75%
Net Periodic Benefit Costs:				
Discount rate	**4.25%**	4.10%	**4.25%**	4.10%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%
Expected return on plan assets	**6.50%**	6.25%	**6.25% - 6.75%**	6.25% - 6.75%

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

The expected rate of return for various passive asset classes is based both on analysis of historical rates of return and forward looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are

evaluated in connection with the setting of the long-term assumptions. A small premium is added for active management of both equity and fixed income securities. The rates of return for each asset class are then weighted in accordance with the actual asset allocation, resulting in a long-term return on asset rate for each plan.

Assumed Health Cost Trend Rate

	March 31,	
	2017	2016
Health care cost trend rate assumed for next year		
Pre 65	**7.00%**	7.50%
Post 65	**6.00%**	6.25%
Prescription	**10.25%**	11.00%
Rate to which the cost trend is assumed to decline (ultimate)	**4.50%**	4.50%
Year that rate reaches ultimate trend		
Pre 65	**2025**	2025
Post 65	**2024**	2024
Prescription	**2025**	2025

Sensitivity to Changes in Assumed Health Care Cost Trend Rates

(in millions of dollars)	**March 31, 2017**
1% point increase	
Total of service cost plus interest cost	$ 18
Postretirement benefit obligation	244
1% point decrease	
Total of service cost plus interest cost	(14)
Postretirement benefit obligation	(194)

Plan Assets

NGUSA 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, 2017 and 2016 are as follows:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2017	2016	**2017**	2016
U.S. equities	**20%**	20%	**40%**	40%
Global equities (including U.S.)	**7%**	7%	**6%**	6%
Global tactical asset allocation	**10%**	10%	**9%**	9%
Non-U.S. equities	**10%**	10%	**21%**	21%
Fixed income	**40%**	40%	**24%**	24%
Private equity	**5%**	5%	**-**	-
Real estate	**5%**	5%	**-**	-
Infrastructure	**3%**	3%	**-**	-
	100%	100%	**100%**	100%

Fair Value Measurements

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

	March 31, 2017				
	Level 1	Level 2	Level 3	Not Categorized	Total
	(in millions of dollars)				
Pension Assets:					
Cash and cash equivalents	**$ 2**	**$ 3**	**$ -**	**$ 59**	**$ 64**
Accounts receivable	**27**	**-**	**-**	**-**	**27**
Accounts payable	**(48)**	**-**	**-**	**-**	**(48)**
Equity	**593**	**-**	**-**	**1,149**	**1,742**
Global tactical asset allocation	**-**	**-**	**-**	**192**	**192**
Fixed income securities	**-**	**1,213**	**-**	**352**	**1,565**
Preferred securities	**-**	**8**	**-**	**-**	**8**
Private equity	**-**	**-**	**-**	**239**	**239**
Real estate	**-**	**-**	**-**	**219**	**219**
Total	**$ 574**	**$ 1,224**	**$ -**	**$ 2,210**	**$ 4,008**
PBOP Assets:					
Cash and cash equivalents	**$ 22**	**$ 1**	**$ -**	**$ -**	**$ 23**
Accounts receivable	**1**	**-**	**-**	**-**	**1**
Equity	**218**	**-**	**-**	**502**	**720**
Global tactical asset allocation	**34**	**-**	**-**	**77**	**111**
Fixed income securities	**4**	**205**	**-**	**133**	**342**
Private equity	**-**	**-**	**-**	**5**	**5**
Total	**$ 279**	**$ 206**	**$ -**	**$ 717**	**$ 1,202**

	March 31, 2016				
	Level 1	Level 2	Level 3	Not Categorized	Total
	(in millions of dollars)				
Pension Assets:					
Cash and cash equivalents	$ 7	$ 14	$ -	$ 66	$ 87
Accounts receivable	87	-	-	-	87
Accounts payable	(72)	-	-	-	(72)
Equity	501	167	-	915	1,583
Global tactical asset allocation	-	-	-	170	170
Fixed income securities	-	1,320	-	78	1,398
Preferred securities	-	8	-	-	8
Private equity	-	-	-	221	221
Real estate	-	-	-	201	201
Total	$ 523	$ 1,509	$ -	$ 1,651	$ 3,683
PBOP Assets:					
Cash and cash equivalents	$ 7	$ 13	$ -	$ -	$ 20
Accounts receivable	9	-	-	-	9
Accounts payable	(8)	-	-	-	(8)
Equity	114	35	-	354	503
Global tactical asset allocation	26	-	-	51	77
Fixed income securities	2	282	-	-	284
Private equity	-	-	-	6	6
Total	$ 150	$ 330	$ -	$ 411	$ 891

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 the Employee Benefit Temporary Investment Funds and JPMorgan Chase Bank Liquidity Funds are excluded from the fair value hierarchy. Such instruments are generally valued using a curve methodology that includes observable inputs such as money market rates for specific instruments, programs, currencies and maturity points obtained from a variety of market makers, reflective of current trading levels. The methodologies consider an instrument's days to final maturity to generate a yield based on the relevant curve for the instrument.

Accounts receivable and accounts payable: Accounts receivable and accounts payable are classified in the same category as the investments to which they relate. 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. Commingled 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.

Global tactical asset allocation: Assets held in global tactical asset allocation funds are managed by investment managers who use both top-down and bottom-up valuation methodologies to value asset classes, countries, industrial sectors, and individual securities in order to allocate and invest assets opportunistically. If the inputs used to measure a financial instrument fall within different levels of the fair value hierarchy within the commingled fund, the categorization is based on the lowest level input that is significant to the measurement of that financial instrument. Those which are open ended mutual funds with observable pricing are classified as Level 1. Investments with redemption restrictions and that use NAV are excluded from the fair value hierarchy.

Fixed income securities: Fixed income securities (which include corporate debt securities, municipal fixed income securities, U.S. Government and Government agency securities including government mortgage backed securities, index linked government bonds, and state and local bonds) convertible securities, and investments in securities lending collateral (which include repurchase agreements, asset backed securities, floating rate notes and time deposits) are valued with an institutional bid valuation. A bid valuation is an estimated price at which a dealer would pay for a security (typically in an institutional round lot). Oftentimes, these evaluations are based on proprietary models which pricing vendors establish for these purposes. In some cases there may be manual sources when primary vendors do not supply prices. Fixed income investments are primarily comprised of fixed income securities and fixed income commingled funds. The prices for direct investments in fixed income securities are generated on a daily basis. Prices generated from less active trading with wider bid ask prices are classified as Level 2 investments. Commingled 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, derived from the underlying securities' quoted prices in active markets, and are classified as Level 2 investments. 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.

Other Benefits

At March 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 $32.3 million and $52.8 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.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table represents the changes in the Company's AOCI for the years ended March 31, 2017 and 2016:

	Unrealized Gain on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Total
	(in millions of dollars)		
Balance as of March 31, 2015	$ (14)	$ (511)	$ (525)
Other comprehensive loss before reclassifications:			
Unrecognized net acturial loss (net of $27 tax benefit)	-	(38)	(38)
Loss on investment (net of $1 tax benefit)	(1)	-	(1)
Amounts reclassified from other comprehensive income:			
Amortization of prior service cost (net of $1 tax benefit)	-	(3)	(3)
Amortization of net actuarial loss (net of $53 tax expense) [1]	-	77	77
Net current period other comprehensive (loss) income	(1)	36	35
Balance as of March 31, 2016	$ (15)	$ (475)	$ (490)
Other comprehensive income before reclassifications:			
Unrecognized net acturial income (net of $96 tax expense)	-	138	138
Gain on investment (net of $1 tax expense)	1	-	1
Amounts reclassified from other comprehensive income:			
Amortization of prior service cost (net of $1 tax benefit)	-	(2)	(2)
Amortization of net actuarial loss (net of $55 tax expense) [1]	-	79	79
Net current period other comprehensive income	1	215	216
Balance as of March 31, 2017	**$ (14)**	**$ (260)**	**$ (274)**

[1] Amounts are reported as other deductions, net in the accompanying consolidated statements of income.

10. CAPITALIZATION

As a result of retrospective adoption of ASU 2015-03, relating to the balance sheet presentation of debt issuance costs, the Company adjusted its long-term debt and other non-current assets by $21 million as of March 31, 2016. Debt issuance costs were $19 million at March 31, 2017.

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

(in millions of dollars) Years Ending March 31,	
2018	$ 26
2019	38
2020	25
2021	148
2022	58
Thereafter	3,853
Total	$ 4,148

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. The Company’s subsidiaries also have restrictions on the payment of dividends which relate to their debt to equity ratios. During the years ended March 31, 2017 and 2016, the Company was in compliance with all such covenants.

Significant Debt Facilities

Debt Authorizations

Since January 12, 2015, the Company’s electric generation subsidiary, National Grid Generation (“Genco”) has regulatory approval from the FERC to issue up to $250 million of short-term debt internally or externally. The authorization was renewed and is effective for a period of two years that expires on January 10, 2019. The Company had no external short-term debt as of March 31, 2017 and March 31, 2016, respectively.

Notes Payable

In March 2016, Brooklyn Union issued $500 million of unsecured senior long-term debt at 3.407% with a maturity date of March 10, 2026 and $500 million of unsecured senior long-term debt at 4.504% with a maturity date of March 10, 2046.

In August 2016, KeySpan Gas East issued $700 million of unsecured senior long-term debt at 2.742% with a maturity date of August 15, 2026.

The following table represents the Company's note payables for the years ended March 31, 2017 and 2016:

	Interest Rate	Maturity Date	March 31, 2017	March 31, 2016
			(in millions of dollars)	
Brooklyn Union Unsecured Notes:				
Senior Note	5.60%	November 29, 2016	$ -	$ 400
Senior Note	3.41%	March 10, 2026	**500**	500
Senior Note	4.50%	March 10, 2046	**500**	500
Brooklyn Union Notes			**1,000**	1,400
KeySpan Gas East Unsecured Notes:				
Senior Note	5.60%	November 29, 2016	**-**	100
Senior Note	5.82%	April 1, 2041	**500**	500
Senior Note	2.74%	August 15, 2026	**700**	-
KeySpan Gas East Notes			**1,200**	600
Boston Gas Senior Note	4.49%	February 15, 2042	**500**	500
Boston Gas MTN				
MTN Series 1994 B	6.93%	April 1, 2016	**-**	10
MTN Series 1992 A	8.33%	July 10, 2017	**8**	8
MTN Series 1992 A	8.33%	July 10, 2018	**10**	10
MTN Series 1994 B	6.93%	January 15, 2019	**10**	10
MTN Series 1989 A	8.97%	December 15, 2019	**7**	7
MTN Series 1990 A	9.75%	December 1, 2020	**5**	5
MTN Series 1990 A	9.05%	September 1, 2021	**15**	15
MTN Series 1992 A	8.33%	July 5, 2022	**10**	10
MTN Series 1995 C	6.95%	December 1, 2023	**10**	10
MTN Series 1994 B	6.98%	January 15, 2024	**6**	6
MTN Series 1995 C	6.95%	December 1, 2024	**5**	5
MTN Series 1995 C	7.25%	October 1, 2025	**20**	20
MTN Series 1995 C	7.25%	October 1, 2025	**5**	5
Boston Gas Notes			**611**	621
Colonial Gas Unsecured Notes:				
Senior Note-Series A	3.30%	March 15, 2022	**25**	25
Senior Note-Series A	4.63%	March 15, 2042	**25**	25
Colonial Gas Notes			**50**	50
KeySpan Corp MTM	8.00%	November 15, 2030	**250**	250
KeySpan Corp Unsecured Notes:				
Senior Note	5.80%	April 1, 2035	**307**	307
Senior Note	5.88%	April 1, 2033	**150**	150
KeySpan Corp Notes			**707**	707
Total			**$ 3,568**	$ 3,378

Promissory Notes to National Grid North America Inc.

On November 20, 2015, Genco 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 $18 million. These intercompany loans are included in long-term debt on the consolidated balance sheet.

Gas Facilities Revenue Bonds

Brooklyn Union has outstanding tax-exempt Gas Facilities Revenue Bonds ("GFRB") issued through the New York State Energy Research and Development Authority ("NYSERDA"). At March 31, 2017, $230 million of variable, auction rate GFRB bonds were outstanding. At March 31 2016, $641 million of GFRB were outstanding of which $230 million were variable-rate, auction rate bonds. The interest rate on the various variable rate series is reset weekly and ranged from 0.51% to 2.45% during the year ended March 31, 2017 and 0.08% to 1.10% during the year ended March 31, 2016. The GFRB currently in auction rate mode are backed by bond insurance. These bonds cannot be put back to Brooklyn Union and, in the case of a failed auction, the resulting interest rate on the bonds would revert to the maximum auction rate which depends on the current appropriate, short-term benchmark rates and the senior unsecured rating of the Brooklyn Union's bonds. The effect of the failed auctions on interest on long-term debt was not material for the years ended March 31, 2017 or 2016.

During March 2016, Brooklyn Union issued Notice of Optional Redemption letters to the bond holders of the fixed interest rate gas facilities revenue bonds. Brooklyn Union fully repaid these bonds during April 2016 as follows:

	Interest Rate	Maturity Date	Amount
			(in millions of dollars)
Gas Facilities Revenues Bonds:			
1993A and 1993B	6.37%	April 1, 2020	$ 75
1996	5.50%	January 1, 2021	154
2005A	4.70%	February 1, 2024	82
1991A and 1991B	6.95%	July 1, 2026	100
Total			$ 411

First Mortgage Bonds

The assets of Colonial Gas are subject to liens and other charges and are provided as collateral over borrowings of $75 million, of non-callable First Mortgage Bonds ("FMB"). These FMB indentures include, among other provisions, limitations on the issuance of long-term debt.

State Authority Financing Bonds

Genco can issue tax-exempt bonds through the NYSERDA. At March 31, 2017 and 2016, $41 million of variable rate 1999 Series A Pollution Control Revenue Bonds due October 1, 2028 were outstanding. The interest rate on the various variable rate series ranged from 0.19% to 1.57% during the year ended March 31, 2017 and 0.04% to 1.30% during the year ended March 31, 2016.

At March 31, 2017 and 2016, Genco also has outstanding $25 million of variable rate 1997 Series A Electric Facilities Revenue Bonds due December 1, 2027. The interest rate on the various variable rate series is ranged from 0.53% to 1.10% during the year ended March 31, 2017 and 0.07% to 0.60% during the year ended March 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 March 31, 2017 and 2016, the Company was in compliance with this covenant.

Other Redemptions

The following table indicates the Company's redemptions for the year ended March 31, 2017, in addition to the Brooklyn Union Gas Facility Revenue Bonds redemptions:

	Interest Rate	Maturity Date	Amount (in millions of dollars)
Brooklyn Union Unsecured Notes:			
Senior Note	5.60%	November 29, 2016	$ 400
KeySpan Gas East Unsecured Notes:			
Senior Note	5.60%	November 29, 2016	100
Boston Gas MTN:			
MTN Series 1994 B	6.93%	April 1, 2016	10
Genco Promissory Notes:			
Promissory Notes to National Grid North America Inc.	3.13% - 3.25%	June 2027 - April 2028	18
Total			$ 528

Preferred Stock

In connection with the acquisition of KeySpan by NGUSA, each of the New York Gas Companies became subject to a requirement to issue a class of preferred stock, having one share (the "Golden Share") subordinate to any existing preferred stock. The holder of the Golden Share would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation, receivership, or similar proceeding without the consent of the holder of the Golden Shares. The NYPSC subsequently authorized the issuance of the Golden Share to a trustee, GSS Holdings, Inc. ("GSS"), who will hold the Golden Share subject to a Services and Indemnity Agreement requiring GSS to vote the Golden Share in the best interests of NYS. On July 8, 2011, the Company issued a total of 2 Golden Shares pertaining to the New York Gas Companies each with a par value of $1.

11. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2017	2016
	(in millions of dollars)	
Current tax expense (benefit):		
Federal	**$ 19**	$ 27
State	**(33)**	55
Total current tax expense (benefit)	**(14)**	82
Deferred tax expense (benefit):		
Federal	**88**	112
State	**60**	(15)
Total deferred tax expense (benefit)	**148**	97
Amortized investment tax credits [1]	**(1)**	(1)
Total deferred tax expense (benefit)	**147**	96
Total income tax expense	**$ 133**	$ 178

[1] Investment tax credits ("ITC") are being deferred and amortized over the depreciable life of the property giving rise to the credits.

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2017 and 2016 are 36.7% and 41.7% 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 March 31,	
	2017	2016
	(in millions of dollars)	
Computed tax	**$ 127**	$ 149
Change in computed taxes resulting from:		
Change in cash surrender value	**(8)**	-
State income tax, net of federal benefit	**17**	26
Other items, net	**(3)**	3
Total	**6**	29
Total income tax expense	**$ 133**	$ 178

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

In December 2015, the Protecting Americans from Tax Hikes Act of 2015 was signed into law. The act extended bonus depreciation for property acquired and placed in service during calendar years 2015 through 2019. The bonus depreciation percentage is 50% for property placed in service during calendar years 2015, 2016 and 2017 and phases down to 40% in 2018, and 30% in 2019. During the year ended March 31, 2017, the Company continued to claim bonus depreciation deduction on its Federal corporate income tax return.

On December 1, 2016 the Commissioner of the New York State Department of Taxation and Finance adopted a rule to increase the Metropolitan Transportation Authority surcharge from 28% to 28.3% effective for tax years beginning on or after January 1, 2017, and before January 1, 2018. The rate will remain the same in succeeding years unless otherwise adjusted. During the year ended March 31, 2017, there was no material change in the Company's deferred tax liability for this increase in rate.

Deferred Tax Components

	March 31,	
	2017	2016
	(in millions of dollars)	
Deferred tax assets:		
Environmental remediation costs	**$ 499**	$ 299
Future federal benefit on state taxes	**132**	95
Net operating losses	**669**	525
Postretirement benefits and other employee benefits	**245**	570
Regulatory liabilities	**311**	269
Other items	**153**	179
Total deferred tax assets [1]	**2,009**	1,937
Deferred tax liabilities:		
Property related differences	**2,867**	2,604
Regulatory assets - environmental response costs	**633**	475
Regulatory assets - other	**431**	468
Other items	**327**	275
Total deferred tax liabilities	**4,258**	3,822
Net deferred income tax liabilities	**2,249**	1,885
Deferred investment tax credits	**1**	2
Deferred income tax liabilities, net	**$ 2,250**	$ 1,887

(1) The Company established a valuation allowance for deferred tax assets related to expiring charitable contribution carryforwards in the amount of $2.4 million and $2.0 million as of March 31, 2017 and 2016, respectively.

Net Operating Losses

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

Expiration of net operating losses:	Federal	State of New York	New York City	State of Massachusetts
		(in millions of dollars)		
3/31/2029	$ 108	$ -	$ -	$ -
3/31/2030	42	-	-	-
3/31/2032	59	-	-	-
3/31/2033	352	-	-	-
3/31/2034	188	-	-	9
3/31/2035	293	1,322 [1]	278 [1]	1
3/31/2036	472	-	27	25
3/31/2037	521	80	28	4

(1) The amounts represent net operating losses that were incurred before the tax year ended March 31, 2015 that has been converted into a Prior Net Operating Loss Conversion subtraction that can be utilized beginning fiscal year 2017.

Unrecognized Tax Benefits

As of March 31, 2017 and 2016, the Company's unrecognized tax benefits totaled $339 million and $311 million, respectively, of which $53 million and $50 million, respectively, would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities on the consolidated balance sheet.

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

	Years Ended March 31,	
	2017	2016
	(in millions of dollars)	
Balance as of the beginning of the year	**$ 311**	$ 287
Gross increases - tax positions in prior periods	**8**	18
Gross decreases - tax positions in prior periods	**(2)**	(16)
Gross increases - current period tax positions	**23**	22
Settlements with tax authorities	**(1)**	-
Balance as of the end of the year	**$ 339**	$ 311

As of March 31, 2017 and 2016, the Company has accrued for interest related to unrecognized tax benefits of $69 million and $59 million, respectively. During the years ended March 31, 2017 and 2016, the Company recorded interest expense of $12 million and $32 million, respectively. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income, net in the accompanying consolidated statements of income. During the years ended March 31, 2017 and 2016, the Company recognized tax penalties in the amount of $0.3 million and $0.6 million, respectively.

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 the NGNA and subsidiaries' administrative appeal with the IRS related to the environmental deductions and write-off of certain receivables disputed in the examination cycles for the years ended August 24, 2007, March 31, 2008, and March 31, 2009. The Company is expecting to reach a settlement with the IRS in the next fiscal year. As of the day of this financial statement the range of the reasonably possible change to uncertain tax positions cannot be estimated. 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 expected to conclude in 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.

During the year, the state of New York concluded its examinations of Brooklyn Union and KeySpan Gas East's income tax returns for the years ended December 31, 2007 through March 31, 2008 and December 31, 2003 through March 31, 2008, respectively. Both companies have reached a settlement with the state of New York related to the transition property depreciation deduction. Pursuant to the settlement, Brooklyn Union received a refund of $3.7 million and KeySpan Gas East paid $1.3 million of tax and $1.5 million of interest.

During the year, the state of New York concluded its examination of National Grid Services Inc.'s income tax returns for the years ended March 31, 2009 through March 31, 2012. The settlement of this examination had no material impact on the Company's operations, financial position, or cash flows. As a result of the state audit settlement, the Company filed amended New York City income tax returns, which had no material impact on the Company's operations, financial position, or cash flows.

On May 15, 2017, the state of New York concluded its examination of Genco's income tax returns for the years ended March 31, 2009 through March 31, 2012. The Company has reached a settlement with the state of New York related to the disallowed pollution control credits. The settlement of this examination had no material impact on the Company's operations, financial position, or cash flows.

The state of New York is expected to conclude its examination of National Grid Development Holdings Inc.'s income tax returns for the years ended March 31, 2009, through March 31, 2012 in the next fiscal year. The settlement of this examination is expected to have no material impact on the Company's operations, financial position, or cash flows.

The state of New York is expected to conclude its examination of KeySpan Corporation and Subsidiaries' income tax returns for the years ended December 31, 2003 through March 31, 2008 in the next fiscal year. The Company is expecting to reach a settlement on most of the issues raised during the examination, including disallowance of interest deductions attributable to subsidiary capital. As of the day of this financial statement, the range of the reasonably possible changes to uncertain tax positions included in this examination and potential settlement amount cannot be estimated.

The state of New York is in the process of examining the Company's NYS income tax returns. The following table presents the subsidiaries and years currently under examination. The income tax returns for the subsequent years through March 31, 2017 remain subject to examination by the state of New York.

Companies	Years under examination
KeySpan Corporation and Subsidiaries	December 31, 2003 through March 31, 2008
National Grid Development Holdings Inc.	March 31, 2009 through March 31, 2012

The city of New York is in the process of examining the Company's New York City income tax returns. The following table presents the subsidiaries and years currently under examination. The income tax returns for the subsequent years through March 31, 2017 remain subject to examination by the city of New York.

Companies	Years under examination
KeySpan Corporation and Subsidiaries	December 31, 2003 through December 31, 2005
National Grid Services Inc.	March 31, 2012 through March 31, 2014

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, 2009
New York	December 31, 2003
New York City	December 31, 2003

12. ENVIRONMENTAL MATTERS

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

Air

Genco’s generating facilities are subject to increasingly stringent emissions limitations under current and anticipated future requirements of the United States Environmental Protection Agency (“EPA”) and the NYS Department of Environmental Conservation (“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. Genco’s previous investments in low NOx 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 Genco to achieve its prior emission reductions in a cost-effective manner. These investments include the installation of enhanced NOx controls and efficiency improvement projects at certain of Genco'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; a mechanism for recovery from LIPA of these investments has been established. Genco 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, Genco 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 Genco'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 engineering 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 $89.2 million. Costs associated with these capital improvements are reimbursable from LIPA under the PSA.

Land, Manufactured Gas Plants and Related Facilities

Utility Sites

During the year ended March 31, 2017, Brooklyn Union received new information concerning the remediation work required and additional contamination discovered at three of Brooklyn Union's largest sites (Gowanus Canal, Newtown Creek, and Fulton MGP), which resulted in Brooklyn Union increasing its environmental reserve by approximately $613.9 million. The estimate increases were the result of new information arising from a Preliminary Design and Phase 2 investigation report submitted to the EPA by the potentially responsible parties group as well as a Draft Order issued by the EPA requiring the Company to remediate under an active park. After recording an offsetting increase in regulatory assets relating to environmental remediation, there was no impact to the net assets of the Company.

In addition, the Company has identified other MGP sites and related facilities, which were owned or operated by the Company or its predecessors. These former sites, some of which are no longer owned by the Company, have been identified to the NYPSC and the DEC for inclusion on appropriate site inventories. Administrative Orders on Consent or Voluntary Cleanup Agreements have been executed with the DEC to address the investigation and remediation activities associated with certain sites. The Company is also aware of numerous former MGP sites and related facilities within the existing or former service territories of the Company in the Commonwealth of Massachusetts. Expenditures incurred for the years ended March 31, 2017 and 2016 were $67 million and $59 million, respectively.

In fiscal year 2016 and prior years the Company reflected environmental liabilities on a discounted basis using a 6.5% discount factor. In 2017 the EPA required the Company, to revise their site remediation plans which increased the cost, complexity and potential time horizon to meet the EPA standards. The revised remediation plans and requirements no longer make it feasible for the Company to realistically determine if the payments for these liabilities are fixed and determinable and subject to discounting at March 31, 2017. In 2017 the Company revised its estimate for environmental liabilities and eliminated the discount factor for amounts accrued prior to fiscal year 2017 which resulted in a $149 million increase in the liability and corresponding regulatory asset. This change in estimate had no material impact on the Company's results of operations or cash flows.

The Company estimated the remaining costs of environmental remediation activities at recoverable sites were $1,394 million and $664 million at March 31, 2017 and 2016, respectively. These costs are expected to be incurred over approximately 54 years. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions

encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

The Company has reflected a net regulatory asset of $1.7 billion and $1.0 billion on the consolidated balance sheet at March 31, 2017 and 2016, respectively.

Non-Utility Sites

The Company is aware of numerous non-utility sites for which it may have, or share, environmental remediation or ongoing maintenance responsibility. Expenditures incurred for the years ended March 31, 2017 and 2016 were $4 million and $3 million, respectively. In 2017 the Company revised its estimate for environmental liabilities which resulted in a $6 million increase in the liability. The Company estimated the remaining cost of the environmental remediation activities at non-utility sites were $27 million and $26 million at March 31, 2017 and 2016, respectively. The Company believes this to be a reasonable estimate of probable costs for known sites; however, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered.

The Company believes that in the aggregate, the accrued liability for all of the sites and related facilities identified above are reasonable estimates of the probable cost for the investigation and remediation of these sites and facilities. As circumstances warrant, the Company periodically re-evaluates the accrued liabilities associated with MGP sites and related facilities. The Company may be required to investigate and, if necessary, remediate each site previously noted, or other currently unknown former sites and related facility sites, the cost of which is not presently determinable.

The Company believes that its ongoing operations, and its approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws, and that the obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position since, as noted above, environmental expenditures incurred by the Company are generally recoverable from customers.

13. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company has various operating leases for buildings, office equipment, vehicles and power operating equipment utilized by both the Company and its affiliates. Additionally, a portion of the Company's affiliates' lease expense is allocated to the Company according to usage. Total rental expense for operating leases included in operations and maintenance expense in the accompanying consolidated statements of income was $79 million and $77 million for the years ended March 31, 2017 and 2016, respectively.

The future minimum lease payments for the years subsequent to March 31, 2017 are as follows:

(in millions of dollars) Years Ending March 31,	
2018	$ 74
2019	60
2020	33
2021	33
2022	33
Thereafter	149
Total	$ 382

Purchase Commitments

The Company's gas distribution subsidiaries have entered into various contracts for gas delivery, storage, and supply services. Certain of these contracts require payment of annual demand charges, which are recoverable from customers. The Company's gas distribution subsidiaries are liable for these payments regardless of the level of service required from third-parties. In addition, the Company has various capital commitments related to the construction of property, plant and equipment.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2017 are summarized in the table below:

(in millions of dollars) Years Ending March 31,	Gas Purchases	Capital Expenditures
2018	$ 770	$ 375
2019	664	47
2020	557	38
2021	461	55
2022	417	24
Thereafter	1,989	-
Total	$ 4,858	$ 539

Financial Guarantees

The Company has issued financial guarantees in the normal course of business, on behalf of its subsidiaries, to various third-party creditors. At March 31, 2017, the following amounts would have to be paid by the Company in the event of non-payment by the primary obligor at the time payment is due:

Guarantees for Subsidiaries:		Amount of Exposure *(in millions of dollars)*	Expiration Dates
Surety Bonds	(i)	$ 84	Revolving
Commodity Guarantees and Other	(ii)	32	August 2025 - June 2032
Letters of Credit	(iii)	45	May 2017 - December 2018
NY Transco Parent Guaranty	(iv)	842	None
National Grid Algonqin LLC	(v)	103	December 2021
		$ 1,106	

The following is a description of the Company's outstanding subsidiary guarantees:

(i) The Company has agreed to indemnify the issuers of various surety bonds associated with various construction requirements or projects of its subsidiaries. In the event that the Company or its subsidiaries fail to perform their obligations under contracts, the injured party may demand that the surety make payments or provide services under the bond. The Company would then be obligated to reimburse the surety for any expenses or cash outlays it incurs.

(ii) The Company has guaranteed commodity-related and operational payments for certain subsidiaries. These guarantees are provided to third-parties to facilitate physical and financial transactions supporting the purchase and transportation of natural gas, oil and other petroleum products for gas and electric production and financing activities. The guarantees cover actual transactions by these subsidiaries that are still outstanding as of March 31, 2017.

(iii) The Company has arranged for stand-by letters of credit to be issued to third-parties that have extended credit to certain subsidiaries. Certain vendors require the posting of letters of credit to guarantee subsidiary performance under the Company's contracts and to ensure payment to the Company's subsidiary subcontractors and vendors under those contracts. Certain of the Company's vendors also require letters of credit to ensure reimbursement for amounts they are disbursing on behalf of the Company's subsidiaries, such as to beneficiaries under the Company's self-funded insurance programs. Such letters of credit are generally issued by a bank or similar financial institution. The letters of credit commit the issuer to pay specified amounts to the holder of the letter of credit if the holder demonstrates that the Company has failed to perform specified actions. If this were to occur, the Company would be required to reimburse the issuer of the letter of credit.

(iv) The Company has entered into a Parent Guaranty (the "Guaranty") dated November 14, 2014 for the benefit of NY Transco LLC, which Guaranty irrevocably and unconditionally guarantees all of Grid NY LLC's payment obligations under the New York Transco Limited Liability Company Agreement ("NY Transco LLC Agreement") dated November 14, 2014 entered into by and among Consolidated Edison Transmission, LLC, Grid NY LLC, Iberdrola USA Networks, NY Transco, LLC and Central Hudson Electric Transmission LLC. Grid NY LLC's payment obligations relate to, but are not limited to, funding project development of the initial projects, obtaining initial regulatory approvals and making capital contributions as set forth in the NY Transco LLC Agreement.

(v) In connection with NGUSA's investment in the Access Northeast natural gas pipeline project, the Company has entered into a guarantee of the required capital contributions of NGA, an indirect wholly-owned subsidiary of the Company. The guarantee agreement, which is dated September 14, 2015, commits the Company to serve as a guarantor for up to $103 million of the capital contributions of NGA from the time of the effective date of the guarantee agreement through the earlier of (i) December 31, 2021, or (ii) the time at which NGA's capital commitments have been fully discharged.

As of the date of this report, the Company has not had a claim made against it for any of the above guarantees and has no reason to believe that the Company's subsidiaries or former subsidiaries will default on their current obligations. However, the Company cannot predict when, or if, any defaults may take place or the impact any such defaults may have on its consolidated results of operations, financial position, or cash flows.

The Company has guaranteed all payment and performance obligations of a former subsidiary, KeySpan Ravenswood LLC, associated with a merchant electric generating facility leased by that subsidiary under a sale/leaseback agreement. The subsidiary and the facility were sold in 2008 to TransCanada. However, the original lease remains in place and NGUSA continues to make payments under the lease through 2040. In the event that the Company is required to perform under the terms of the guaranty, it has the ability to recover any amounts paid under the terms of an offsetting guaranty that TransCanada provided in favor of the Company.

Legal Matters

The Company is subject to various legal proceedings, primarily injury claims, 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.

In fiscal year 2017, the Massachusetts Gas Companies reported to the DPU and the Massachusetts attorney general's office that they erroneously charged reconnection fees to certain customers. These amounts have been refunded or are in the process of being refunded to customers. Additionally, the Massachusetts attorney general's office indicated a potential penalty related to this matter, which is expected to be resolved in fiscal year 2018. As of March 31, 2017, the Massachusetts Gas Companies have recorded a liability for the balance of fees to be refunded to customers as well as a reserve for the penalty based on the best estimate of the settlement amount.

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 Genco'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 Genco. On February 14, 2017, Genco received a decision denying its motion for leave to appeal on the case. The judgment amount of approximately $7.9 million, inclusive of NYS judgment rate interest, was remitted to the plaintiff on February 17, 2017. Genco's cost and expenses related to asbestos litigation are subject to reimbursement pursuant to the PSA.

Electric Services and LIPA Agreements

On December 15, 2011, LIPA announced that it was not renewing the Management Service Agreement beyond its expiration on December 31, 2013. Activity in fiscal year 2016 and 2017 primarily relates to charges of certain contingencies, net of income taxes.

Effective May 28, 2013, Genco provides services to LIPA under an amended and restated ("A&R") PSA. Under the A&R PSA, Genco has a return on equity of 9.75% and a capital structure of 50% debt and 50% equity. Genco's annual revenue requirement for the year ended December 31, 2016 was $463.9 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. Genco accounts for the A&R PSA as an operating lease.

The A&R PSA provides potential penalties to Genco 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. Genco must, therefore, operate its generating facilities in a manner such that Genco can remain competitive with other producers of energy. To date, Genco 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 94% 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 procured by LIPA.

14. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

The Company engages in various transactions with NGUSA and its subsidiaries, primarily NGUSA Service Company. Certain activities and costs, primarily executive and administrative and some human resources, legal, and strategic planning, are

shared between the Company and NGUSA. At March 31, 2017 and 2016, the Company had net receivable balances from NGUSA subsidiaries of $678 million and $710 million, respectively.

Advances to Affiliate

In January 2008, the Company and NGUSA entered into an agreement whereby either party can borrow up to $2.5 billion from time to time for working capital needs. These advances do not bear interest. At March 31, 2017 and 2016, the Company had outstanding advances to affiliate of $1.8 billion.

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the Regulated and Unregulated Money Pools. The Company, and each of its subsidiaries, as a participant in both Money Pools, can both borrow and invest funds. Borrowings from the Regulated and Unregulated Money Pools bear interest in accordance with the terms of the applicable money pool agreement. All changes in the intercompany money pool balances and accounts receivable from affiliates and accounts payable to affiliates balances are reflected as investing or financing activities on an individual company basis 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 Regulated and Unregulated Money Pools are funded by operating funds from participants in the applicable pool. 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 Money Pools, if necessary. The average interest rates for the intercompany money pool were 1.1% and 0.7% for the years ended March 31, 2017 and 2016, respectively.

The following table provides information about the Company's Regulated and Unregulated Money Pools:

	March 31	
	2017	2016
	(in millions of dollars)	
Assets:		
Regulated Money Pool	**$ 207**	$ 645
Unregulated Money Pool	**1,184**	1,177
Total	**$ 1,391**	$ 1,822
Liabilities:		
Regulated Money Pool	**$ 920**	$ 711
Unregulated Money Pool	**1,792**	1,301
Total	**$ 2,712**	$ 2,012

Loan to Affiliate

In December 2009, the Company and an affiliate of NGUSA entered into a loan agreement whereby the Company loaned the affiliate $80 million at an interest rate of 5.8%, due April 2035. The loan was issued for the purpose of the Company providing an investment in information systems technology which is being utilized by the Company and its subsidiaries. At March 31, 2017 and 2016, the outstanding balance on this loan was $80 million.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the United Kingdom) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S.

subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected in these consolidated financial statements. The estimated effect on net income before income tax would be $14.9 million and $11.3 million for the years ended March 31, 2017 and 2016, respectively, if these amounts were allocated to the Company.