nationalgrid

Boston Gas Company

Financial Statements

For the years ended March 31, 2021, 2020, and 2019

BOSTON GAS COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Boston Gas Company

We have audited the accompanying financial statements of Boston Gas Company (the "Company"), which comprise the balance sheets and statements of capitalization as of March 31, 2021 and 2020 and the related statements of operations, cash flows, and changes in shareholder's equity for each of the three years in the period ended March 31, 2021, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boston Gas Company as of March 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

August 10, 2021

BOSTON GAS COMPANY
STATEMENTS OF OPERATIONS
(in thousands of dollars)

	Years Ended March 31,		
	2021	2020	2019
Operating revenues	**$ 1,544,108**	$ 1,557,470	$ 1,652,451
Operating expenses:			
Purchased gas	**497,750**	541,537	629,619
Operations and maintenance	**512,940**	531,734	907,946
Depreciation	**209,926**	192,993	191,128
Amortization of acquisition premium	**8,200**	8,200	8,200
Other taxes	**90,071**	80,213	77,060
Total operating expenses	**1,318,887**	1,354,677	1,813,953
Operating income (loss)	**225,221**	202,793	(161,502)
Other income and (deductions):			
Interest on long-term debt	**(72,294)**	(67,876)	(58,588)
Other interest, including affiliate interest, net	**19,612**	(59)	4,727
Other (deductions) income, net	**(5,043)**	307	(9,093)
Total other deductions, net	**(57,725)**	(67,628)	(62,954)
Income (loss) before income taxes	**167,496**	135,165	(224,456)
Income tax expense (benefit)	**39,694**	32,184	(61,778)
Net income (loss)	**$ 127,802**	$ 102,981	$ (162,678)

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

BOSTON GAS COMPANY

STATEMENTS OF CASH FLOWS

(unaudited, in thousands of dollars)

	Years Ended March 31,		
	2021	2020	2019
Operating activities:			
Net income (loss)	**$ 127,802**	$ 102,981	$ (162,678)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	**209,926**	192,993	191,128
Accrued interest on tax reserves	**(13,850)**	6,916	-
Amortization of acquisition premium	**8,200**	8,200	8,200
Deferred income tax expense (benefit)	**104,766**	77,555	12,456
Bad debt expense	**28,170**	48,455	33,191
Allowance for equity funds used during construction	**(6,450)**	(4,797)	(722)
Pension and postretirement expense (benefit)	**(7,580)**	6,174	6,850
Other non-cash items	**1,004**	897	-
Pension and postretirement benefit contributions	**(8,344)**	(22,485)	(37,549)
Environmental remediation payments	**(1,304)**	(2,122)	(921)
Changes in operating assets and liabilities:			
Accounts receivable and other receivables, net, and unbilled revenues	**(85,971)**	73,161	(12,689)
Accounts receivable from/payable to affiliates, net	**39,810**	(46,833)	14,973
Inventory	**13,093**	(15,661)	(1,023)
Regulatory assets and liabilities, net	**(63,249)**	(70,384)	56,478
Derivative instruments	**(10,113)**	14,559	3,961
Prepaid and accrued taxes, net	**8,433**	72,730	(101,103)
Accounts payable and other liabilities	**(25,524)**	(15,070)	74,746
Other, net	**(9)**	2,434	(50)
Net cash provided by operating activities	**318,810**	429,703	85,248
Investing activities:			
Capital expenditures	**(600,699)**	(544,944)	(376,012)
Intercompany money pool	**253,189**	(512,621)	-
Cost of removal	**(43,141)**	(50,177)	(32,873)
Net cash used in investing activities	**(390,651)**	(1,107,742)	(408,885)
Financing activities:			
Common stock dividends to Parent	**(43,000)**	-	-
Payments on long-term debt	**(5,000)**	(7,000)	(20,000)
Issuance from long-term debt	**-**	500,000	-
Payment of debt issuance costs	**-**	(2,000)	-
Intercompany money pool	**120,438**	(316,885)	351,938
Equity infusion from Parent	**-**	500,000	-
Net cash provided by financing activities	**72,438**	674,115	331,938
Net increase (decrease) in cash and cash equivalents	**597**	(3,924)	8,301
Cash and cash equivalents, beginning of year	**7,486**	11,410	3,109
Cash and cash equivalents, end of year	**$ 8,083**	$ 7,486	$ 11,410
Supplemental disclosures:			
Interest paid	**$ (71,199)**	$ (64,891)	$ (65,398)
Income taxes refunded	**48,678**	94,222	19,320
Significant non-cash items:			
Capital-related accruals included in accounts payable	**26,971**	33,647	21,093
Parent tax (income) allocation	**(122)**	-	-

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

BOSTON GAS COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 8,083**	$ 7,486
Accounts receivable	**381,369**	311,337
Allowance for doubtful accounts	**(99,989)**	(85,723)
Accounts receivable from affiliates	**10,370**	34,752
Intercompany moneypool asset	**259,432**	512,621
Unbilled revenues	**80,523**	78,488
Inventory	**61,522**	74,615
Regulatory assets	**135,132**	104,301
Accrued tax benefit	**29,464**	32,590
Other	**3,292**	5,760
Total current assets	**869,198**	1,076,227
Property, plant, and equipment, net	**5,580,586**	5,081,070
Non-current assets:		
Regulatory assets	**288,361**	365,739
Goodwill	**450,395**	450,395
Postretirement benefits asset	**80,429**	-
Other	**813**	739
Total non-current assets	**819,998**	816,873
Total assets	**$ 7,269,782**	$ 6,974,170

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

BOSTON GAS COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2021	2020
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	$ **95,548**	$ 92,193
Accounts payable to affiliates	**89,354**	73,926
Intercompany moneypool liability	**318,386**	197,948
Current portion of long-term debt	**40,000**	5,000
Interest accrued	**14,829**	15,181
Regulatory liabilities	**67,155**	97,259
Derivative instruments	**7,269**	12,276
Payroll and benefits accruals	**24,997**	19,635
Other	**24,298**	22,781
Total current liabilities	**681,836**	536,199
Non-current liabilities:		
Regulatory liabilities	**1,219,192**	1,156,135
Asset retirement obligations	**21,970**	21,420
Deferred income tax liabilities, net	**603,547**	509,495
Postretirement benefits	**90,611**	89,020
Environmental remediation costs	**45,975**	44,690
Operating lease liability	**57,694**	54,041
Other	**54,545**	114,441
Total non-current liabilities	**2,093,534**	1,989,242
Commitments and contingencies (Note 13)		
Capitalization:		
Shareholder’s equity	**2,696,507**	2,611,827
Long-term debt	**1,797,905**	1,836,902
Total capitalization	**4,494,412**	4,448,729
Total liabilities and capitalization	$ **7,269,782**	$ 6,974,170

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

BOSTON GAS COMPANY
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2021	2020
Total shareholder's equity			**$ 2,696,507**	$ 2,611,827
Long-term debt:	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Note	3.30%	March 15, 2022	**25,000**	25,000
Senior Note	3.15%	August 1, 2027	**500,000**	500,000
Senior Note	3.13%	October 5, 2027	**150,000**	150,000
Senior Note	3.00%	August 1, 2029	**500,000**	500,000
Senior Note	4.49%	February 15, 2042	**500,000**	500,000
Senior Note	4.63%	March 15, 2042	**25,000**	25,000
			1,700,000	1,700,000
Medium-Term Notes ("MTNs"):				
MTN Series 1990 A	9.75%	December 1, 2020	**-**	5,000
MTN Series 1990 A	9.05%	September 1, 2021	**15,000**	15,000
MTN Series 1992 A	8.33%	July 5, 2022	**10,000**	10,000
MTN Series 1995 C	6.95%	December 1, 2023	**10,000**	10,000
MTN Series 1994 B	6.98%	January 15, 2024	**6,000**	6,000
MTN Series 1995 C	6.95%	December 1, 2024	**5,000**	5,000
MTN Series 1995 C	7.25%	October 1, 2025	**20,000**	20,000
MTN Series 1995 C	7.25%	October 1, 2025	**5,000**	5,000
			71,000	76,000
First Mortgage Bonds ("FMBs"):				
FMB Series CH	8.80%	July 1, 2022	**25,000**	25,000
FMB Series A-1	7.38%	October 14, 2025	**10,000**	10,000
FMB Series A-2	6.90%	December 15, 2025	**10,000**	10,000
FMB Series A-3	6.94%	February 5, 2026	**10,000**	10,000
FMB Series B-1	7.12%	April 7, 2028	**20,000**	20,000
			75,000	75,000
Total debt			**1,846,000**	1,851,000
Unamortized debt discount			**(298)**	(345)
Unamortized debt issuance costs			**(7,797)**	(8,753)
Total debt less unamortized costs			**1,837,905**	1,841,902
Current portion of long-term debt			**40,000**	5,000
Total long-term debt			**1,797,905**	1,836,902
Total capitalization			**$ 4,494,412**	$ 4,448,729

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

BOSTON GAS COMPANY

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

(unaudited, in thousands of dollars)

			Accumulated Other Comprehensive Income (Loss)			
	Common Stock	Additional Paid-in Capital	Unrealized Gain (Loss) on Available-For-Sale Securities	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2018	**$ 51,418**	**$ 1,574,028**	**$ 69**	**$ 69**	**$ 546,009**	**$ 2,171,524**
Net loss	-	-	-	-	(162,678)	(162,678)
Other comprehensive loss:						
Unrealized loss on securities, net of $1 tax benefit	-	-	(2)	(2)	-	(2)
Total comprehensive loss						(162,680)
Impact of adoption of the recognition and measurement of financial assets and liabilities standard	-	-	(69)	(69)	69	-
Balance as of March 31, 2019	**$ 51,418**	**$ 1,574,028**	**$ (2)**	**$ (2)**	**$ 383,400**	**$ 2,008,844**
Net income	-	-	-	-	102,981	102,981
Other comprehensive income:						
Unrealized gain on securities, net of $1 tax expense	-	-	2	2	-	2
Total comprehensive income						102,983
Equity infusion from Parent	-	500,000	-	-	-	500,000
Balance as of March 31, 2020	**$ 51,418**	**$ 2,074,028**	-	-	**486,381**	**2,611,827**
Net income	-	-	-	-	127,802	127,802
Parent tax income allocation	-	(122)	-	-	-	(122)
Common stock dividends to Parent	-	-	-	-	(43,000)	(43,000)
Balance as of March 31, 2021	**$ 51,418**	**$ 2,073,906**	**$ -**	**$ -**	**$ 571,183**	**$ 2,696,507**

The Company had 514,184 shares of common stock authorized, issued, and outstanding, with a par value of $100 per share, as of March 31, 2021 and 2020.

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

BOSTON GAS COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Boston Gas Company d/b/a National Grid ("the Company") is a gas distribution company engaged in the transportation and sale of natural gas to approximately 883,000 residential, commercial, and industrial customers in the City of Boston, Essex County, and other communities in eastern and central Massachusetts.

Prior to April 30, 2018, the Company was an indirect subsidiary of KeySpan Corporation ("KeySpan"), which was a wholly-owned subsidiary of National Grid USA ("NGUSA" or the "Parent"), a public utility holding company with regulated subsidiaries engaged in the generation of electricity and the transmission, distribution, and sale of both natural gas and electricity. NGUSA is a direct wholly-owned subsidiary of National Grid North America Inc. and an indirect wholly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales. Effective April 30, 2018, KeySpan merged into NGUSA, and, from that point forward, the Company is an indirect subsidiary of NGUSA.

On May 31, 2019, the Company and Colonial Gas Company ("Colonial Gas"), an affiliated gas distribution company, filed a joint petition with the Massachusetts Department of Public Utilities ("DPU") for authorization for legal consolidation. The companies requested that the DPU confirm that the Company, as the surviving corporation of the consolidation, will continue to have all the franchise rights and obligations that were previously held by the Company and Colonial Gas. On December 16, 2019, the legal consolidation of the Company and Colonial Gas was approved by the DPU in Docket D.P.U. 19-69, which became effective March 15, 2020, with the Company as the sole surviving entity. All relevant prior period amounts have been recast accordingly.

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

The novel coronavirus (COVID-19) pandemic has disrupted the U.S. and global economies and continues to have a significant impact on global health. In March 2020, COVID-19 was declared a pandemic by the World Health Organization ("WHO") and the Centers for Disease Control and Prevention. In March 2020, the Company ceased certain customer cash collection activities in response to regulatory instructions and to changes in State, Federal, and City level regulations and guidance, and actions to minimize risk to employees. The Company also ceased customer termination activities as requested by relevant local authorities.

The Company has seen adverse impacts from COVID-19 on earnings and cash flow. Earnings are impacted by increased incremental costs, increased bad debt expense, lower capitalization rates of workforce costs, and reduced late payment revenues, slightly offset by reduced costs and other mitigation efforts by the Company. Cash flow is negatively impacted by the higher level of operating costs and lower cash collections. As of March 31, 2021, and 2020, the Company recorded additional reserves for uncollectible accounts related to the COVID-19 impact for the gas businesses.

Despite the negative impacts on cash flow, the Company has maintained access to National Grid's money pool, which has insulated the Company from immediate impacts on liquidity. Similarly, there has also been no impact on access to capital at present.

The Company has evaluated subsequent events and transactions through August 10, 2021, the date of issuance of these financial statements. Aside from this, the Company concluded that there were no other events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2021. The Company continues to evaluate the ongoing impact of COVID-19 on both customers and financial performance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities included in the financial statements. Such estimates and assumptions include the impact of the ongoing COVID-19 pandemic and are reflected in the accompanying financial statements. Actual results could differ from those estimates.

Merger of the Company and Colonial Gas

As this was a transaction between entities under common control that resulted in a change in the reporting entity, with the Company as the receiving entity, the assets and liabilities of Colonial Gas were measured at carrying value on the transfer date of March 15, 2020, in accordance with "*Transactions Between Entities Under Common Control"* subsections of Accounting Standards Codification ("ASC") 805-50. As the transaction resulted in a change of reporting entity, in accordance with ASC 250-10-45-21, the retrospective presentation of the combination of the entities for all periods presented, as if the combination had been in effect since the inception of common control, has been reflected. In this regard, the current year and historical financial statements are presented using a method similar to a pooling-of-interests, where the receiving entity retrospectively adjusts its financial statements to include the transferred assets and liabilities and any related operations for all periods for which the entities were under common control. As a result, the Company's results of operations, cash flows, and related financial statements were recast for the year ended March 31, 2019. The Company and Colonial Gas will continue to be considered as separate entities for DPU annual reporting and ratemaking purposes. For a background of the transaction, please refer to Note 1, "Nature of Operations and Basis of Presentation," above.

Regulatory Accounting

The DPU regulates the rates the Company charges its customers. In certain cases, the rate actions of the DPU can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. In accordance with ASC 980, "Regulated Operations," regulatory assets and liabilities are reflected on the balance sheet consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

Revenues are recognized for gas distribution services provided on a monthly billing cycle basis. The Company records unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the reporting period (See Note 3, "Revenue," for additional details).

Other Taxes

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

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

Income Taxes

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

future taxable income of the appropriate tax character will be generated to realize the benefits of existing deferred tax assets. When the evaluation of the evidence indicates that the Company will not be able to realize the benefits of existing deferred tax assets, a valuation allowance is recorded to reduce existing deferred tax assets to the net realizable amount.

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

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

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors, including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience, and management's assessment of collectability from individual customers, as appropriate. The collectability of receivables is continuously assessed, and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated, and the balances are deemed to be uncollectible. The Company recorded bad debt expense of $28.2 million (net of deferral of $7.7 million), $48.5 million, and $33.2 million for the years ended March 31, 2021, 2020, and 2019, respectively, within operations and maintenance expenses in the accompanying statements of operations. For the year ended March 31, 2021 and 2020, bad debt expense reflects the estimated impact of COVID-19.

Inventory

Inventory is comprised of materials and supplies, as well as gas in storage. Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized as used. There were no significant write-offs of obsolete inventory for the years ended March 31, 2021, 2020, or 2019.

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 DPU.

The Company had materials and supplies of $17.2 million and $18.2 million and gas in storage of $44.3 million and $56.4 million at March 31, 2021 and 2020, respectively.

Derivative Instruments

The Company uses derivative instruments to manage commodity price risk. All derivative instruments are recorded on the balance sheet at fair value. All commodity costs, including the impact of derivative instruments, are passed on to customers through the Company's gas cost adjustment mechanisms. Regulatory assets or regulatory liabilities are recorded to defer the recognition of unrealized losses or gains on derivative instruments, respectively. The gains or losses on the settlement of these contracts are recognized as purchased gas on the statements of operations 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, but rather to record and present the fair value of the derivative instruments on a gross basis, with related cash collateral recorded within restricted cash and special deposits on the balance sheet. There was no related cash collateral as of March 31, 2021 or 2020.

Fair Value Measurements

The Company measures derivative instruments, securities, pension and postretirement benefit other than pension plan ("PBOP") assets, and financial investments 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: Investments in certain funds, that meet certain conditions of ASC 820, are not required to be categorized within the fair value hierarchy. These investments are typically in commingled funds or limited partnerships that are not publicly traded and have ongoing subscription and redemption activity. As a practical expedient, the fair value of these investments is the Net Asset Value ("NAV") per fund share.

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

Property, Plant, and Equipment

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

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the DPU. The average composite rates for the years ended March 31, 2021, 2020, and 2019 are as follows:

	2021	2020	2019
Composite rates	**3.6%**	3.6%	4.0%

Depreciation expense includes a component for the estimated cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant, and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company recognized a regulatory liability for the amount that was in excess of costs incurred of $885.5 million and $832.7 million as of March 31, 2021 and 2020, respectively.

Allowance for Funds Used During Construction

The Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant, and equipment. The equity component of AFUDC is reported in the accompanying statements of operations as non-cash income in other income (deductions), net. The debt component of AFUDC is reported as a non-cash offset to other interest, including affiliate interest, net. After construction is completed, the Company is permitted to recover these costs through their inclusion in rates. The Company recorded AFUDC related to equity of $6.5 million, $4.8 million, and $4.3 million, and AFUDC related to debt of $2.6 million, $5.8 million, and $5.9 million, for the years ended March 31, 2021, 2020, and 2019, respectively. The average AFUDC rates for the years ended March 31, 2021, 2020, and 2019 were 6.7%, 4.8%, and 3.9%, respectively.

Impairment of Long-Lived Assets

The Company tests the impairment of long-lived assets when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If such an event or change in circumstances is identified, the recoverability of an asset is determined by comparing its carrying value to the estimated undiscounted cash flows that the asset is expected to generate. If the comparison indicates that the carrying value is not recoverable, an impairment loss is recognized for the excess of the carrying value over the estimated fair value. For the years ended March 31, 2021, 2020, and 2019, there were no impairment losses recognized for long-lived assets.

Goodwill

The Company tests goodwill for impairment annually on January 1, or more frequently if events occur or circumstances exist that indicate it is more likely than not that the fair value of the Company is below its carrying amount. The Company has early adopted Accounting Standards Update ("ASU") No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which eliminates step two from the two-step goodwill impairment test previously required under the former standard. The goodwill impairment test requires a recoverability test performed based on the comparison of the Company's estimated fair value with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is not considered impaired. If the carrying value exceeds the estimated fair value, the Company is required to recognize an impairment charge for such excess, limited to the carrying amount of goodwill.

The Company elected to perform a qualitative assessment to determine whether it is more likely than not that the carrying value of the Company exceeds its estimated fair value and an impairment exists. The qualitative assessment is commonly referred to as the "step zero" test and requires the Company to evaluate relevant events and circumstances including, but not limited to, macroeconomic conditions, industry and market considerations, cost factors, and other relevant entity-specific events that may indicate the existence of a decline in fair value that is other than temporary. The qualitative assessment indicated that it was more likely than not that the fair value of the Company exceeds its carrying value and, as such, no impairment loss exists for the year ended March 31, 2021. The Company did not record any goodwill impairment during the years ended March 31, 2021, 2020, and 2019.

Employee Benefits

The Company participates with other NGUSA subsidiaries in defined benefit pension plans and post retirement benefit other than pension ("PBOP") plans for its employees, administered by NGUSA. The Company recognizes its portion of the pension and PBOP plans' funded status on the consolidated balance sheet as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The pension and PBOP

plans' assets are commingled and allocated to measure and record pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

Leases

The Company adopted Topic 842 during the year ended March 31, 2020. The Company elected the practical expedient "package" in which any expired contracts were not reassessed to determine whether they met the definition of a lease; the classification of leases that commenced prior to the adoption of this standard was not reassessed; and any initial direct costs for existing leases were not reassessed. Additionally, the Company elected the practical expedient to not reassess existing easements that were not previously accounted for as leases under Topic 840.

The Company has elected to not evaluate whether sales tax and other similar taxes are lessor and lessee costs. Instead, such costs are deemed lessee costs. The Company does not combine lease and non-lease components for contracts in which the Company is the lessee or the lessor.

Certain building leases provide the Company with an option to extend the lease term. The Company has included the periods covered by the extension options in its determination of the lease term when management believes it is reasonably certain the Company will exercise its option.

Lease liabilities are recognized based on the present value of the lease payments over the lease term at the commencement date. For any leases that do not provide an implicit rate, the Company uses an estimate of its collateralized incremental borrowing rate, based on the information available at the commencement date, to determine the present value of future payments. In measuring lease liabilities, the Company excludes variable lease payments, other than those that depend on an index or a rate, or those that are, in substance, fixed payments, and includes lease payments made at or before the commencement date. Variable lease payments were not material for the years ended March 31, 2021 and 2020. The Company does not reflect short-term leases on the balance sheets. The expense related to short-term leases was not material for the years ended March 31, 2021 and 2020.

Right-of-use ("ROU") assets consist of the lease liability together with any payments made to the lessor prior to commencement of the lease (less any lease incentives) and any initial direct costs. ROU assets are amortized over the lease term.

The Company recognizes lease expense based on a pattern that conforms to the regulatory ratemaking treatment.

New and Recent Accounting Guidance

Accounting Guidance Recently Adopted

Fair Value

In August 2018, the Financial Accounting Standards Board ("FASB") issued ASU No. 2018-13 "Fair Value Measurement (Topic 820): Disclosure Framework–Changes to the Disclosure Requirements for Fair Value Measurement" which modifies certain disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, including certain disclosure requirements relating to Level 3 fair value measurements, and eliminates disclosure requirements for transfers between Level 1 and Level 2 fair value measurements. The standard also added certain other disclosure requirements for Level 3 fair value measurements. The Company adopted this new guidance on April 1, 2020. Upon adoption, the amendments in the standard were applied retrospectively to all periods presented, except the amendments relating to changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty, which were applied prospectively for only the most recent annual period presented. The amendments did not materially affect the Company's disclosures and did not affect the Company's financial position, results of operations, or cash flows.

Pension and Postretirement Benefits

In August 2018, the FASB issued ASU No. 2018-14 “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans,” which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans and eliminates certain disclosure requirements. The Company adopted this new guidance on April 1, 2020 using a retrospective basis to all periods presented, resulting in certain revisions to disclosures related to the Company’s defined benefit plans in Note 9, “Employee Benefits”. The amendments did not materially affect the Company’s disclosures related to its defined benefit postretirement benefit plans and did not affect the Company’s financial position, results of operations, or cash flows.

Internal-Use Software

In August 2018, the FASB issued ASU No. 2018-15 “Intangibles–Goodwill and Other–Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that Is a Service Contract” to help entities evaluate the accounting for fees paid by a customer under a cloud computing arrangement that is a service contract. The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Under this standard, the Company applies Subtopic 350-40 to determine which implementation costs related to a hosting arrangement should be capitalized or expensed. The Company expenses the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the arrangement. The Company early adopted this new guidance prospectively on April 1, 2020. The amendments did not result in a material impact to the Company’s financial position, results of operations, or cash flows.

Accounting Guidance Not Yet Adopted

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 Statements,” which requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The accounting standards provides a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses that replaces the incurred loss impairment methodology of delayed recognition of credit losses. A broader range of reasonable and supportable information must be considered in developing the credit loss estimates. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. In May 2019, the FASB issued ASU No. 2019-05, “Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief,” permitting entities to irrevocably elect the fair value option for financial instruments that were previously recorded at amortized cost basis within the scope of Topic 326, with the exception of held-to-maturity debt securities. For the Company, the requirements in these updates, as amended in November 2019 by ASU No. 2019-10, “Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates,” will be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is currently assessing the application of this standard to determine if it will have a material impact on its presentation, results of operations, cash flows, and financial position.

Income Taxes

In December 2019, the FASB issued ASU No. 2019-12 “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes” which simplifies various aspects of the accounting for income taxes by eliminating certain exceptions to current requirements. The standard also enhances and simplifies other requirements, including the tax basis step-up in goodwill obtained in a transaction that is not a business combination, ownership changes in investments, and interim-period accounting for enacted changes in tax law. For public business entities, the standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the standard is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted.

The Company plans to early adopt this standard on April 1, 2021. The Company does not expect the adoption will have a material impact on its financial statements.

Callable Debt Securities

In October 2020, the FASB issued ASU No. 2020-08 "Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs," to clarify that an entity must reevaluate whether a callable debt security with multiple call dates is within the scope of paragraph ASC 310-20-35-33 for each reporting period. For public business entities, the standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early application is not permitted for public business entities. The Company will adopt this standard prospectively on April 1, 2021. The Company does not expect the adoption will have a material impact on its financial statements.

Investments – Equity Securities

In January 2020, the FASB issued ASU No. 2020-01 "Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (a consensus of the FASB Emerging Issues Task Force)" which clarifies that an entity should consider transaction prices for the purpose of measuring the fair value of certain equity securities immediately before applying or upon discontinuing the equity method. This accounting standard also clarifies that when accounting for contracts entered into to purchase equity securities, an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, the underlying securities would be accounted for under the equity method or the fair value option. For public business entities, the standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Early adoption is permitted. The Company plans to early adopt this standard on April 1, 2021. The Company does not expect the adoption to have a material impact on its financial statements.

3. REVENUE

The following table presents, for the years ended March 31, 2021 and 2020, revenue from contracts with customers, as well as additional revenue from sources other than contracts with customers, disaggregated by major source:

	Years Ended March 31,	
	2021	2020
	(in thousands of dollars)	
Revenue from contracts with customers:		
Gas distribution	**$ 1,470,736**	$ 1,448,403
Off-system sales	**67,720**	60,841
Total revenue from contracts with customers	**1,538,456**	1,509,244
Revenue from regulatory mechanisms	**5,652**	48,226
Total operating revenues	**$ 1,544,108**	$ 1,557,470

Gas Distribution: The Company owns, maintains, and operates a natural gas distribution network serving areas in Massachusetts. Distribution revenues are primarily from the sale of gas and related services to retail customers. Distribution sales are regulated by the DPU, which is responsible for determining the prices and other terms of services as part of the ratemaking process. The arrangement where a utility provides a service to a customer in exchange for a price approved by a regulator is referred to as a tariff sales contract. Gas distribution revenues are derived from the regulated sale and distribution of natural gas to residential, commercial, and industrial customers within the Company's service territory under the tariff rates. The tariff rates approved by the regulator are designed to recover the costs incurred by the Company for the products and services provided, along with a return on investment.

The performance obligation related to distribution sales is to provide natural gas to the customers on demand. The natural gas supplied under the tariff represents a single performance obligation, as it is a series of distinct goods or services that are

substantially the same. The performance obligation is satisfied over time because the customer simultaneously receives and consumes the natural gas as the Company provides this service. The Company records revenues related to the distribution sales based upon the approved tariff rate and the volume delivered to the customers, which corresponds with the amount the Company has the right to invoice.

The distribution revenue also includes estimated unbilled amounts, which represent the estimated amounts due from retail customers for natural gas provided to customers by the Company but not yet billed. Unbilled revenues are determined based on estimated unbilled sales volumes for the respective customer classes and then applying the applicable tariff rate to those volumes. Actual amounts billed to customers when the meter readings occur may be different from the estimated amounts.

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

Off-system sales: Off-system sales represent direct sales of gas to participants in the wholesale natural gas marketplace, which occur after customers' demands are satisfied.

Revenue from Regulatory Mechanisms: The Company records revenues in accordance with accounting principles for rate-regulated operations that are arrangements between the Company and the regulator, which are not accounted for as contracts with customers. These include various deferral mechanisms, such as capital trackers, energy efficiency programs, and programs that qualify as Alternative Revenue Programs ("ARPs"). ARPs enable the Company to adjust rates in the future, in response to past activities or completed events. The Company's gas distribution rates have a Revenue Decoupling Mechanism ("RDM"), which allows for semi-annual adjustments to the Company's delivery rates as a result of the reconciliation between allowed revenue and billed revenue. The Company also has other ARPs related to the achievement of certain objectives, demand-side management initiatives, and certain other ratemaking mechanisms. The Company recognizes ARPs with a corresponding offset to a regulatory asset or liability account when the regulatory-specified events or conditions have been met, when the amounts are determinable, and are probable of recovery (or payment) through future rate adjustments.

4. REGULATORY ASSETS AND LIABILITIES

The Company records regulatory assets and liabilities that result from the ratemaking process. The following table presents the regulatory assets and regulatory liabilities recorded on the balance sheet:

	March 31,	
	2021	2020
	(in thousands of dollars)	
Regulatory assets		
Current:		
Derivative instruments	**$ 6,484**	$ 16,597
Gas costs adjustment	**117,259**	86,480
Revenue decoupling mechanism	**10,067**	-
Other	**1,322**	1,224
Total	**135,132**	104,301
Non-current:		
Asset retirement obligation	**15,819**	14,518
COVID-19 delivery bad debt	**7,687**	-
Environmental response costs	**54,103**	56,712
Postretirement benefits	**18,518**	90,720
Rate adjustment mechanisms	**16,020**	25,081
Recovery of acquisition premium	**151,017**	159,217
Other	**25,197**	19,491
Total	**288,361**	365,739
Regulatory liabilities		
Current:		
Gas costs adjustment	**30,357**	46,242
Local distribution adjustment clause	**7,572**	10,944
Profit sharing	**24,088**	19,627
Revenue decoupling mechanism	**5,138**	19,427
Other	**-**	1,019
Total	**67,155**	97,259
Non-current:		
Cost of removal	**885,474**	832,718
Regulatory tax liability, net	**333,718**	323,005
Other	**-**	412
Total	**$ 1,219,192**	$ 1,156,135

Other than $77.1 million of the regulatory assets summarized above ($54.1 million of Environmental response costs, $20.1 million of Postretirement benefits and $2.9 million of Other costs), all regulatory assets earn a rate of return.

As of March 31, 2021, $23.3 million of allowances for earnings on shareholders' investment were capitalized for rate-making purposes but not for US GAAP reporting.

Asset retirement obligation: Represents accretion expense deferred as part of the Company's asset retirement obligation and is recovered through rates as part of depreciation expense.

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.

COVID-19 delivery bad debt: Represents estimated delivery bad debt expense as a result of COVID-19. This has been computed in accordance with the methodology proposed as part of DPU 20-58.

Derivative instruments: The Company evaluates open derivative instruments for regulatory deferral by determining if they are probable of recovery from, or refund to, customers through future rates. Derivative instruments that qualify for recovery

are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs.

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.

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 billed revenues and the underlying cost being recovered, as approved by the DPU. These amounts will be refunded to, or recovered from, customers over the next year.

Local distribution adjustment clause ("LDAC"): A mechanism by which the Company is required to adjust its rates annually to recover or refund sundry costs, including the capital tracker, energy efficiency expenditures, pension and PBOP costs, residential assistance costs, service quality penalties, and miscellaneous other amounts due to or from customers through rates.

Postretirement benefits: The regulatory asset represents the Company's unamortized non-cash accrual of net actuarial gains and losses, offset by the excess amounts received in rates over actual costs of the Company's pension and PBOP plans, that are to be recovered from or passed back to customers in future periods.

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

Rate adjustment mechanisms: Active Hardship-Protected Accounts Receivable is a mechanism which, through rates, allows the Company to recover account balances related to customers that are protected from service cutoff for non-payment with balances over 360 days past-due. The balance in this account represents the deferral of the Company's hardship balance.

Recovery of acquisition premium: Represents the unrecovered amount (plus related taxes) by which the purchase price paid exceeded net book value in the 1998 acquisition of Colonial Gas Company by Eastern Enterprises, Inc. Eastern Enterprises, Inc. was owned by KeySpan Corporation ("KeySpan") at the time of NGUSA's acquisition of KeySpan in 2007. In exchange for certain rate concessions and the achievement of certain merger savings targets, the DPU has allowed Boston Gas (as the sole surviving entity from the legal consolidation of Boston Gas and Colonial Gas Company during the year-ended March 31, 2020) to recover the acquisition premium in rates through August 2039.

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

Revenue decoupling mechanism ("RDM")*:* As approved by the DPU, the Company has a gas RDM, which allows for seasonal (peak/off-peak) adjustments to the Company's delivery rates as a result of the reconciliation between allowed and actual billed revenues. Any difference is recorded as a regulatory asset or regulatory liability.

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

5. RATE MATTERS

General Rate Case

On November 13, 2020, the Company filed a rate case with the DPU, including a request for approval of a performance-based ratemaking plan ("PBR Plan"), and related proposals. The Company requested that the DPU approve new distribution rates to increase distribution revenues by $220.7 million, including the transfer of $81.9 million of recovery of the Company's Gas System Enhancement Program ("GSEP") investments completed through March 31, 2020, from the GSEP factors to base distribution rates, with new rates to be effective October 1, 2021. The actual net revenue deficiency calculated by the Company for distribution rates is $138.8 million, or an incremental increase in distribution revenue of 18.1 percent. The Company's last rate case was filed in 2017.

On July 16, 2021, in response to allegations that five former New York-based National Grid employees accepted bribes and kickbacks from contractors (see Note 13," Commitments and Contingencies," for further detail) the DPU issued an interlocutory order to reopen the rate case record. This allowed the Massachusetts Attorney General to submit an additional discovery question related to these allegations. The Company responded to this discovery on July 30, 2021, with supplemental briefs by both the Massachusetts Attorney General and the Company filed on August 6, 2021.

Tax Cuts and Jobs Act ("Tax Act")

In February 2018, the DPU opened an investigation to examine the effect of the Tax Act on the rates of the investor-owned utilities in Massachusetts as of January 1, 2018 and directed the utilities to account for any revenues associated with the difference between the previous and current corporate income tax rates and establish a regulatory liability for excess recovery in rates of accumulated deferred income taxes ("ADIT"). On December 21, 2018, the DPU issued an order requiring all utilities to begin crediting in rates the amortization of excess deferred federal income taxes, to the extent such amortization was not already included in base distribution rates, through the combination of factors associated with certain reconciling mechanisms and a separate factor for the amortization of the remaining amounts.

In February 2019, the DPU issued an order finding that the Massachusetts utilities were not required to refund tax savings previously accrued from January 1, 2018 through June 30, 2018 as a result of the federal income tax rate reduction. On March 7, 2019, the Massachusetts Attorney General's ("AG") office filed a motion for clarification and reconsideration, requesting that the DPU provide additional clarity regarding its February 2019 ruling and reconsider its determination to allow utilities to keep the federal tax savings accrued from January 1, 2018 through June 30, 2018. To date, the DPU has not acted on or given any indication that it intends to act on the AG's motion.

COVID-19 Moratorium on Utility Shut Offs

Starting with the first set of orders dated March 24, 2020, the Chairman of the DPU issued a series of orders in response to the Massachusetts Governor's declaration of a state-of-emergency due to the COVID-19 pandemic. In the first set of orders, the DPU prohibited the Massachusetts utilities from terminating service to any customer, including residential and commercial and industrial ("C&I") customers, for non-payment of utility bills until the state-of-emergency is lifted. Since that time, the state-of-emergency has been extended several times. On July 29, 2020, the DPU issued an order lifting the moratorium for C&I customers effective September 1, 2020. On September 10, 2020 (and renewed on October 23, 2020), the DPU extended the shut-off moratorium for residential customers until November 16, 2020 and prohibited utility companies from issuing communications prior to October 15, 2020 to any residential customers threatening the shut-off of utility service for failure to pay their bills. On November 18, 2020 the shut-off moratorium for residential customers was extended through April 1, 2021. Under the most recent orders (the eighth set of orders issued on February 26, 2021), the Chairman of the DPU prohibited all residential shut-offs for non-payment of utility service, regardless of financial hardship, until July 1, 2021, but has allowed advance communications to customers regarding the potential for shut-offs to resume after July 1, 2021, in conjunction with messaging regarding repayment programs and debt-forgiveness options that are available to residential customers.

On May 11, 2020, the DPU opened an inquiry into establishing policies and practices regarding customer assistance and ratemaking measures for electric and gas companies in response to the effects of the COVID-19 pandemic, and established a Customer Assistance and Ratemaking Working Group ("the Working Group") to develop appropriate policies and practices for the resumption of collections activities and to address ratemaking issues facing utilities. The Working Group's first report on customer assistance issues contained a four-phased plan for customer communications and outreach, which was approved by the DPU on June 26, 2020. The following are highlights of the Working Group's subsequent Customer Assistance Report, which was filed on May 29, 2020 and approved on July 31, 2020:

- Extended deferred payment arrangements - up to 12 months for residential and small C&I customers, with the ability to extend to 18 months for unique circumstances; up to six months for large C&I customers, with the terms to be determined on a case-by-case basis.
- Waiver of late fees for C&I customers (not applicable to residential customers).
- Revisions to existing residential Arrearage Management Plans ("AMPs") (to provide more flexible enrollment terms and an increase in arrearages forgiven from $4,000 to $12,000 on a temporary basis related to COVID-19). In the Massachusetts distribution companies' 2021 AMP filings, submitted on February 26, 2021, the distribution companies extended the terms of the COVID-19 AMP for the 2021 program year, but reserved the right to revert to the terms of their pre-COVID AMPs (e.g.: lower arrearage forgiveness amounts) if financial circumstances for customers improved.
- Established a COVID-19 small C&I Arrearage Forgiveness Program ("AFP") to be in place through December 31, 2020. The small C&I AFP has been extended through June 30, 2021.

Consistent with the approved customer outreach plan, the Company began notifying affected C&I customers of the resumption of collections and shutoff activities in August 2020, and terminations commenced during the Fall. While notification to residential customers related to the possibility of termination was prohibited until March 1, 2021, the Company is conducting outreach and issuing awareness communications to notify customers of the availability of programs that could prevent the accumulation of large arrears while the pandemic is ongoing. The Company is continuing to work collaboratively with the DPU and other Massachusetts local distribution companies through the Working Group process to address COVID-19 related customer outreach issues.

On December 31, 2020, the DPU approved the following implementation items related to the ratemaking treatment of the COVID-19 customer assistance programs on which the parties had reached consensus: (1) the distribution companies should be allowed to record, defer, and track their bad debt and other COVID-related expenses; (2) cost recovery should be limited to the incremental costs incurred; and (3) certain costs must be extraordinary to qualify for recovery. However, the DPU decided that the contested issues, including the extent to which the distribution companies will be allowed to recover their COVID-19 costs, should be fully adjudicated in a new docket, D.P.U. 20-91. On March 1, 2021, the distribution companies filed their initial testimony in D.P.U. 20-91, which was further supplemented on April 30, 2021, on the following contested issues: (1) whether the distribution companies with PBR plans, including the Company, should be permitted to recover incremental bad debt costs and COVID-19 expenses; and (2) whether the distribution companies and their shareholders should absorb some losses associated with the pandemic and resulting economic downturn (the AG's position is that the distribution companies should only recover 50% of their COVID-19 costs). On March 8, 2021, the Company also submitted a proposal in D.P.U. 20-91 to offer residential customers a fee-free credit/debit card payment option that will allow customers to pay their bills electronically without an upfront transaction fee.

Gas System Enhancement Plan (GSEP)

On April 30, 2020, the DPU approved recovery of approximately $84.7 million in revenue requirements, related to approximately $283 million of anticipated investments in 2020 under an accelerated pipe replacement program, through GSEP. The rates effective from May 2020 to April 2021. The DPU also approved the Company's request to extend the timeline for replacement of leak-prone pipe in the former Colonial Gas Company service territory by nine years, moving the end date

of the program from the year 2025 to 2034. The DPU also allowed for recovery of incremental costs of the repair of Grade 3 Significant Environmental Impact ("G3SEI") leaks, based on new requirements for the repair of G3SEI leaks.

Investigation into the Future of Natural Gas

On October 29, 2020, the DPU opened an investigation into the role of local gas distribution companies ("LDCs") in achieving the Commonwealth's 2050 climate goals. The investigation will explore strategies to meet the Commonwealth's greenhouse gas emissions reductions targets while ensuring safe, reliable, and cost-effective natural gas service, and potentially recasting the role of gas companies in the Commonwealth. The LDCs are required to jointly engage an independent consultant to review the Commonwealth's recently released 2050 Decarbonization Roadmap Study and Interim Clean Energy Climate Plan identifying potential pathways to achieve the state's objectives, identify any additional pathways and prepare LDC-specific proposals for achieving the state's objectives. The report and LDC-specific proposals are due to the DPU on March 1, 2022, with a status update to be provided on September 1, 2021.

MA Petition for Waiver of Jurisdiction regarding the RI Sale

On March 17, 2021, National Grid USA announced the sale of its RI business to PPL Energy Holdings, LLC. On May 4, 2021, National Grid USA filed a petition with the Department for a waiver of jurisdiction under G.L. c. 164, § 96(c), based on a finding that the sale of The Narragansett Electric Company to PPL Energy Holdings, LLC will have no adverse impacts on any electric or gas company subject to the Department's jurisdiction, as applicable, or the customers of any such electric or gas company. On July 16, 2021, the DPU issued an Order approving the Company's the request for a waiver of Section 96 regarding the sale of The Narragansett Electric Company.

6. PROPERTY, PLANT, AND EQUIPMENT

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

	March 31,	
	2021	2020
	(in thousands of dollars)	
Plant and machinery	**$ 6,387,148**	$ 5,824,677
Land and buildings	**231,258**	222,123
Assets in construction	**287,449**	283,401
Software and other intangibles	**85,977**	85,977
Operating leases	**62,920**	57,639
Total property, plant, and equipment	**7,054,752**	6,473,817
Accumulated depreciation and amortization	**(1,470,889)**	(1,391,116)
Operating lease accumulated depreciation	**(3,277)**	(1,631)
Property, plant, and equipment, net	**$ 5,580,586**	$ 5,081,070

7. 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.

The volume of outstanding gas derivative instruments at March 31, 2021 and March 31, 2020 was 43.4 million dekatherms and 40.8 million dekatherms, respectively.

Derivative Financial Instruments

The following tables reflect the gross and net amounts of the Company's derivative assets and liabilities at March 31, 2021 and March 31, 2020:

March 31, 2021

(in thousands of dollars)

	Gross amounts of recognized assets (liabilities)	Gross amounts offset in the Balance Sheets	Net amounts of assets (liabilities) presented in the Balance Sheets	Gross amounts not offset in the Balance Sheets	Net amount
ASSETS:	*A*	*B*	*C=A+B*	*D*	*E=C-D*
Other current assets					
Gas contracts	$ 2,043	-	$ 2,043	$ 608	$ 1,435
Other non-current assets					
Gas contracts	54	-	54	-	54
Total	2,097	-	2,097	608	1,489
LIABILITIES:					
Current liabilities					
Gas contracts	7,270	-	7,270	608	6,662
Other non-current liabilities					
Gas contracts	1,311	-	1,311	-	1,311
Total	8,581	-	8,581	608	7,973
Net liabilities	$ (6,484)	$ -	$ (6,484)	$ -	$ (6,484)

March 31, 2020

(in thousands of dollars)

	Gross amounts of recognized assets (liabilities)	Gross amounts offset in the Balance Sheets	Net amounts of assets (liabilities) presented in the Balance Sheets	Gross amounts not offset in the Balance Sheets	Net amount
ASSETS:	*A*	*B*	*C=A+B*	*D*	*E=C-D*
Current assets					
Gas contracts	$ 1,031	$ -	$ 1,031	$ 294	$ 737
Non-current assets					
Gas contracts	1	-	1	1	-
Total	1,032	-	1,032	295	737
LIABILITIES:					
Current liabilities					
Gas contracts	12,276	-	12,276	294	11,982
Non-current liabilities					
Gas contracts	5,353	-	5,353	1	5,352

Total	17,629	-	17,629	295	17,334
Net liabilities	$ (16,597)	$ -	$ (16,597)	$ -	$ (16,597)

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.

The changes in fair value of the Company's rate-recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying statements of operations. All of the Company's derivative instruments are subject to rate recovery as of March 31, 2021 and 2020.

Credit and Collateral

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

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

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

The Company's credit exposure for all commodity derivative instruments and applicable payables and receivables, net of collateral, and instruments that are subject to master netting agreements, was a net liability of $6.5 million and $16.6 million as of March 31, 2021 and March 31, 2020 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, 2021 and 2020 was $1.7 million and $1.3 million, respectively. The Company had no collateral posted for these instruments as of March 31, 2021 and 2020. 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 $1.8 million and $1.8 million additional collateral to its counterparties at March 31, 2021 and 2020, respectively.

8. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value on the balance sheet on a recurring basis and their level within the fair value hierarchy as of March 31, 2021 and 2020:

	March 31, 2021			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative instruments				
Gas contracts	$ -	$ 2,089	$ 8	$ 2,097
Securities	760	-	-	760
Total	760	2,089	8	2,857
Liabilities:				
Derivative instruments				
Gas contracts	-	3,530	5,051	8,581
Total	-	3,530	5,051	8,581
Net liabilities	$ 760	$ (1,441)	$ (5,043)	$ (5,724)

	March 31, 2020			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative instruments				
Gas contracts	$ -	$ 1,032	$ -	$ 1,032
Securities	738	-	-	738
Total	738	1,032	-	1,770
Liabilities:				
Derivative instruments				
Gas contracts	-	7,358	10,271	17,629
Total	-	7,358	10,271	17,629
Net assets (liabilities)	$ 738	$ (6,326)	$(10,271)	$ (15,859)

Derivative instruments: The Company's Level 2 fair value derivative instruments primarily 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 spreads for the Company's Level 2 derivative instruments. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market-observable curves with correlation coefficients of 95% or higher.

The Company's Level 3 fair value derivative instruments consist of OTC gas option 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. For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivative instruments valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks, such as liquidity, volatility, and contract duration. Such instruments are categorized in Level

3, as the model inputs generally are not observable. The Company considers non-performance risk and liquidity risk in the valuation of derivative instruments categorized in Level 2 and Level 3.
The significant unobservable inputs used in the fair value measurement of the Company's gas purchase derivative instruments are forward curves and unobservable basis points. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

Securities: Securities are included in other non-current assets on the balance sheet and primarily include equity and debt investments based on quoted market prices (Level 1) and municipal and corporate bonds based on quoted prices of similar traded assets in open markets (Level 2).

9. EMPLOYEE BENEFITS

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

Plan assets are maintained for all of NGUSA and its subsidiaries in commingled trusts. In respect of cost determination, plan assets are allocated to the Company based on the Company's proportionate share of the Plans' projected benefit obligations. The Plans' costs are first directly charged to the Company based on the Company's employees that participate in the Plans. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. The Company applies deferral accounting for pension and PBOP expenses associated with its regulated gas operations. Any differences between actual pension costs and amounts used to establish rates are deferred and collected from, or refunded to, customers in subsequent periods. Pension and PBOP service costs are included within operations and maintenance expense, and non-service costs are included within other income (deductions), net in the accompanying statements of operations. Portions of the net periodic benefit costs disclosed below have been capitalized as a component of property, plant, and equipment, net.

Pension Plans

The Qualified Pension Plans are defined benefit plans which provides union employees, as well as non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. During the years ended March 31, 2021, 2020, and 2019, the Company made contributions of approximately $4.6 million, $13.8 million, and $32.2 million, respectively, to the Qualified Pension Plans. The Company expects to contribute approximately $7.5 million to the Qualified Pension Plans during the year ending March 31, 2022.

Benefit payments to pension plan participants for the years ended March 31, 2021, 2020, and 2019 were approximately $22.7 million, $22.6 million, and $21.5 million, respectively.

PBOP Plans

The Company's PBOP Plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements, and, in most cases, retirees must contribute to the cost of their health coverage. During the years ended March 31, 2021, 2020, and 2019, the Company made contributions of approximately $1.3 million, $3.4 million, and zero, respectively, to the PBOP Plans. The Company does not expect to contribute to the PBOP Plans during the year ending March 31, 2022.

Benefit payments to PBOP plan participants for the years ended March 31, 2021, 2020, and 2019 were approximately $8.6 million, $9.7 million, and $8.2 million, respectively.

Defined Contribution Plans

NGUSA has defined contribution retirement plans that cover substantially all employees. For the years ended March 31, 2021, 2020, and 2019, the Company recognized an expense in the accompanying statements of operations of $2.7 million, $2.0 million, and $1.6 million, respectively, for matching contributions.

Net Periodic Benefit Costs

The Company's total pension costs for the years ended March 31, 2021, 2020, and 2019 were $16.8 million, $10.5 million, and $14.3 million, respectively.

The Company's total PBOP costs for the years ended March 31, 2021, 2020, and 2019 were $4.7 million, $3.7 million, and $3.4 million, respectively.

Amounts Recognized in Regulatory Assets

The following tables summarize the Company's changes in actuarial gains/losses and prior service costs recognized in regulatory assets as of March 31, 2021, 2020, and 2019:

	Pension Plans		
	Years Ended March 31,		
	2021	2020	2019
		(in thousands of dollars)	
Net actuarial (gains) losses	**$ (51,284)**	$ 35,840	$ 18,699
Amortization of net actuarial losses	**(11,528)**	(7,642)	(11,645)
Amortization of prior service cost, net	**(2,963)**	(3,314)	(2,017)
Total	**$ (65,775)**	$ 24,884	$ 5,037
Included in regulatory assets	**$ (65,775)**	$ 24,884	$ 5,037
Total	**$ (65,775)**	$ 24,884	$ 5,037

	PBOP Plans		
	Years Ended March 31,		
	2021	2020	2019
		(in thousands of dollars)	
Net actuarial (gains) losses	**$ (26,138)**	$ 15,834	$ 9,648
Amortization of net actuarial losses	**(797)**	(224)	(32)
Amortization of prior service cost, net	**1**	(0)	(45)
Total	**$ (26,934)**	$ 15,610	$ 9,571
Included in regulatory assets	**$ (26,934)**	$ 15,610	$ 9,571
Total	**$ (26,934)**	$ 15,610	$ 9,571

The Company has regulatory recovery of these obligations and therefore amounts are included in regulatory assets on the balance sheets.

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

The following tables summarize the Company's amounts recognized in regulatory assets on the balance sheet that have not yet been recognized as components of net actuarial loss as of March 31, 2021, 2020, and 2019:

	Pension Plans		
	March 31,		
	2021	2020	2019
		(in thousands of dollars)	
Net actuarial losses	**$ 16,758**	$ 79,570	$ 51,372
Prior service cost	**3,062**	6,025	9,339
Total	**$ 19,820**	$ 85,595	$ 60,711
Included in regulatory assets	**$ 19,820**	$ 85,595	$ 60,711
Total	**$ 19,820**	$ 85,595	$ 60,711

	PBOP Plans		
	March 31,		
	2021	2020	2019
		(in thousands of dollars)	
Net actuarial losses	**$ 285**	$ 27,221	$ 11,611
Prior service credit	**(7)**	(8)	(8)
Total	**$ 279**	$ 27,213	$ 11,603
Included in regulatory assets	**$ 279**	$ 27,213	$ 11,603
Total	**$ 279**	$ 27,213	$ 11,603

Reconciliation of Funded Status to Amounts Recognized

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2021	2020	**2021**	2020
		(in thousands of dollars)		
Projected benefit obligation	**$ (561,712)**	$ (523,026)	**$ (145,012)**	$ (146,400)
Allocated fair value of assets	**615,608**	522,693	**80,934**	57,713
Funded status	**$ 53,896**	$ (333)	**$ (64,078)**	$ (88,687)
Non-current assets	**$ 80,429**	$ -	**$ -**	$ -
Non-current liabilities	**(26,533)**	(333)	**(64,078)**	(88,687)
Total	**$ 53,896**	$ (333)	**$ (64,078)**	$ (88,687)

For the year end March 31, 2021, the net actuarial gains for pension and PBOP was largely the result of asset performance and lower contract pricing negotiated on certain prescription benefit costs within the PBOP Plans, partially offset by losses generated from the discount rate decrease. For the year end March 31, 2020, the net actuarial loss for pension and PBOP was primarily driven by the discount rate decrease and asset performance below expectations. This loss was partially offset

by a gain related to a change in the mortality assumption. For the year end March 31, 2019, the net actuarial loss for pension and PBOP was primarily generated by the discount rate decrease and asset performance below expectations.

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2021:

(in thousands of dollars) Years Ended March 31,	Pension Plans	PBOP Plans
2022	$ 24,129	$ 7,809
2023	23,627	8,153
2024	23,670	8,435
2025	23,547	8,679
2026	23,311	8,872
2027-2031	110,179	46,255
Total	$ 228,463	$ 88,203

Assumptions Used for Employee Benefits Accounting

	Pension Plans		
	Years Ended March 31,		
	2021	2020	2019
Benefit Obligations:			
Discount rate	**3.25%**	3.65%	4.10%
Rate of compensation increase (nonunion)	**4.10%**	3.50%	3.50%
Rate of compensation increase (union)	**5.00%**	3.50%	3.50%
Weighted average cash balance interest crediting rate	**3.75%**	3.75%	3.75%
Net Periodic Benefit Costs:			
Discount rate	**3.65%**	4.10%	4.10%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.00%**	6.50%	6.25%
Weighted average cash balance interest crediting rate	**3.75%**	3.75%	3.75%

	PBOP Plans		
	Years Ended March 31,		
	2021	2020	2019
Benefit obligations:			
Discount rate	**3.25%**	3.65%	4.10%
Net periodic benefit costs:			
Discount rate	**3.65%**	4.10%	4.10%
Expected return on plan assets	**6.50%-7.00%**	6.50%-7.25%	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 Aon AA Only Bond Universe 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

	Years Ended March 31,	
	2021	2020
Health care cost trend rate assumed for next year		
Pre-65	**6.80%**	7.00%
Post-65	**5.40%**	5.50%
Prescription	**7.70%**	8.00%
Rate to which the cost trend is assumed to decline (ultimate)	**4.50%**	4.50%
Year that rate reaches ultimate trend		
Pre-65	**2031+**	2031+
Post-65	**2031+**	2031+
Prescription	**2031+**	2031+

Plan Assets

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 the Company. Life insurance and medical benefits are provided for eligible retirees, dependents, and surviving spouses of the Company.

The Company manages the benefit plan investments for the exclusive purpose of providing retirement benefits to participants and beneficiaries and paying plan expenses. The benefit plans' named fiduciary is The Retirement Plans Committee ("RPC"). The RPC seeks to minimize the long-term cost of operating the Plans, with a reasonable level of risk. The investment objectives of the plans are to maintain a level and form of assets adequate to meet benefit obligations to participants, to achieve the expected long-term total return on the plans' assets within a prudent level of risk and maintain a level of volatility that is not expected to have a material impact on the Company's expected contribution and expense or the Company's ability to meet plan obligations.

The RPC has established and reviews at least annually the Investment Policy Statement ("IPS") which sets forth the guidelines for how plan assets are to be invested. The IPS contains a strategic asset allocation for each plan which is intended to meet the objectives of the plans by diversifying its funds across asset classes, investment styles and fund managers. An asset/liability study typically is conducted periodically to determine whether the current strategic asset allocation continues to represent the appropriate balance of expected risk and reward for the plan to meet expected liabilities. Each study considers the investment risk of the asset allocation and determines the optimal mix of assets for the plan. The target asset allocation for 2021 reflects the results of such a pension study conducted in 2019. The Union PBOP Plan asset liability study was conducted in 2021. As a result of that study the RPC approved changes to the Union PBOP asset allocation effective in fiscal year 2022. The Non-Union PBOP Plan asset liability study is expected to be run within the next 12-18 months.
Individual fund managers operate under written guidelines provided by the RPC, which cover such areas as investment objectives, performance measurement, permissible investments, investment restrictions, trading and execution, and communication and reporting requirements. National Grid management in conjunction with a third party investment advisor, regularly monitors, and reviews asset class performance, total fund performance, and compliance with asset allocation guidelines. This information is reported to the RPC at quarterly meetings. The RPC changes fund managers and rebalances the portfolio as appropriate.

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 and is mainly invested in investment grade securities. Where investments are made in non-investment grade assets the higher volatility is carefully judged and balanced against the expected higher returns. While the majority of plan assets are invested in equities and fixed income other asset classes are utilized to further diversify the investments. These asset classes include private equity, real estate, and diversified alternatives. The objective of these other investments are 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 liability study. Investment risk and return are reviewed by the plan investment advisors, National Grid management and the RPC on a regular basis. The assets of the plans have no significant concentration of risk in one country (other than the United States), industry or entity.

The target asset allocations for the benefit plans as of March 31, 2021 and 2020 are as follows:

	Pension Plans		**Union PBOP Plans**		**Non-Union PBOP Plans**	
	March 31,		**March 31,**		**March 31,**	
	2021	2020	**2021**	2020	**2021**	2020
Equity	**37%**	37%	**63%**	63%	**70%**	70%
Diversified alternatives	**10%**	10%	**17%**	17%	**0%**	0%
Fixed income securities	**40%**	40%	**20%**	20%	**30%**	30%
Private equity	**5%**	5%	**0%**	0%	**0%**	0%
Real estate	**5%**	5%	**0%**	0%	**0%**	0%
Infrastructure	**3%**	3%	**0%**	0%	**0%**	0%
	100%	100%	**100%**	100%	**100%**	100%

Fair Value Measurements

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

	March 31, 2021				
	Level 1	**Level 2**	**Level 3**	**Not categorized**	**Total**
	(in thousands of dollars)				
Pension assets:					
Equity	$ 482,838	$ -	$ -	$ 1,736,250	$ 2,219,089
Diversified alternatives	136,741	-	-	391,371	528,112
Corporate bonds	-	981,533	-	314,123	1,295,655
Government securities	1,338	582,961	-	473,231	1,057,529
Private equity	-	-	-	333,724	333,724
Real estate	-	-	-	208,676	208,676
Infrastructure	-	-	-	96,080	96,080
Total assets	**$ 620,917**	**$ 1,564,494**	**$ -**	**$ 3,553,455**	**$ 5,738,865**
Pending transactions					(304,650)
Total net assets					**$ 5,434,215**
PBOP assets:					
Equity	$ 188,104	$ -	$ -	$ 655,409	$ 843,513
Diversified alternatives	110,363	-	-	98,178	208,541
Corporate bonds	-	7,614	-	-	7,614
Government securities	36,350	224,683	-	-	261,033

	Level 1	Level 2	Level 3	Not categorized	Total
Private equity	-	-	-	298	298
Insurance contracts	-	-	-	192,895	192,895
Total assets	**$ 334,817**	**$ 232,297**	**$ -**	**$ 946,780**	**$ 1,513,894**
Pending transactions					1,058
Total net assets					**$ 1,514,952**

	March 31, 2020				
	Level 1	**Level 2**	**Level 3**	**Not categorized**	**Total**
			(in thousands of dollars)		
Pension assets:					
Equity	$ 341,072	$ -	$ -	$ 1,223,043	$ 1,564,115
Diversified alternatives	112,117	-	-	333,448	445,565
Corporate bonds	-	825,484	-	260,665	1,086,149
Government securities	(8,882)	574,654	-	531,619	1,097,391
Private equity	-	-	-	256,432	256,432
Real estate	-	-	-	217,993	217,993
Infrastructure	-	-	-	92,197	92,197
Total assets	**$ 444,307**	**$ 1,400,138**	**$ -**	**$ 2,915,397**	**$ 4,759,842**
Pending transactions					(211,366)
Total net assets					**$ 4,548,476**
PBOP assets:					
Equity	$ 136,913	$ -	$ -	$ 452,102	$ 589,015
Diversified alternatives	82,214	-	-	78,944	161,158
Corporate bonds	-	7,025	-	-	7,025
Government securities	29,324	190,633	-	-	219,957
Private equity	-	-	-	404	404
Insurance contracts	-	-	-	132,934	132,934
Total assets	**$ 248,451**	**$ 197,658**	**$ -**	**$ 664,384**	**$ 1,110,493**
Pending transactions					2,886
Total net assets					**$ 1,113,379**

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

Equity: Equity includes both actively and passively managed assets, with investments in domestic equity index funds as well as international equities.

Diversified alternatives: Diversified alternatives consist of holdings of global tactical asset allocation funds that seek to invest opportunistically in a range of asset classes and sectors globally.

Corporate bonds: Corporate bonds consist of debt issued by various corporations and corporate money market funds. Corporate bonds also Include small investments in preferred securities, as these are used in the fixed income portfolios as yield-producing Investments. In addition, certain fixed income derivatives are included in this category, such as credit default swaps, to assist in managing credit risk.

Government securities: Government securities include U.S. agency and treasury securities, as well as state and local municipal bonds. The Plans hold a small amount of non-U.S. government debt, which is also captured here. U.S. government

money market funds are also included. In addition, interest rate futures and swaps are included in this category as a tool to manage interest rate risk.

Private equity: Private equity consists of limited partnership investments where all the underlying investments are privately held. This primarily consists of buy-out investments, with smaller allocations to venture capital.

Real estate: Real estate consists of limited partnership investments, primarily in U.S. core open-end real estate funds as well as some core-plus closed-end real estate funds.

Infrastructure: Infrastructure consists of limited partnership investments that seek to invest in physical assets that are considered essential for a society to facilitate the orderly operation of its economy. Investments in infrastructure typically include transportation assets (such as airports and toll roads) and utility-type assets. Investments in Infrastructure funds are utilized as a diversifier to other asset classes within the pension portfolio. Infrastructure investments are also typically income-producing assets.

Insurance contracts: Insurance contracts consist of trust-owned life insurance.

Pending transactions: These are short-term cash transactions that are expected to settle within a few days of the measurement date.

10. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to March 31, 2021 are as follows:

(in thousands of dollars) March 31,	Maturities of Long-Term Debt
2022	$ 40,000
2023	35,000
2024	16,000
2025	5,000
2026	55,000
Thereafter	1,695,000
Total	$ 1,846,000

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. As of March 31, 2021, and 2020, the Company was in compliance with all such covenants.

On June 15, 2020, the Company received approval from the DPU for a one-year extension of the remaining $250 million of long-term debt authorization through June 29, 2021.

On September 25, 2020, Boston made a dividend payment of $43 million.

11. INCOME TAXES

Components of Income Tax Expense (Benefit)

	Years Ended March 31,		
	2021	2020	2019
		(in thousands of dollars)	
Current tax (benefit) expense:			
Federal	**$ (41,165)**	$ (38,655)	$ (51,175)
State	**(23,907)**	(6,716)	(23,059)
Total current tax benefit	**(65,072)**	(45,371)	(74,234)
Deferred tax expense:			
Federal	**66,061**	57,276	3,730
State	**38,705**	20,279	8,726
Total deferred tax expense	**104,766**	77,555	12,456
Total income tax expense (benefit)	**$ 39,694**	$ 32,184	$ (61,778)

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2021, 2020, and 2019 are 23.7%, 23.8%, and 27.5%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 21.0% to the actual tax expense:

	Years Ended March 31,		
	2021	2020	2019
		(in thousands of dollars)	
Computed tax	**$ 35,174**	$ 28,384	$ (47,136)
Change in computed taxes resulting from:			
State income tax, net of federal benefit	**11,690**	10,714	(11,323)
Amortization of regulatory tax liability, net	**(8,179)**	(7,705)	(4,248)
Other items, net	**1,009**	791	929
Total changes	**4,520**	3,800	(14,642)
Total income tax expense (benefit)	**$ 39,694**	$ 32,184	$ (61,778)

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

Deferred Tax Components

	March 31,	
	2021	2020
	(in thousands of dollars)	
Deferred tax assets:		
Allowance for doubtful accounts	**$ 27,317**	$ 23,419
Environmental remediation costs	**13,096**	13,099
Net operating losses	**53,267**	56,482
Postretirement benefits and other employee benefits	**29,544**	28,030
Regulatory liabilities	**109,519**	114,929
Reserves not currently deducted	**19,887**	25,447
Other items	**7,885**	9,844
Total deferred tax assets	**260,515**	271,250
Deferred tax liabilities:		
Property-related differences	**725,875**	652,330
Regulatory assets	**115,698**	128,415
Other items	**22,489**	-
Total deferred tax liabilities	**864,062**	780,745
Deferred income tax liabilities, net	**$ 603,547**	$ 509,495

Net Operating Losses

The amounts and expiration dates of the Company's net operating losses carryforward as of March 31, 2021 are as follows:

Jurisdiction	Carryforward Amount *(in thousands of dollars)*	Expiration Period
Federal	$ 329,417	2033-2038
Federal – No Expiration	34,148	Indefinite
Massachusetts	259,313	2036-2041

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

Status of Income Tax Examinations

During the year ended March 31, 2021, the Company reached a settlement with the IRS for the tax years ended March 31, 2013, 2014, and 2015. As a result of the settlement, the Company made a payment for tax and interest of $4.6 million. During the year ended March 31, 2021, the IRS informed the Company that it does not intend to audit the Company's income tax returns for the periods ended March 31, 2016 and 2017 and commenced its examination of the next audit cycle which includes periods ended March 31, 2018 and 2019. While the income tax returns for fiscal years 2016 and 2017 are not currently being audited by the IRS, the statute of limitations for these tax periods does not expire until December 31, 2021. Therefore, the income tax returns for the years ended March 31, 2016 through March 31, 2021 remain subject to examination by the IRS.

The state of Massachusetts continues its examination of the Company's income tax returns for the years ended March 31, 2010 through March 31, 2012. The income tax returns for the years ended March 31, 2013 through March 31, 2021 remain subject to examination by the state of Massachusetts.

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

Jurisdiction	Tax Year
Federal	March 31, 2016
Massachusetts	March 31, 2010

Uncertain Tax Positions

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 statement of operations. As of March 31, 2021, and 2020, the Company has accrued for interest related to unrecognized tax benefits of $2.1 million and $15.5 million, respectively. During the years ended March 31, 2021, 2020, and 2019, the Company recorded interest income of $13.8 million and interest expense of $6.9 million and $2.9 million respectively. No tax penalties were recognized during the years ended March 31, 2021, 2020 and 2019.

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.

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.

Within the Commonwealth of Massachusetts, the Company is aware of numerous former MGP sites and related facilities within the existing or former service territories of the Company. Investigation and remediation expenditures incurred for the years ended March 31, 2021, 2020, and 2019 were $1.3 million, $2.1 million, and $0.9 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $47.9 million and $47.9 million as of March 31, 2021 and March 31, 2020, respectively. These costs are expected to be incurred over approximately 48 years, and these undiscounted amounts have been recorded as estimated liabilities on the balance sheet. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders, the DPU has provided for the recovery of site investigation and remediation costs. Accordingly, as of March 31, 2021 and March 31, 2020, the Company has recorded environmental regulatory assets of $56.6 million (including $2.5 million related to LDAC) and $58.7 million (including $2.0 million related to LDAC), respectively.

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

13. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has entered into various contracts for gas delivery, storage, and supply services. Certain of these contracts require payment of annual demand charges, which are recoverable from customers. The Company is liable for these payments regardless of the level of service required from third parties.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2021 are summarized in the table below:

(in thousands of dollars)	**Gas**
March 31,	**Purchases**
2022	$ 306,236
2023	274,234
2024	224,107
2025	199,679
2026	172,350
Thereafter	1,112,860
Total	$ 2,289,466

Legal Matters

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

On June 17, 2021, five former National Grid employees in the downstate New York facilities department were arrested on federal charges alleging fraud and bribery. It is National Grid's understanding that the investigation by the US Attorney's Office and FBI remains ongoing; National Grid is a victim of the alleged crimes and will continue to comply with the government's investigation. The New York Public Service Commission, the Massachusetts Department of Public Utilities, and the Rhode Island Public Utilities Commission have each issued requests for information related to the alleged criminal conduct. At this time, it is not possible to predict the outcome of the investigation or regulatory reviews or determine the amount, if any, of any potential customer impacts or other liabilities that may be incurred by the Company or its affiliates. However, the Company does not expect this matter will have a material adverse effect on its results of operations, financial position or cash flows.

Separately, National Grid is performing an internal investigation regarding conduct associated with energy efficiency programs at one of the Company's affiliates. At this time, it is not possible to predict the outcome of the investigation or determine the amount, if any, of any potential customer impacts or other liabilities that may be incurred in connection with it by the Company or its affiliates. However, the Company does not expect this matter will have a material adverse effect on its results of operations, financial position or cash flows.

14. LEASES

The Company has various operating leases, primarily related to buildings and land used to support its gas operations, with lease terms ranging between 5 and 70 years.

Operating lease ROU assets are included in property, plant and equipment, net, and operating lease liabilities are included in other current liabilities and other noncurrent liabilities on the balance sheet. As of March 31, 2021, the Company does not have any finance leases.

Expense related to operating leases was $3.7 million and $3.6 million for the years ended March 31, 2021 and 2020, respectively. Rent expense for operating leases was $4.4 million for the year ended March 31, 2019 under Topic 840.

As of March 31, 2021, the Company does not have material rights or obligations under operating leases that have not yet commenced.

The following table presents the components of cash flows arising from lease transactions and other operating lease-related information:

	Years Ended March 31,	
	2021	2020
	(in thousands of dollars)	
Cash paid for amounts included in lease liabilities		
Operating cash flows from operating leases	**$ 3,966**	$ 3,581
ROU assets obtained in exchange for new operating lease liabilities	**5,281**	56,007
Weighted average remaining lease term – operating leases	**20 years**	21 years
Weighted average discount rate – operating leases	**3.4%**	3.5%

The following table contains the Company's maturity analysis of its operating lease liabilities as of March 31, 2021, showing the undiscounted cash flows on an annual basis reconciled to the undiscounted cash flows of the operating lease liabilities recognized in the comparative balance sheet:

	Operating Leases
Year Ending March 31,	*(in thousands of dollars)*
2022	**$ 3,668**
2023	**4,290**
2024	**4,348**
2025	**4,419**
2026	**4,487**
Thereafter	**63,311**
Total future minimum lease payments	**84,523**
Less: imputed interest	**25,154**
Total	**$ 59,369**
Reported as of March 31, 2021:	
Current lease liability	**$ 1,675**
Non-current lease liability	**57,694**
Total	**$ 59,369**

There are certain leases in which the Company is the lessor. Revenue under such leases was immaterial for the year ended March 31, 2021 and 2020.

15. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates		**Accounts Payable to Affiliates**	
	March 31,		**March 31,**	
	2021	2020	**2021**	2020
	(in thousands of dollars)			
NGUSA	**352**	25,833	**60,948**	51,157
NGUSA Service Company	**6,367**	7,683	**26,625**	21,426
The Brooklyn Union Gas Company	**1,541**	1,060	**1,669**	922
Massachusetts Electric Company	**1,889**	35	**-**	399
Other Affiliates	**221**	141	**112**	22
Total	**$ 10,370**	$ 34,752	**$ 89,354**	$ 73,926

Intercompany Money Pool

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

The Regulated Money Pool is funded by operating funds from participants. NGUSA has the ability to borrow up to $3.0 billion from National Grid plc for working capital needs, including funding of the Regulated Money Pool, if necessary. The Company had short-term intercompany money pool investments of $259.4 million and borrowings of $318.4 million as of March 31, 2021. The Company had short-term intercompany money pool investments of $512.6 million and borrowings of $197.9 million as of March 31, 2020. The average interest rates for the intercompany money pool were 0.7%, 2.4%, and 2.4% for the years ended March 31, 2021, 2020, and 2019, respectively.

Service Company Charges

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

Charges from the service companies of NGUSA to the Company are mostly related to traditional administrative support functions, which for the years ended March 31, 2021, 2020, and 2019 were $288.5 million, $294.9 million, and $345.3 million respectively.