

national**grid**

Massachusetts Electric Company

Financial Statements

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

MASSACHUSETTS ELECTRIC COMPANY

TABLE OF CONTENTS

Independent Auditors' Report.....	3
Statements of Income Years Ended March 31, 2021, 2020, and 2019.....	4
Statements of Cash Flows Years Ended March 31, 2021, 2020, and 2019.....	5
Balance Sheets March 31, 2021 and 2020.....	6
Statements of Capitalization March 31, 2021 and 2020.....	8
Statements of Changes in Shareholders' Equity Years Ended March 31, 2021, 2020, and 2019.....	9
Notes to the Financial Statements:	
1. Nature of Operations and Basis of Presentation.....	10
2. Summary of Significant Accounting Policies.....	11
3. Revenue.....	17
4. Regulatory Assets and Liabilities.....	19
5. Rate Matters.....	21
6. Property, Plant, and Equipment.....	25
7. Employee Benefits.....	25
8. Capitalization.....	33
9. Income Taxes.....	34
10. Environmental Matters.....	37
11. Commitments and Contingencies.....	37
12. Leases.....	40
13. Related Party Transactions.....	41

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Massachusetts Electric Company

We have audited the accompanying financial statements of Massachusetts Electric Company (the "Company"), which comprise the balance sheets and statements of capitalization as of March 31, 2021 and 2020 and the related statements of income, cash flows, and changes in shareholders' 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 Massachusetts Electric 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.



September 27, 2021

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

	Years Ended March 31,		
	2021	2020	2019
Operating revenues	\$ 2,429,179	\$ 2,456,591	\$ 2,409,522
Operating expenses:			
Purchased electricity	517,289	676,749	730,566
Operations and maintenance	1,445,881	1,310,363	1,254,514
Depreciation	157,660	153,560	150,161
Other taxes	85,852	79,096	70,844
Total operating expenses	2,206,682	2,219,768	2,206,085
Operating income	222,497	236,823	203,437
Other income and (deductions):			
Interest on long-term debt	(70,954)	(67,828)	(67,826)
Other interest, including affiliate interest, net	(1,357)	(1,922)	770
Other (deductions) income, net	(3,095)	36,500	32,633
Total other deductions, net	(75,406)	(33,250)	(34,423)
Income before income taxes	147,091	203,573	169,014
Income tax expense	25,158	46,256	42,846
Net income	\$ 121,933	\$ 157,317	\$ 126,168

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

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

Years Ended March 31,

	2021	2020	2019
Operating activities:			
Net income	\$ 121,933	\$ 157,317	\$ 126,168
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	157,660	153,560	150,161
Accrued interest on tax reserves	(719)	-	-
Deferred income tax (benefit) expense	(13,551)	25,397	44,944
Bad debt expense	107,822	80,935	51,940
Allowance for equity funds used during construction	(2,650)	(6,394)	(7,791)
Amortization of debt discount and issuance costs	521	445	444
Pension and postretirement benefit expenses	7,129	2,639	9,090
Pension and postretirement benefit contributions	(10,086)	(17,218)	(19,631)
Environmental remediation payments	(9,348)	(6,112)	(4,710)
Changes in operating assets and liabilities:			
Accounts receivable, net, and unbilled revenues	(171,056)	(24,205)	(57,242)
Accounts receivable from/payable to affiliates, net	15,078	42,592	(9,480)
Inventory	(3,611)	(4,068)	4,763
Regulatory assets and liabilities, net	(106,435)	(135,095)	4,636
Prepaid and accrued taxes, net	4,701	(32,821)	20,358
Accounts payable and other liabilities	76,624	2,023	5,402
Renewable energy certificate obligations, net	15,811	(11,909)	21,940
Other, net	15,056	(9,345)	(33,005)
Net cash provided by operating activities	<u>204,879</u>	<u>217,741</u>	<u>307,987</u>
Investing activities:			
Capital expenditures	(299,197)	(308,957)	(299,481)
Intercompany money pool	(227,328)	-	87,790
Cost of removal	(32,028)	(30,137)	(22,965)
Other, net	(2,198)	127	1,047
Net cash used in investing activities	<u>(560,751)</u>	<u>(338,967)</u>	<u>(233,609)</u>
Financing activities:			
Common stock dividends to Parent	-	-	(65,000)
Preferred stock dividends	(100)	(100)	(100)
Issuance of long-term debt	500,000	-	-
Payment of debt issuance costs	(2,403)	-	-
Intercompany money pool	(136,114)	117,303	(493)
Net cash provided by (used in) financing activities	<u>361,383</u>	<u>117,203</u>	<u>(65,593)</u>
Net increase (decrease) in cash, cash equivalents, restricted cash, and special deposits	5,511	(4,023)	8,785
Cash, cash equivalents, restricted cash, and special deposits, beginning of year	10,001	14,024	5,239
Cash, cash equivalents, restricted cash, and special deposits, end of year	<u>\$ 15,512</u>	<u>\$ 10,001</u>	<u>\$ 14,024</u>
Supplemental disclosures:			
Interest paid	\$ (68,876)	\$ (68,281)	\$ (64,954)
Income taxes paid	(38,070)	(49,934)	(1,501)
Significant non-cash items:			
Capital-related accruals included in accounts payable	7,420	9,173	8,983
Parent tax loss allocation	10,045	-	-

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

MASSACHUSETTS ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,511	\$ 10,000
Restricted cash and special deposits	1	1
Accounts receivable	696,816	537,239
Allowance for doubtful accounts	(266,310)	(169,240)
Accounts receivable from affiliates	13,404	16,936
Intercompany money pool asset	227,328	-
Unbilled revenues	91,284	90,557
Inventory	129,854	148,917
Regulatory assets	190,337	171,959
Other	7,937	9,750
Total current assets	1,106,162	816,119
Property, plant, and equipment, net	3,958,769	3,758,429
Non-current assets:		
Regulatory assets	802,557	900,799
Goodwill	1,008,244	1,008,244
Other	31,983	52,577
Total non-current assets	1,842,784	1,961,620
Total assets	\$ 6,907,715	\$ 6,536,168

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

MASSACHUSETTS ELECTRIC COMPANY

BALANCE SHEETS

(in thousands of dollars)

	March 31,	
	2021	2020
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	\$ 325,537	\$ 283,300
Accounts payable to affiliates	155,734	144,188
Intercompany moneypool liability	-	136,114
Taxes accrued	26,309	32,163
Customer deposits	13,622	21,176
Interest accrued	23,655	20,696
Regulatory liabilities	8,967	35,042
Renewable energy certificate obligations	182,343	189,206
Payroll and benefits accruals	26,565	22,412
Environmental remediation costs	9,122	22,251
Distributed generation	63,301	44,704
Other	36,046	28,958
Total current liabilities	871,201	980,210
Non-current liabilities:		
Regulatory liabilities	654,832	681,647
Asset retirement obligations	1,338	2,034
Deferred income tax liabilities, net	463,100	450,464
Postretirement benefits	65,022	205,995
Environmental remediation costs	68,476	62,775
Other	78,550	77,278
Total non-current liabilities	1,331,318	1,480,193
Commitments and contingencies (Note 11)		
Capitalization:		
Shareholders' equity	2,916,670	2,785,358
Long-term debt	1,788,526	1,290,407
Total capitalization	4,705,196	4,075,765
Total liabilities and capitalization	\$ 6,907,715	\$ 6,536,168

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

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

			March 31,	
			2021	2020
Total shareholders' equity			\$ 2,916,670	\$ 2,785,358
Long-term debt:	Interest Rate	Maturity Date		
Senior Note	1.73%	November 24, 2030	500,000	-
Senior Note	5.90%	November 15, 2039	800,000	800,000
Senior Note	4.00%	August 15, 2046	500,000	500,000
Total debt			1,800,000	1,300,000
Unamortized debt discount			(1,659)	(1,748)
Unamortized debt issuance costs			(9,815)	(7,845)
Total long-term debt			1,788,526	1,290,407
Total capitalization			\$ 4,705,196	\$ 4,075,765

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

MASSACHUSETTS ELECTRIC COMPANY
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)			Retained Earnings	Total
				Unrealized Gain (Loss) on Available- For-Sale Securities	Pension and Other Postretirement Benefits	Total Accumulated Other Comprehensive Income (Loss)		
Balance as of March 31, 2018	\$ 59,953	\$ 2,259	\$ 1,853,349	\$ 1,008	\$ 4,759	\$ 5,767	\$ 645,522	\$ 2,566,850
Net income	-	-	-	-	-	-	126,168	126,168
Other comprehensive loss:								
Unrealized losses on securities, net of \$6 tax benefit	-	-	-	(16)	-	(16)	-	(16)
Total comprehensive income	-	-	-	-	-	-	-	126,152
Common stock dividends to Parent	-	-	-	-	-	-	(65,000)	(65,000)
Preferred stock dividends	-	-	-	-	-	-	(100)	(100)
Impact of adoption of the recognition and measurement of financial assets and liabilities standard	-	-	-	(961)	-	(961)	961	-
Balance as of March 31, 2019	\$ 59,953	\$ 2,259	\$ 1,853,349	\$ 31	\$ 4,759	\$ 4,790	\$ 707,551	\$ 2,627,902
Net income	-	-	-	-	-	-	157,317	157,317
Other comprehensive income:								
Unrealized gains on securities, net of \$79 tax expense	-	-	-	210	-	210	-	210
Change in pension and other postretirement obligations, net of \$11 tax expense	-	-	-	-	29	29	-	29
Total comprehensive income	-	-	-	-	-	-	-	157,556
Preferred stock dividends	-	-	-	-	-	-	(100)	(100)
Impact of adoption of reclassification of certain tax effects from accumulated other comprehensive income standard	-	-	-	10	(4,759)	(4,749)	4,749	-
Balance as of March 31, 2020	\$ 59,953	\$ 2,259	\$ 1,853,349	\$ 251	\$ 29	\$ 280	\$ 869,517	\$ 2,785,358
Net income	-	-	-	-	-	-	121,933	121,933
Other comprehensive income (loss):								
Unrealized gains on securities, net of \$6 tax expense	-	-	-	15	-	15	-	15
Change in pension and other postretirement obligations, net of \$218 tax benefit	-	-	-	-	(581)	(581)	-	(581)
Total comprehensive income	-	-	-	-	-	-	-	121,367
Parent tax loss allocation	-	-	10,045	-	-	-	-	10,045
Preferred stock dividends	-	-	-	-	-	-	(100)	(100)
Balance as of March 31, 2021	\$ 59,953	\$ 2,259	\$ 1,863,394	\$ 266	\$ (552)	\$ (286)	\$ 991,350	\$ 2,916,670

The Company had 2,398,111 shares of common stock authorized, issued, and outstanding, with a par value of \$25 per share, and 22,585 shares of cumulative preferred 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.

**MASSACHUSETTS ELECTRIC COMPANY
NOTES TO THE FINANCIAL STATEMENTS**

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Massachusetts Electric Company (“the Company”) is an electric retail distribution company providing electric service to approximately 1.4 million customers in 171 cities and towns in Massachusetts. The properties of the Company consist principally of substations and distribution lines interconnected with transmission and other facilities of New England Power Company (“NEP”), an affiliated entity.

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

Pursuant to a settlement agreement associated with NGUSA’s purchase of Nantucket Electric Company (“Nantucket Electric”) in 1996, which was approved by the Massachusetts Department of Public Utilities (“DPU”), the Company and its affiliate, Nantucket Electric, are considered as one regulated entity for the purpose of recovering costs and establishing rates assessed to customers, with the exception of the recovery of Nantucket Electric’s investment in two undersea electric cables. In the recovery of certain regulatory assets, funding of the recovery is from the customers of both companies. The mechanism by which recovery is ultimately achieved, however, is through a single regulatory asset recorded on the balance sheet of the Company. Nantucket Electric’s share of these costs and recoveries is reflected through a return on equity (“ROE”) mechanism between the Company and Nantucket Electric, as discussed in Note 13, “Related Party Transactions.”

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

The 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 and the U.S. Centers for Disease Control and Prevention. In March 2020, the Company ceased certain customer cash collection activities in response to regulatory instructions and changes in federal, state, and local regulations and guidance, and took actions to minimize risk to its employees. The Company has also ceased certain customer termination activities, as requested by relevant local authorities. See Note 5, “Rate Matters,” for additional details.

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, which are partially offset by other reduced costs and mitigation efforts by the Company. Cash flow is negatively impacted by the higher level of operating costs and lower cash collections.

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. There has also been no impact on the Company’s access to capital at present.

The Company has evaluated subsequent events and transactions through September 27, 2021, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2021, with the exception of items otherwise disclosed in these financial statements.

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.

Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC") and the DPU regulate the rates the Company charges its customers. In certain cases, the rate actions of the FERC and 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 Accounting Standards Codification ("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. In accordance with ASC 980, amounts capitalized for an allowance on shareholders' investment for ratemaking purposes have been derecognized for financial reporting. The equity return was capitalized and derecognized on the capital tracker, which is calculated using a weighted average cost of capital rate containing an element of equity return. The amount derecognized as of March 31, 2021 was \$7.4 million.

Revenue Recognition

Revenues are recognized for electric distribution services billed on a monthly cycle basis, together with 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.

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.

Other Taxes

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

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

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 \$107.8 million, \$80.9 million, and \$51.9 million for the years ended March 31, 2021, 2020, and 2019, respectively, within operations and maintenance expense in the accompanying statements of income. For the years ended March 31, 2021 and 2020, bad debt expense includes the estimated impact of COVID-19.

Inventory

Inventory is composed of materials and supplies as well as purchased renewable energy certificates ("RECs"). Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized into property, plant, and equipment as used. Purchased RECs are stated at cost. There were no significant write-offs of obsolete inventory for the years ended March 31, 2021, 2020, or 2019.

The Company had materials and supplies of \$29.4 million and \$25.7 million and purchased RECs of \$100.5 million and \$123.2 million as of March 31, 2021 and 2020, respectively.

Renewable Energy Certificate Obligations

RECs are stated at cost and are used to measure compliance with state renewable energy standards. RECs support new renewable generation resources and are held primarily to be utilized in fulfillment of the Company's compliance obligations. As of March 31, 2021 and 2020, the Company recorded renewable energy certificate obligations of \$182.3 million and \$189.2 million, respectively.

Fair Value Measurements

The Company measures securities and pension and postretirement benefit other than pension ("PBOP") plan assets at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following is the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data;
- Level 3: unobservable inputs, such as internally developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs; and
- Not categorized: Investments in 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 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 capitalized cost of additions to property, plant, and equipment includes costs such as direct materials, labor and benefits, and an allowance for funds used during construction ("AFUDC"). 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.

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the FERC and the DPU. The average composite rates for the years ended March 31, 2021, 2020, and 2019 were 3.1%, 3.2%, and 3.4%, respectively.

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 recovered that was in excess of costs incurred of \$307.1 million and \$293.9 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 income as non-cash income in other (deductions) income, 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 rate base. The Company recorded AFUDC related to equity of \$2.7 million, \$6.4 million, and \$7.8 million, and AFUDC related to debt of \$1.9 million, \$3.2 million, and \$3.4 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 3.7%, 6.8%, and 7.8%, 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 (or asset group) 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 is 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 PBOP plans for its employees, administered by NGUSA. The Company recognizes its portion of the pension and PBOP plans’ funded status on the balance sheet as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The pension and PBOP plans’ assets are commingled and allocated to measure and record pension and PBOP funded status at each 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 early 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 7, “Employee Benefits.” The amendments did not materially affect the Company’s disclosures related to its defined benefit postretirement 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 have a material impact on the Company’s financial position, results of operations, or cash flows.

Accounting Guidance Not Yet Adopted

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.

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 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, such that the premium should be amortized over the period ending at the earliest call date. 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.

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 standard provides a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses, which will replace 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 the Company’s presentation, results of operations, cash flows, and financial position.

3. REVENUE

The following table presents, for the years ended March 31, 2021, 2020, and 2019, 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	2019
	<i>(in thousands of dollars)</i>		
Revenue from contracts with customers:			
Electric services	\$ 2,366,495	\$ 2,321,357	\$ 2,449,692
Total revenue from contracts with customers	2,366,495	2,321,357	2,449,692
Revenue from regulatory mechanisms	42,261	125,609	(50,626)
Other revenue	20,423	9,625	10,456
Total operating revenues	\$ 2,429,179	\$ 2,456,591	\$ 2,409,522

Electric services: The Company owns, maintains, and operates an electric distribution network in upstate Massachusetts. Distribution revenues are primarily from the sale of electricity 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. Electric services revenues are derived from the regulated sale and distribution of electricity 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 these sales is to provide electricity to the customers on demand. The electricity supplied under the tariff represents a single performance obligation, as it is a series of distinct goods or services that are substantially the same. The performance obligation is satisfied over time because the customer simultaneously receives and consumes the electricity as the Company provides these services. The Company records revenues 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.

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

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

Additionally, the Company owns an electric transmission system in Massachusetts. Transmission systems generally include overhead lines, underground cables, and substations connecting generation and interconnectors to the distribution system. The Company’s transmission services are regulated by both the Independent System Operator – New England (“ISO-NE”) and by the FERC. Additionally, the Company makes available its transmission facilities to NEP for operation and control pursuant to an integrated facilities agreement, Service Agreement No. 23. See Note 13, “Related Party Transactions,” for additional details. Transmission revenues arise under tariff/rate agreements and are collected primarily from the Company’s Massachusetts distribution customers.

Revenue from regulatory mechanisms: The Company records revenues in accordance with accounting principles for rate-regulated operations for 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 other programs that also qualify as Alternative Revenue Programs (“ARPs”). ARPs enable the Company to adjust rates in the future in response to past activities or completed events. The Company’s electric distribution rates have a revenue decoupling mechanism (“RDM”), which allows for annual adjustments to the Company’s delivery rates as a result of the reconciliation between allowed revenue and billed revenue. The Company also has other ARPs related to the achievement of certain objectives, demand-side management initiatives, and certain other 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 and the amounts are determinable and probable of recovery (or payment) through future rate adjustments within 24 months from the end of the annual reporting period.

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

4. REGULATORY ASSETS AND LIABILITIES

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

	March 31,	
	2021	2020
	<i>(in thousands of dollars)</i>	
Regulatory assets		
Current:		
Rate adjustment mechanisms	\$ 75,168	\$ 55,625
Renewable energy certificates	81,848	66,037
Revenue decoupling mechanism	18,140	50,297
Transmission service	15,181	-
Total	<u>190,337</u>	<u>171,959</u>
Non-current:		
COVID-19 delivery bad debt	56,967	-
Energy efficiency	12,019	36,540
Environmental response costs	74,789	82,280
Net metering deferral	190,607	193,461
Postretirement benefits	161,981	307,644
Rate adjustment mechanisms	45,415	67,123
Storm costs	215,965	171,450
Other	44,814	42,301
Total	<u>802,557</u>	<u>900,799</u>
Regulatory liabilities		
Current:		
Residential assistance adjustment factor	8,836	4,970
Transmission service	-	29,693
Other	131	379
Total	<u>8,967</u>	<u>35,042</u>
Non-current:		
Cost of removal	307,092	293,935
Environmental response costs	16,526	20,784
Regulatory tax liability, net	306,831	333,231
Other	24,383	33,697
Total	<u>\$ 654,832</u>	<u>\$ 681,647</u>

Other than \$177.5 million of the non-current regulatory assets reflected in the table above (consisting of \$158.1 million of postretirement benefits and \$19.4 million of other costs), all regulatory assets earn a rate of return.

As of March 31, 2021, \$7.4 million of allowances for earnings on shareholders' investment were capitalized for ratemaking purposes but not for U.S. GAAP reporting.

Cost of removal: Represents cumulative removal 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 the delivery-related uncollectible expense deferral, per D.P.U. 20-58 and 20-91, to defer the delivery bad debt expense as a result of COVID-19.

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

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

Net metering deferral: Net metering deferral reflects the recovery mechanism for costs associated with customer-installed on-site generation facilities, including the costs of renewable generation credits. This surcharge provides the Company with a mechanism to recover such amounts.

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.

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

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

Renewable energy certificates: Represents deferred costs associated with the Company's compliance with Massachusetts' Renewable Portfolio Standards ("RPS"). The RPS legislation was established to foster the development of new renewable energy sources. The regulatory asset will be recovered over the next year.

Residential assistance adjustment factor: The Company is allowed to recover the incremental costs associated with the operation of the Company's Arrearage Management Programs ("AMPs") offered to qualifying customers, along with the discount provided to customers receiving retail delivery service under Residential Low-Income Rate R-2. Discounts provided to eligible customers amount to 25% of the customers' total bill for service.

Revenue decoupling mechanism ("RDM"): As approved by the DPU, the Company has an electric RDM, which allows for an annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed and billed revenues. Any difference is recorded as a regulatory asset or regulatory liability.

Storm costs: The Company is allowed to recover storm costs from all retail delivery service customers. This balance reflects costs yet to be recovered. See Note 5, "Rate Matters," for additional information regarding the recovery of storm costs.

Transmission service: The Company arranges transmission service on behalf of its customers and bills the costs of those services to customers pursuant to the Company's Transmission Service Cost Adjustment Provision. Any over or under recoveries of these costs are passed on to customers receiving transmission service over the subsequent year.

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 15, 2018, the Company and its affiliate, Nantucket Electric, filed an application for new base distribution rates that became effective October 1, 2019. On September 30, 2019, and updated on October 11, 2019, the DPU approved for the Company and Nantucket Electric an overall net increase in base distribution revenue of approximately \$40 million based upon a 9.6% ROE, with a 53.49% equity, 46.43% long-term debt, and 0.08% preferred stock capital structure. The DPU approved a five-year performance-based ratemaking (“PBR”) plan, which adjusts base distribution revenue annually based on a pre-determined formula. With the approval of the PBR plan, the Company agreed not to file for an effective change in base distribution rates outside of the operation of the PBR plan for five years. Also, the Capital Investment Recovery Mechanism will be discontinued after a transition period that concludes with nine months of recovery of vintage year 2019 investments through September 30, 2021, at which point the recovery of capital investments will fully transition to the PBR plan. The approved net increase includes an increase in annual funding of the storm fund from \$10.5 million to \$16.0 million per year and an extension of the storm fund replenishment factor through November 2023.

PBR Plan Filing

On June 15, 2020, the Company and Nantucket Electric filed the first annual PBR plan filing for rates effective October 1, 2020. The PBR plan filing adjusts base distribution rates pursuant to a revenue cap formula, provides a credit to customers for any customer share of excess earnings pursuant to the earnings sharing mechanism, and recovers from or credits customers for the impact of costs in excess of a threshold associated with exogenous events, including storms having incremental costs in excess of \$30 million. The result of the revenue cap formula was a proposed increase to base distribution revenue of 3.237%, or \$25.7 million. On September 23, 2020, the DPU approved the Company and Nantucket Electric’s proposed PBR and Capital Expenditure Adjustment filing, effective October 1, 2020, subject to further investigation and reconciliation in the second phase of the proceeding. On February 25, 2021, the DPU provided its final approval of the Company and Nantucket Electric’s proposed PBR and Capital Expenditure Adjustment filing.

On June 15, 2021, the Company and Nantucket Electric filed the next annual PBR plan filing for rates effective October 1, 2021. The result of the revenue cap formula is a proposed increase to base distribution revenue of 2.709%, or \$22.8 million. The Company cannot predict the outcome of this request.

Recovery of Transmission Costs

The Company’s transmission facilities are operated in combination with the transmission facilities of its New England affiliates, The Narragansett Electric Company (“NECO”) and NEP, as a single integrated system, with NEP designated as the combined operator. NEP collects the costs of the combined transmission asset pool, including a return on those facilities, under NEP’s Tariff No. 1 from the ISO-NE. The ISO-NE allocates these costs among transmission customers in New England, in accordance with the ISO-NE Open Access Transmission Tariff (“ISO-NE OATT”).

According to the FERC’s orders, the Company is compensated for its actual monthly transmission costs, with its authorized maximum ROE of 11.74% on its transmission assets. The amounts remitted by NEP to the Company for the years ended March 31, 2021, 2020, and 2019 were \$22.8 million, \$20.4 million, and \$19.7 million, respectively, which are reflected as credits within operations and maintenance expense in the accompanying statements of income. See Note 13, “Related Party Transactions,” for additional details.

On October 16, 2014, the FERC issued an order, Opinion No. 531-A, resetting the base ROE applicable to transmission assets under the ISO-NE OATT from 11.14% to 10.57% effective as of October 16, 2014 and establishing a maximum ROE of 11.74%. On March 3, 2015, the FERC issued an Order on Rehearing, Opinion No. 531-B, affirming the 10.57% base ROE and clarifying that the 11.74% maximum ROE applies to all individual transmission projects with ROE incentives previously granted by the FERC. On April 14, 2017, the U.S. Court of Appeals for the D.C. Circuit (“Court of Appeals”) vacated and remanded the FERC’s Opinion No. 531 (and successor orders), through which the FERC had lowered the New England Transmission Owners’

(“NETOs”) base ROE from 11.14% to 10.57% and capped the total incentives at 11.74%. Despite the Court of Appeals’ ruling, the base ROE in New England remains at 10.57%. NEP appealed the FERC’s decision to keep the base ROE in New England at 10.57%, and this appeal is still pending.

On October 16, 2018, the FERC issued an order on four New England ROE complaints, describing how it intends to address the issues that were remanded by the Court of Appeals. The FERC proposed a new framework to determine whether an existing ROE is unjust and unreasonable, and, if so, how to calculate a replacement ROE. The FERC stated that these calculations were merely preliminary and asked the parties to the New England ROE complaint cases to brief the FERC and check the numbers. NEP, along with other NETOs, filed a brief supporting the FERC’s new methodology and confirming the illustrative numbers that the FERC arrived at in its October 2018 order—a 10.41% base ROE. The FERC has not issued a final order on NEP’s brief, and the base ROE in New England remains at 10.57%.

In November 2019, the FERC issued an order in the Midcontinent Independent System Operator (“MISO”) ROE complaint dockets, changing the way it arrives at a just and reasonable ROE. The effects of these changes resulted in drastically reduced base ROEs in the MISO region. In the MISO order, the FERC made statements that it is setting new ROE policy nationwide. In December 2019, the NETOs filed a supplemental brief in the New England ROE complaint dockets, showing the FERC the detrimental effects on New England if the MISO order was applied to New England. In the brief, the NETOs asked the FERC to reopen the record in New England so that the NETOs can submit more testimony. Other stakeholders had an opportunity to reply to the NETOs’ supplemental brief by January 21, 2020 and did so, arguing that the NETOs’ request should be denied, and that the record in New England should not be reopened.

On January 21, 2020, the FERC issued an order granting a rehearing for further consideration to give the FERC more time to act on the substantive issues of the MISO ROE proceedings. On May 21, 2020, the FERC revised its methodology to determine MISO transmission owner ROEs. The FERC’s November 2019 order proposed to create “zones of reasonableness” based on averages of two (rather than four) models to judge whether ROEs are just and reasonable. ROEs were reduced from 10.32% to 9.88% when the FERC applied the revised methodology in two MISO ROE complaints. The May 2020 order relies on three models to estimate ROEs. The application of this new methodology increased ROEs in the MISO complaints from 9.88% to 10.02%. The Company does not believe the outcomes of these complaints will have a material impact on the Company’s financial condition, results of operations, or cash flows.

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.

On November 21, 2019, the FERC issued Order 864 to address ratemaking and regulatory reporting of excess or deficient ADIT related to the Tax Act. On June 29, 2020, NEP, on behalf of the Company, submitted a compliance filing to address the application of Order 864 in NEP’s Tariff No. 1. The filing proposes changes to various revenue requirement calculations in the tariff for the inclusion of the Rate Adjustment and Income Tax Allowance mechanisms. The filing also includes the populated permanent ADIT worksheet, which will be provided with the issuance of final bills pursuant to the provisions of the tariff.

NEP has proposed for the Company to amortize transmission-related, protected property-related excess or deficient ADIT associated with the 2017 Tax Act using the Average Rate Assumption Method (“ARAM”), and a 21-year amortization period for unprotected property-related excess or deficient balances. Other unprotected excess or deficient ADIT is proposed to be amortized over five years, consistent with the time period approved in the DPU docket addressing the Tax Act.

Grid Modernization Plan

On August 19, 2015, the Company, together with Nantucket Electric, filed its first proposed grid modernization plan (“GMP”) with the DPU, with four different proposed investment scenarios. On May 10, 2018, the DPU issued an order in this proceeding. The order approved \$82 million in grid-facing investments over three years in (1) conservation voltage reduction and volt/volt-amps reactive optimization; (2) advanced distribution automation; (3) feeder monitors; (4) communications and information/operational technologies; and (5) advanced distribution management/distribution supervisory control and data acquisition. The DPU allowed recovery of both operations and maintenance expenses and capital costs through a reconciling mechanism, and in the future will consider GMPs in separate dockets (i.e., not through rate cases). The DPU did not approve any customer-facing (i.e., advanced metering infrastructure) investments; the DPU will address these in a further investigation to see if there are ways to achieve cost-effective deployment of advanced metering functionality (“AMF”). The DPU found there needs to be widespread adoption of dynamic pricing for AMF to be successful, and the DPU needs to address how to facilitate this first. The DPU also refined its grid modernization objectives to place additional focus on improved access to the distribution system planning process. The Company has filed annual reports and cost recovery filings with the DPU for its GMP in 2019 and 2020. The Company filed its next proposed four-year GMP (for calendar years 2022–2025) on July 1, 2021; the previous deadline of July 1, 2020 was extended at the initiative of the DPU. Additionally, on July 2, 2020, the DPU opened the next phase of its grid modernization investigation, in which it is investigating the potential deployment of AMF for electric vehicle customers. So far, as part of this investigation, the DPU has received initial comments and held four technical sessions.

Operational and Management Audit

On September 30, 2019, in its decision regarding the Company's most recent request for a change in base distribution rates, the DPU stated that, pursuant to its supervisory authority, it would require a comprehensive independent management audit of the Company, including a review of its relationship with National Grid USA Service Company. On November 25, 2019, the DPU formally opened the investigation to undertake an independent audit. The draft audit report was provided to the Company on March 1, 2021 for review and factual corrections, and the final report was submitted to the DPU on March 29, 2021. On April 30, 2021, the Company filed a comprehensive response to the audit report, formally adopting the findings and recommendations, with certain modifications, for the DPU's consideration. On June 30, 2021, the AG's office filed written comments in response to the final audit report. The Company and the independent auditor filed reply comments to the AG on July 21, 2021. This matter is currently pending before the DPU.

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, and it was further extended under the eighth set of orders until July 1, 2021. Effective July 1, 2021, the Company has recommenced normal collections activities, which includes issuing notices of amounts in arrears and alerting customers that their service is subject to disconnection for non-payment.

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 highlights of the Customer Assistance Report of the Working Group filed on May 29, 2020 and approved on July 31, 2020 are as follows:

- 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 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 since been extended through September 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, with terminations commencing during Fall 2020, and, as noted above, with the end of the residential moratorium on July 1, 2021, notifications to residential customers related to the possibility of terminations have resumed. The Company still continues 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. Discovery in the proceeding is ongoing.

Massachusetts Petition for Waiver of Jurisdiction Regarding the Rhode Island Sale

On March 17, 2021, NGUSA announced the sale of its Rhode Island business to PPL Energy Holdings, LLC. On May 3, 2021, PPL Energy Holdings, LLC assigned its right to acquire NECO to its wholly owned subsidiary, PPL Rhode Island Holdings, LLC ("PPL Rhode Island"), such that upon closing, PPL Rhode Island will own 100 percent of the outstanding shares of common stock in NECO. On May 4, 2021, NGUSA filed a petition with the DPU for a waiver of jurisdiction under G.L. c. 164, § 96(c), based on a finding that the sale of NECO will have no adverse impacts on any electric or gas distribution company held by

NGUSA that is subject to the DPU's jurisdiction, as applicable, or the customers of any such electric or gas company. On July 16, 2021, the DPU issued an order approving NGUSA's request for a waiver of Section 96 regarding the sale of NECO.

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
	<i>(in thousands of dollars)</i>	
Plant and machinery	\$ 5,129,677	\$ 4,874,297
Land and buildings	230,519	226,195
Assets in construction	223,676	219,652
Operating leases	75,300	59,740
Total property, plant, and equipment	5,659,172	5,379,884
Accumulated depreciation and amortization	(1,676,676)	(1,609,860)
Operating lease accumulated depreciation	(23,727)	(11,595)
Property, plant, and equipment, net	\$ 3,958,769	\$ 3,758,429

7. 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 its proportionate share of the 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 electric operations. Any differences between actual costs and amounts used to establish rates are deferred and collected from, or refunded to, customers in subsequent periods. Pension and PBOP service costs are included within operations and maintenance expense, and non-service costs are included within other (deductions) income, net in the accompanying statements of income. 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 provide most 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 \$9.9 million, \$16.7 million, and \$19.2 million, respectively, to the Qualified Pension Plans. The Company expects to contribute approximately \$14.8 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 \$31.6 million, \$30.9 million, and \$30.5 million, respectively.

PBOP Plans

The PBOP Plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements, and, in most cases, retirees must contribute to the cost of their coverage. During the years ended March 31, 2021, 2020, and 2019, the Company made no contributions to the PBOP Plans. The Company does not expect to contribute to the PBOP Plans during the year ending March 31, 2022.

Benefit payments to PBOP Plan participants for the years ended March 31, 2021, 2020, and 2019 were approximately \$9.0 million, \$12.0 million, and \$11.6 million, respectively.

Net Periodic Benefit Costs

The Company's total pension costs for the years ended March 31, 2021, 2020, and 2019 were \$17.2 million, \$11.4 million, and \$15.7 million, respectively.

The Company's total PBOP (benefits) costs for the years ended March 31, 2021, 2020, and 2019 were \$(0.6) million, \$1.3 million, and \$4.8 million, respectively.

Amounts Recognized in Regulatory Assets and Accumulated Other Comprehensive Income

The following tables summarize the Company's changes in actuarial gains/losses and prior service costs recognized in regulatory assets and accumulated other comprehensive income ("AOCI") as of March 31, 2021, 2020, and 2019:

	Pension Plans		
	March 31,		
	2021	2020	2019
	<i>(in thousands of dollars)</i>		
Net actuarial (gains) losses	\$ (56,292)	\$ 60,728	\$ 13,866
Amortization of net actuarial losses	(15,672)	(12,299)	(13,573)
Amortization of prior service cost, net	(5)	(84)	(84)
Total	<u>\$ (71,969)</u>	<u>\$ 48,345</u>	<u>\$ 209</u>
Change in regulatory assets	\$ (72,768)	\$ 48,385	\$ 209
Change in AOCI	799	(40)	-
Total	<u>\$ (71,969)</u>	<u>\$ 48,345</u>	<u>\$ 209</u>

	PBOP Plans		
	March 31,		
	2021	2020	2019
	<i>(in thousands of dollars)</i>		
Net actuarial (gains) losses	\$ (75,705)	\$ 6,522	\$ (9,881)
Amortization of net actuarial losses	(116)	(613)	(2,090)
Total	<u>\$ (75,821)</u>	<u>\$ 5,909</u>	<u>\$ (11,971)</u>
Change in regulatory assets	\$ (75,821)	\$ 5,909	\$ (11,971)
Total	<u>\$ (75,821)</u>	<u>\$ 5,909</u>	<u>\$ (11,971)</u>

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

The following tables summarize the Company's amounts recognized in regulatory assets and AOCI 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
	<i>(in thousands of dollars)</i>		
Net actuarial losses	\$ 176,391	\$ 248,355	\$ 199,926
Prior service cost	11	16	100
Total	<u>\$ 176,402</u>	<u>\$ 248,371</u>	<u>\$ 200,026</u>
Recognized in regulatory assets	\$ 175,643	\$ 248,411	\$ 200,026
Recognized in AOCI	759	(40)	-
Total	<u>\$ 176,402</u>	<u>\$ 248,371</u>	<u>\$ 200,026</u>

	PBOP Plans		
	March 31,		
	2021	2020	2019
	<i>(in thousands of dollars)</i>		
Net actuarial (gains) losses	\$ (17,583)	\$ 58,238	\$ 52,329
Total	<u>\$ (17,583)</u>	<u>\$ 58,238</u>	<u>\$ 52,329</u>
Recognized in regulatory assets	\$ (17,583)	\$ 58,238	\$ 52,329
Total	<u>\$ (17,583)</u>	<u>\$ 58,238</u>	<u>\$ 52,329</u>

Reconciliation of Funded Status to Amounts Recognized

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2021	2020	2021	2020
	<i>(in thousands of dollars)</i>			
Projected benefit obligation	\$ (838,769)	\$ (783,364)	\$ (334,016)	\$ (329,111)
Allocated fair value of assets	791,022	670,803	316,561	235,117
Funded status	<u>\$ (47,747)</u>	<u>\$ (112,561)</u>	<u>\$ (17,455)</u>	<u>\$ (93,994)</u>
Other current liabilities	\$ (103)	\$ (104)	\$ (77)	\$ (456)
Non-current liabilities	(47,644)	(112,457)	(17,378)	(93,538)
Total	<u>\$ (47,747)</u>	<u>\$ (112,561)</u>	<u>\$ (17,455)</u>	<u>\$ (93,994)</u>

For the year ended March 31, 2021, the net actuarial gains for the Pension and PBOP Plans were largely the result of favorable asset performance and lower contract pricing negotiated on certain prescription benefit costs within the PBOP Plans, which

were partially offset by the impact of the discount rate decrease. For the year ended March 31, 2020, the net actuarial losses for the Pension and PBOP Plans were primarily driven by the discount rate decrease and unfavorable asset performance. These losses were partially offset by gains related to a change in the mortality assumption and a PBOP assumption change for post-65 participation rates. For the year ended March 31, 2019, the net actuarial losses for the Pension Plans were primarily driven by the discount rate decrease, while the net actuarial gains for the PBOP Plans were driven by assumption changes related to pre-65 participation rates offset by the discount rate decrease.

Expected Benefit Payments

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

<i>(in thousands of dollars)</i>	Pension Plans	PBOP Plans
Years Ending March 31,		
2022	\$ 36,938	\$ 13,614
2023	38,321	14,251
2024	39,825	14,962
2025	41,294	15,599
2026	42,811	16,052
2027-2031	230,729	86,277
Total	<u>\$ 429,918</u>	<u>\$ 160,755</u>

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 (non-union)	4.10%	3.50%	3.50%
Rate of compensation increase (union)	4.05%	3.50%	3.50%
Weighted average cash balance interest crediting rate	2.75%	2.75%	3.25%
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	2.75%	3.25%	3.00%
	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 on both 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 trustee 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, trustee, employee life insurance and medical benefit plan sponsored by NGUSA. Life insurance and medical benefits are provided for eligible retirees, dependents, and surviving spouses of NGUSA.

NGUSA, as the Plans' sponsor, 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, 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 contributions and expenses 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 their funds across asset classes, investment styles, and fund managers. An asset/liability study 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 conducted within the next 12 to 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 securities, 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 is 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				Total
	Level 1	Level 2	Level 3	Not Categorized	
	<i>(in thousands of dollars)</i>				
Pension assets:					
Equity	\$ 244,018	\$ -	\$ -	\$ 891,362	\$ 1,135,380
Diversified alternatives	70,409	-	-	203,187	273,596
Corporate bonds	-	514,588	-	168,106	682,694
Government securities	480	294,487	-	238,270	533,237
Private equity	-	-	-	168,914	168,914
Real estate	-	-	-	110,603	110,603
Infrastructure	-	-	-	50,489	50,489
Total assets	\$ 314,907	\$ 809,075	\$ -	\$ 1,830,931	\$ 2,954,913
Pending transactions					(148,083)
Total net assets					\$ 2,806,830
PBOP assets:					
Equity	\$ 196,570	\$ -	\$ -	\$ 335,943	\$ 532,513
Diversified alternatives	45,255	-	-	41,632	86,887
Corporate bonds	-	3,792	-	-	3,792
Government securities	14,864	157,025	-	1,032	172,921
Insurance contracts	-	-	-	43,934	43,934
Total assets	\$ 256,689	\$ 160,817	\$ -	\$ 422,541	\$ 840,047
Pending transactions					1,103
Total net assets					\$ 841,150

March 31, 2020

	Level 1	Level 2	Level 3	Not Categorized	Total
	<i>(in thousands of dollars)</i>				
Pension assets:					
Equity	\$ 173,535	\$ -	\$ -	\$ 630,567	\$ 804,102
Diversified alternatives	57,730	-	-	173,255	230,985
Corporate bonds	-	412,698	-	142,101	554,799
Government securities	(4,072)	300,759	-	267,338	564,025
Private equity	-	-	-	131,200	131,200
Real estate	-	-	-	115,522	115,522
Infrastructure	-	-	-	48,687	48,687
Insurance contracts	-	-	-	3,507	3,507
Total assets	\$ 227,193	\$ 713,457	\$ -	\$ 1,512,177	\$ 2,452,827
Pending transactions					(111,173)
Total net assets					\$ 2,341,654
PBOP assets:					
Equity	\$ 140,528	\$ -	\$ -	\$ 224,383	\$ 364,911
Diversified alternatives	33,367	-	-	32,954	66,321
Corporate bonds	-	2,895	-	-	2,895
Government securities	13,584	147,495	-	1,034	162,113
Insurance contracts	-	-	-	31,473	31,473
Total assets	\$ 187,479	\$ 150,390	\$ -	\$ 289,844	\$ 627,713
Pending transactions					1,362
Total net assets					\$ 629,075

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.

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 income of \$4.7 million, \$4.0 million, and \$4.4 million, respectively, for matching contributions.

8. CAPITALIZATION

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

<i>(in thousands of dollars)</i>	Maturities of
<u>March 31,</u>	<u>Long-Term Debt</u>
2022	\$ -
2023	-
2024	-
2025	-
2026	-
Thereafter	1,800,000
Total	<u>\$ 1,800,000</u>

The Company's debt agreements and banking facilities contain general 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.

Debt Authorizations

The Company has regulatory approval from the FERC to issue up to \$750 million of short-term debt internally or externally that expires on October 14, 2022. The Company had no external short-term debt as of March 31, 2021 and 2020. Refer to the Intercompany Money Pool section in Note 13, "Related Party Transactions," for short-term debt outstanding with affiliated companies.

On August 31, 2020, the Company received approval from the DPU to issue up to \$1.1 billion of long-term debt in one or more transactions through August 31, 2023. In November 2020, the Company issued \$500 million of unsecured long-term debt at 1.73% with a maturity date of November 24, 2030, resulting in \$600 million of remaining authorization.

Dividend Restrictions

Pursuant to the Company's preferred stock arrangement, as long as any preferred stock is outstanding, certain restrictions on the payment of common stock dividends would come into effect if the common stock equity was, or by reason of the payment of such dividends became, less than 25% of total capitalization. The Company was in compliance with this covenant, and, accordingly, the Company was not restricted as to the payment of common stock dividends under the foregoing provisions as of March 31, 2021 or 2020.

Cumulative Preferred Stock

The Company has certain issues of non-participating cumulative preferred stock outstanding, which can be redeemed at the option of the Company. There are no mandatory redemption provisions on the Company's cumulative preferred stock. A summary of cumulative preferred stock is as follows:

Series	Shares Outstanding		Amount		Call Price
	March 31,		March 31,		
	2021	2020	2021	2020	
<i>(in thousands of dollars, except per share and number of shares data)</i>					
\$100 par value - 4.44% Series	22,585	22,585	\$ 2,259	\$ 2,259	\$ 104.068

The Company did not redeem any preferred stock as of March 31, 2021, 2020, or 2019. The annual dividend requirement for cumulative preferred stock was \$0.1 million as of March 31, 2021, 2020, and 2019.

9. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2021	2020	2019
<i>(in thousands of dollars)</i>			
Current tax expense (benefit):			
Federal	\$ 36,520	\$ 15,815	\$ (16,055)
State	2,189	5,044	13,957
Total current tax expense (benefit)	<u>38,709</u>	<u>20,859</u>	<u>(2,098)</u>
Deferred tax (benefit) expense:			
Federal	(23,819)	14,691	45,192
State	10,560	10,998	88
Total deferred tax (benefit) expense	<u>(13,259)</u>	<u>25,689</u>	<u>45,280</u>
Amortized investment tax credits ⁽¹⁾	(292)	(292)	(336)
Total deferred tax (benefit) expense	<u>(13,551)</u>	<u>25,397</u>	<u>44,944</u>
Total income tax expense	<u>\$ 25,158</u>	<u>\$ 46,256</u>	<u>\$ 42,846</u>

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

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2021, 2020, and 2019 were 17.1%, 22.7%, and 25.4%, 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
	<i>(in thousands of dollars)</i>		
Computed tax	\$ 30,889	\$ 42,750	\$ 35,493
Change in computed taxes resulting from:			
State income tax, net of federal benefit	10,072	12,674	11,096
Amortization of regulatory tax liability, net	(8,264)	(8,959)	(3,937)
Audit and related reserve movements	(7,176)	56	-
Investment tax credits	(292)	(292)	(336)
Other items, net	(71)	27	530
Total changes	<u>(5,731)</u>	<u>3,506</u>	<u>7,353</u>
Total income tax expense	<u>\$ 25,158</u>	<u>\$ 46,256</u>	<u>\$ 42,846</u>

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
	<i>(in thousands of dollars)</i>	
Deferred tax assets:		
Allowance for doubtful accounts	\$ 72,756	\$ 46,236
Environmental remediation costs	21,357	23,386
Net operating losses	57,844	55,808
Postretirement benefits and other employee benefits	26,417	64,295
Regulatory liabilities	105,749	122,977
Renewable energy certificate obligations	49,816	51,691
Other items	47,368	40,342
Total deferred tax assets	<u>381,307</u>	<u>404,735</u>
Deferred tax liabilities:		
Property-related differences	543,122	530,003
Regulatory assets	271,259	293,077
Other items	1,588	10,072
Total deferred tax liabilities	<u>815,969</u>	<u>833,152</u>
Net deferred income tax liabilities	434,662	428,417
Deferred investment tax credits	28,438	22,047
Deferred income tax liabilities, net	<u>\$ 463,100</u>	<u>\$ 450,464</u>

Net Operating Losses

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

<u>Jurisdiction</u>	<u>Carryforward Amount</u> <i>(in thousands of dollars)</i>	<u>Expiration Period</u>
Federal	\$ 353,982	2033–2038
Massachusetts	31,517	2035–2036

As a result of the accounting for uncertain tax positions, the amount of deferred tax assets reflected in the financial statements is less than the amount of the tax effect of the federal and state net operating loss carryforwards 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 Internal Revenue Service ("IRS") for the tax years ended March 31, 2013, 2014, and 2015. As a result of the settlement, the Company recognized an income tax benefit of \$7.0 million and received a refund of \$3.6 million for tax and interest.

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 years ended March 31, 2016 and 2017 and commenced its examination of the next audit cycle, which includes the income tax returns for the years 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 years 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.

In September 2021, the Company reached an audit settlement agreement with the state of Massachusetts for the years ended March 31, 2010 through March 31, 2012. The outcome of the settlement did not have a material impact on the Company's results of operations, financial position, or cash flows. 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:

<u>Jurisdiction</u>	<u>Tax Year</u>
Federal	March 31, 2016
Massachusetts	March 31, 2013

Uncertain Tax Positions

The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest, net and related penalties, if applicable, in other (deductions) income, net in the accompanying statements of income. As of March 31, 2021 and 2020, the Company has accrued for interest related to unrecognized tax benefits of \$0.2 million and \$2.6 million, respectively. During the year ended March 31, 2021, the Company recorded interest income related to unrecognized tax benefits of \$0.7 million. During the years ended March 31, 2020 and 2019, the Company recorded interest expense related to unrecognized tax benefits of \$0.3 million and \$1.8 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.

10. ENVIRONMENTAL MATTERS

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

The United States Environmental Protection Agency ("EPA") and the Massachusetts Department of Environmental Protection ("DEP"), as well as private entities, have alleged that the Company is a potentially responsible party under state or federal law for the remediation of numerous sites. The Company's most significant liabilities relate to former Manufactured Gas Plant ("MGP") facilities, which were formerly owned or operated by the Company. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA and DEP. Expenditures incurred for the years ended March 31, 2021, 2020, and 2019 were \$9.0 million, \$6.1 million, and \$4.7 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were \$77.6 million and \$85.0 million as of March 31, 2021 and 2020, respectively. These costs are expected to be incurred over approximately 35 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.

The DPU has approved a settlement agreement that provides for rate recovery of remediation costs of former MGP sites and certain other hazardous waste sites located in Massachusetts. Under that agreement, qualified costs related to these sites are paid out of a special fund established as a regulatory liability on the balance sheet. Rate-recoverable contributions of approximately \$4.3 million are made, along with interest, lease payments, and any recoveries from insurance carriers and other third parties. Accordingly, as of March 31, 2021 and 2020, the Company has recorded environmental regulatory assets of \$74.8 million and \$82.3 million, respectively, and environmental regulatory liabilities of \$16.5 million and \$20.8 million, respectively. See Note 4, "Regulatory Assets and Liabilities," for additional details.

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.

11. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has several contracts for the purchase of electric power. Substantially all of these contracts require power to be delivered before the Company is obligated to make payment.

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

<i>(in thousands of dollars)</i>	Energy Purchases
<u>March 31,</u>	
2022	\$ 299,440
2023	11,977
2024	-
2025	-
2026	-
Thereafter	-
Total	<u>\$ 311,417</u>

Power Purchase Agreements for Renewable Energy Projects

Section 83A

On February 26, 2014, the DPU approved three long-term (20-year) contracts for the purchase of the electricity and renewable energy credits from three separate wind-powered generating facilities. The approval by the DPU allows the Company, along with Nantucket Electric (collectively "the Massachusetts Electric Companies"), to recover the costs incurred under the agreements, including 2.75% remuneration on the annual payments made under the contracts. One of these facilities, Wild Meadows Wind, terminated prior to achieving commercial operation. The remaining facilities, Oakfield Wind and Bingham Wind, consist of a combined total of approximately 332 megawatts ("MWs") of total nameplate capacity. These remaining projects achieved commercial operation in 2015 and 2016, respectively. The Massachusetts Electric Companies have since purchased 45.9% of the output generated by the individual facilities, which in aggregate represents approximately 152.5 MWs of nameplate capacity.

Three-State Procurement: Section 83A

On June 15, 2018, the DPU approved ten long-term (20-year) contracts for the purchase of the electricity and renewable energy credits from ten separate generating facilities. The Massachusetts Electric Companies will purchase the actual output generated by the individual facilities, which in aggregate represents approximately 91 MWs of nameplate capacity. The Massachusetts Electric Companies entered into agreements after a three-state solicitation for renewable energy generation, pursuant to Section 83A of the Green Communities Act. The approval by the DPU allows the Massachusetts Electric Companies to recover the costs incurred under the agreements, including 2.75% remuneration on the annual payments made under the contracts. Of the contracted 91 MWs, approximately 54 MWs are currently operational, approximately 18 MWs have been terminated, and approximately 19 MWs remain under development.

Clean Energy Procurement: Section 83D

On June 13, 2018, the Massachusetts Electric Companies entered into two separate agreements for the transportation and purchase of electricity and the related environmental attributes from hydroelectric facilities located in the Canadian province of Québec. The two agreements were entered into pursuant to Section 83D of the Green Communities Act. The first agreement is a 20-year power purchase agreement ("PPA") with H.Q. Energy Services Inc. ("H.Q. Energy") for the purchase of approximately 498 megawatt-hours of electricity and the related environmental attributes from a portfolio of hydroelectric facilities owned and operated by affiliates of H.Q. Energy. The second agreement is a 20-year transmission service agreement ("TSA") with NECEC Transmission LLC ("NECEC"). This agreement was assigned to NECEC by Central Maine Power Company, with the consent of the Massachusetts Electric Companies. The TSA provides for the transmission of the electricity supplied by H.Q. Energy on a proposed new transmission line that will run from the United States border to Lewiston, Maine, where it will interconnect with the ISO-NE system. Both the TSA with NECEC and the PPA with H.Q. Energy are contingent on the successful development and construction of the underlying transmission line by NECEC. The anticipated commercial operations date of the transmission line is in August 2024, based on the contractual terms. The DPU approved the Section

83D contracts on June 25, 2019, and the Massachusetts Electric Companies will be able to recover the costs incurred under the agreements, including 2.75% remuneration on the annual payments made. NextEra Energy Resources, LLC filed an appeal of the DPU's approval of the PPA with H.Q. Energy on July 12, 2019. On September 3, 2020, the Massachusetts Supreme Judicial Court upheld the DPU's approval.

Offshore Wind Energy Procurement: Section 83C Round 1

On July 31, 2018, the Massachusetts Electric Companies entered into two separate 20-year PPAs with Vineyard Wind LLC ("Vineyard Wind") for the purchase of 46.16% of the electricity and renewable energy credits generated by two offshore wind farms proposed by Vineyard Wind, with each individual wind farm having a capacity of up to 400 MWs. The contracts with Vineyard Wind were entered into pursuant to Section 83C of the Green Communities Act. On April 12, 2019, the DPU approved the contracts, and the Massachusetts Electric Companies will be able to recover the costs incurred under the agreements, including 2.75% remuneration on the annual payments made. Based on the terms of the contracts, the commercial operations date for the first wind farm was initially expected to be in January 2022, with the second wind farm anticipated in May 2022. On July 9, 2021, Vineyard Wind exercised its fourth and final option to extend the critical milestones associated with the first wind farm and its second option to extend the critical milestones associated with the second wind farm. On July 20, 2021, the Massachusetts Electric Companies executed an amendment to the PPA for the first wind farm, which extends the critical milestone dates by twenty-four months, including the commercial operations date. This amendment was filed with the DPU on July 21, 2021.

Offshore Wind Energy Procurement: Section 83C Round 2

On January 10, 2020, the Massachusetts Electric Companies entered into two separate 20-year PPAs with Mayflower Wind Energy LLC ("Mayflower Wind") for the purchase of 45.41% of the electricity and renewable energy credits generated by two offshore wind farms proposed by Mayflower Wind, with the first wind farm having a capacity of up to 408 MWs and the second having a capacity of up to 396 MWs. The contracts with Mayflower Wind were entered into pursuant to Section 83C of the Green Communities Act. Based on the terms of the contracts, the commercial operations date for the first wind farm is expected to be in September 2025, with the second wind farm anticipated in December 2025. These contracts were filed with the DPU on February 10, 2020. On November 5, 2020, the DPU approved the contracts, and the Massachusetts Electric Companies will be able to recover the costs incurred under the agreements, including 2.75% remuneration on the annual payments made. The AG filed a motion for reconsideration on November 25, 2020, in which it asked the DPU for additional information regarding the DPU's approval of 2.75% remuneration on the annual payments made. The AG's motion was denied on June 23, 2021. On July 9, 2021, the decision became final and unappealable, and regulatory approval was achieved.

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.

New York Public Service Commission Investigation

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

Energy Efficiency Programs Investigation

NGUSA is performing an internal investigation regarding conduct associated with energy efficiency programs for the Company and certain affiliates. At this time, it is not possible to predict the outcome of the investigation or to determine the amount, if any, of any 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.

Financial Guarantees

The Company unconditionally guarantees the full and prompt payment of the principal, premium, if any, and interest on certain tax-exempt bonds issued by the Massachusetts Development Finance Agency in connection with Nantucket Electric's financing of its first and second underground and submarine cable projects. The Company would be required to make any principal, interest, and premium payments if Nantucket Electric failed to pay. The carrying value of the debt guaranteed is approximately \$51.3 million as of March 31, 2021, and the debt has maturities extending through 2042. This guarantee is absolute and unconditional. As of the date of this report, the Company has not had a claim made against it for this guarantee and has no reason to believe that Nantucket Electric will default on its obligations.

12. LEASES

The Company has various operating leases, primarily related to buildings, land, and fleet vehicles used to support its electric operations, with real estate lease terms ranging between 9 and 31 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 financing leases.

The expense related to operating leases was \$14.1 million and \$13.9 million for the years ended March 31, 2021 and 2020, respectively. Rent expense for operating leases was \$0.4 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
	<i>(in thousands of dollars)</i>	
Cash paid for amounts included in lease liabilities		
Operating cash flows from operating leases	\$ 14,136	\$ 13,877
ROU assets obtained in exchange for new operating lease liabilities	16,659	9,127
Weighted average remaining lease term – operating leases	8 years	8 years
Weighted average discount rate – operating leases	2.6%	2.7%

The following 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

<u>Year Ending March 31,</u>	<i>(in thousands of dollars)</i>
2022	\$ 12,907
2023	11,237
2024	9,014
2025	5,479
2026	4,026
Thereafter	15,768
Total future minimum lease payments	58,431
Less: imputed interest	6,858
Total	<u>\$ 51,573</u>
Reported as of March 31, 2021:	
Current lease liability	\$ 11,717
Non-current lease liability	39,856
Total	<u>\$ 51,573</u>

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

13. 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:

	<u>Accounts Receivable from Affiliates</u>		<u>Accounts Payable to Affiliates</u>	
	<u>March 31,</u>		<u>March 31,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	<i>(in thousands of dollars)</i>			
Boston Gas Company	\$ -	\$ 205	\$ 1,827	\$ 34
Nantucket Electric Company	268	448	1,482	1,191
New England Power Company	4,107	2,740	81,962	71,264
NGUSA	-	-	2,916	15,475
NGUSA Service Company	8,851	12,092	66,487	55,129
Niagara Mohawk Power Corporation	-	976	766	95
The Narragansett Electric Company	174	334	-	980
Other Affiliates	4	141	294	20
Total	<u>\$ 13,404</u>	<u>\$ 16,936</u>	<u>\$ 155,734</u>	<u>\$ 144,188</u>

As discussed in Note 5, "Rate Matters," NEP operates the pooled transmission facilities of the Company, NECO, and NEP as a single integrated system ("NEPOOL") under NEP's Tariff No. 1. These transmission services are regulated by both the ISO-NE

and the FERC. NEP charges the ISO-NE for these transmission services. As NEP is the sole operator of the NEPOOL assets, ISO-NE revenues are remitted from NEP to the Company, representing the substantial portion of the accounts receivable due from NEP.

In turn, the ISO-NE charges the Company for Regional Network Service ("RNS"), with some of those charges being associated with the Company-owned transmission assets in the NEPOOL. \$49.6 million and \$44.0 million of the unpaid charges from the ISO-NE to the Company have been presented as a payable to NEP related to these Company-owned transmission assets as of March 31, 2021 and 2020, respectively. Additionally, NEP charges the Company for Local Network Service ("LNS"). The amounts paid to NEP for RNS and LNS for the years ended March 31, 2021, 2020, and 2019 were \$344.0 million, \$321.5 million, and \$317.1 million, respectively. These amounts are presented within operations and maintenance expense in the accompanying statements of income.

Advances from Affiliates

The Company has an agreement with NGUSA whereby the Company can borrow up to \$200 million from time to time for working capital needs. The advance is non-interest bearing. As of March 31, 2021 and 2020, the Company had no outstanding advances from affiliates.

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 \$227.3 million and borrowings of \$136.1 million as of March 31, 2021 and 2020, respectively. 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.

Related Party Reimbursement

In accordance with the Credit and Operating Support Agreement dated March 26, 1996, the Company will reimburse Nantucket Electric an amount equal to the difference between Nantucket Electric's actual net income for the year and the net income necessary for Nantucket Electric to earn its DPU-approved ROE for the year, which is currently 9.6%. This reimbursement represents additional revenue to Nantucket Electric and expense to the Company. If Nantucket Electric's actual ROE for the year exceeds its allowed ROE, there is no reimbursement. For the years ended March 31, 2021, 2020, and 2019, the Company reimbursed Nantucket Electric \$9.0 million, \$5.0 million, and \$1.2 million, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at cost, without a mark-up. 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. For the years ended March 31, 2021, 2020, and 2019, costs allocated to the Company using the second and third tiers noted above were \$389.3 million, \$375.5 million, and \$324.0 million, respectively.