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Niagara Mohawk Power Corporation

Financial Statements

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

NIAGARA MOHAWK POWER CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Niagara Mohawk Power Corporation

We have audited the accompanying financial statements of Niagara Mohawk Power Corporation (the "Company"), which comprise the balance sheets and statements of capitalization as of March 31, 2021 and 2020 and the related statements of operations and comprehensive 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 Niagara Mohawk Power Corporation as of March 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

September 28, 2021

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2021	2020	2019
Operating revenues	**$ 3,285,980**	$ 3,146,601	$ 3,412,417
Operating expenses:			
Purchased electricity	**644,977**	605,716	723,100
Purchased gas	**154,337**	166,603	275,843
Operations and maintenance	**1,494,951**	1,295,615	1,283,313
Depreciation	**320,690**	300,724	297,397
Other taxes	**313,894**	299,539	288,036
Total operating expenses	**2,928,849**	2,668,197	2,867,689
Operating income	**357,131**	478,404	544,728
Other deductions, net:			
Interest on long-term debt, net	**(119,511)**	(112,382)	(124,032)
Other interest, including affiliate interest, net	**(19,477)**	(40,849)	(44,130)
Other income (deductions), net	**33,247**	22,467	(12,615)
Total other deductions, net	**(105,741)**	(130,764)	(180,777)
Income before income taxes	**251,390**	347,640	363,951
Income tax expense	**59,671**	82,852	82,322
Net income	**$ 191,719**	$ 264,788	$ 281,629
Other comprehensive income, net of taxes:			
Unrealized gains (losses) on securities, net of $(16), $(178), and $13 taxes in 2021, 2020, and 2019, respectively	**46**	503	(38)
Change in pension and other postretirement obligations, net of $(219), $(241), and $(128) taxes in 2021, 2020, and 2019, respectively	**620**	681	360
Total other comprehensive income	**666**	1,184	322
Comprehensive income	**$ 192,385**	$ 265,972	$ 281,951

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2021	2020	2019
Operating activities:			
Net income	**$ 191,719**	$ 264,788	$ 281,629
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**320,690**	300,724	297,397
Accrued interest on tax reserves	**(9,004)**	8,936	-
Regulatory amortizations	**(6,753)**	(9,032)	(8,857)
Deferred income tax expense (benefit)	**(196)**	60,814	65,428
Bad debt expense	**118,519**	67,940	55,187
Allowance for equity funds used during construction	**(11,795)**	(6,257)	(13,523)
Amortization of debt discount and issuance costs	**2,480**	2,337	2,734
Pension and postretirement benefits expenses, net	**76,523**	16,086	53,320
Pension and postretirement benefits contributions	**(4,384)**	(4,481)	(4,617)
Environmental remediation payments	**(19,275)**	(24,035)	(9,773)
Changes in operating assets and liabilities:			
Accounts receivable and other receivables, net and unbilled revenues	**(239,578)**	28,060	(50,765)
Accounts receivable from/payable to affiliates, net	**(29,015)**	37,642	(2,297)
Inventory	**811**	(13,075)	(2,918)
Regulatory assets and liabilities, net	**173,598**	(175,088)	(33,527)
Derivative instruments	**(67,285)**	110,724	(68,940)
Prepaid and accrued taxes, net	**80,579**	(113,891)	7,223
Accounts payable and other liabilities	**97,521**	(16,044)	48,791
Renewable energy certificate obligations, net	**8,682**	13,679	(1,779)
Other, net	**1,297**	3,809	21,395
Net cash provided by operating activities	**685,134**	553,636	636,108
Investing activities:			
Capital expenditures	**(802,051)**	(763,213)	(667,495)
Intercompany money pool	**(130,120)**	525,362	(413,286)
Cost of removal	**(45,041)**	(49,969)	(51,174)
Other, net	**(9,746)**	864	(2,253)
Net cash used in investing activities	**(986,958)**	(286,956)	(1,134,208)
Financing activities:			
Common stock dividends to Parent	**(275,000)**	-	-
Preferred stock dividends	**(1,060)**	(1,060)	(1,060)
Payments on long-term debt	**-**	(750,000)	(5,300)
Issuance of long-term debt	**1,100,000**	-	500,000
Payment of debt issuance costs	**(6,498)**	-	(2,771)
Intercompany money pool	**(487,444)**	487,444	-
Net cash provided by (used in) financing activities	**329,998**	(263,616)	490,869
Net increase (decrease) in cash, cash equivalents, restricted cash and special deposits	**28,174**	3,064	(7,231)
Cash, cash equivalents, restricted cash and special deposits, beginning of year	**22,124**	19,060	26,291
Cash, cash equivalents, restricted cash and special deposits, end of year	**$ 50,298**	$ 22,124	$ 19,060
Supplemental disclosures:			
Interest paid	**$ (118,502)**	$ (141,409)	$ (109,521)
Income taxes paid	**(32,313)**	(101,524)	(70,086)
Significant non-cash items:			
Capital-related accruals included in accounts payable	**20,753**	21,828	27,278
Parent tax loss (income) allocation	**15,542**	-	37,121

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

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 49,148**	$ 9,454
Restricted cash and special deposits	**1,150**	12,670
Accounts receivable	**741,863**	520,190
Allowance for doubtful accounts	**(285,227)**	(178,318)
Accounts receivable from affiliates	**23,515**	28,011
Intercompany money pool	**130,120**	-
Unbilled revenues	**120,022**	113,727
Inventory	**67,278**	68,211
Regulatory assets	**72,777**	150,658
Derivative instruments	**11,324**	4,900
Prepayments	**63,480**	64,542
Prepaid Taxes	**57,718**	58,363
Other	**1,818**	3,852
Total current assets	**1,054,986**	856,260
Investments in affiliates	**748**	750
Property, plant and equipment, net	**10,828,570**	10,271,020
Non-current assets:		
Regulatory assets	**489,344**	501,200
Goodwill	**1,289,132**	1,289,132
Derivative instruments	**2,846**	1,376
Postretirement benefits	**625,452**	374,997
Other	**80,461**	68,614
Total non-current assets	**2,487,235**	2,235,319
Total assets	**$ 14,371,539**	$ 13,363,349

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

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2021	March 31, 2020
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 278,787**	$ 272,796
Accounts payable to affiliates	**113,502**	147,013
Intercompany money pool	**-**	487,444
Taxes accrued	**138,405**	74,013
Customer deposits	**31,491**	29,808
Interest accrued	**46,181**	38,937
Regulatory liabilities	**333,710**	388,456
Operating lease liability	**41,857**	41,086
Derivative instruments	**24,898**	63,516
Renewable energy certificate obligations	**63,806**	55,246
Payroll and benefits accruals	**76,441**	64,335
Distributed generation	**121,500**	33,850
Other	**110,522**	100,958
Total current liabilities	**1,381,100**	1,797,458
Non-current liabilities:		
Regulatory liabilities	**2,352,491**	1,644,434
Deferred income tax liabilities, net	**1,055,768**	1,059,695
Postretirement benefits	**153,405**	397,985
Environmental remediation costs	**330,901**	327,392
Operating lease liability	**181,636**	189,330
Derivative instruments	**19,383**	40,157
Other	**292,419**	329,227
Total non-current liabilities	**4,386,003**	3,988,220
Commitments and contingencies (Note 13)		
Capitalization:		
Shareholders' equity	**4,995,118**	5,063,251
Long-term debt	**3,609,318**	2,514,420
Total capitalization	**8,604,436**	7,577,671
Total liabilities and capitalization	**$ 14,371,539**	$ 13,363,349

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2021	2020
Total shareholders' equity			**$ 4,995,118**	$ 5,063,251
	Interest Rate	Maturity Date		
Unsecured Notes:				
Senior Notes	2.72%	November 28, 2022	**300,000**	300,000
Senior Notes	3.51%	October 1, 2024	**500,000**	500,000
Senior Notes	1.96%	June 27, 2030	**600,000**	-
Senior Notes	4.28%	December 15, 2028	**500,000**	500,000
Senior Notes	4.28%	October 1, 2034	**400,000**	400,000
Senior Notes	4.12%	November 28, 2042	**400,000**	400,000
Senior Notes	3.03%	June 27, 2050	**500,000**	-
State Authority Financing:				
1988 Series A	3.23%	December 1, 2023	**69,800**	69,800
1985 Series B	3.29%	December 1, 2025	**37,500**	37,500
1985 Series C	3.29%	December 1, 2025	**37,500**	37,500
1986 Series A	3.42%	December 1, 2026	**44,700**	44,700
1987 Series A	3.45%	March 1, 2027	**25,760**	25,760
1987 Series B-1	3.43%	July 1, 2027	**68,200**	68,200
1987 Series B-2	3.48%	July 1, 2027	**25,000**	25,000
2004 Series A	3.43%	July 1, 2029	**115,705**	115,705
Bonds			**424,165**	424,165
Total debt			**3,624,165**	2,524,165
Unamortized debt discount			**(8)**	(9)
Unamortized debt issuance costs			**(14,839)**	(9,736)
Total debt less unamortized costs			**3,609,318**	2,514,420
Current portion of long-term debt			**-**	-
Total long-term debt			**3,609,318**	2,514,420
Total capitalization			**$ 8,604,436**	$ 7,577,671

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

				Accumulated Other Comprehensive Income (Loss)				
	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Unrealized Gain (Loss) on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2018	**$ 187,365**	**$ 28,985**	**$ 3,062,375**	**$ 2,503**	**$ (594)**	**$ 1,909**	**$ 1,199,693**	**$ 4,480,327**
Net income	-	-	-	-	-	-	281,629	281,629
Other comprehensive income (loss):								
Unrealized gains on securities, net of $13 tax benefit	-	-	-	(38)	-	(38)	-	(38)
Change in pension and other postretirement obligations, net of $128 tax expense	-	-	-	-	360	360	-	360
Total comprehensive income								281,951
Parent tax loss (income) allocation	-	-	37,121	-	-	-	-	37,121
Impact of adoption of the recognition and measurement of financial assets and liabilities standard	-	-	-	(2,392)	-	(2,392)	2,392	-
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2019	**$ 187,365**	**$ 28,985**	**$ 3,099,496**	**$ 73**	**$ (234)**	**$ (161)**	**$ 1,482,654**	**$ 4,798,339**
Net income	-	-	-	-	-	-	264,788	264,788
Other comprehensive income (loss):								
Unrealized gains on securities, net of $178 tax expense	-	-	-	503	-	503	-	503
Change in pension and other postretirement obligations, net of $241 tax expense	-	-	-	-	681	681	-	681
Total comprehensive income								265,972
Impact of adoption of the recognition and measurement of financial assets and liabilities standard	-	-	-	24	(316)	(292)	292	-
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2020	**$ 187,365**	**$ 28,985**	**$ 3,099,496**	**$ 600**	**$ 131**	**$ 731**	**$ 1,746,674**	**$ 5,063,251**
Net income	-	**-**	**-**	**-**	**-**		**191,719**	**191,719**
Other comprehensive income (loss):								
Unrealized gains on securities, net of $16 tax expense	-	**-**	**-**	**46**	**-**	**46**		**46**
Change in pension and other postretirement obligations,					**620**	**620**		**620**
net of $219 tax expense	-	**-**	**-**					
Total comprehensive income								**192,385**
Parent tax loss (income) allocation	-	**-**	**15,542**					**15,542**
Common stock dividends to Parent							**(275,000)**	**(275,000)**
Preferred stock dividends	-	**-**	**-**	**-**	**-**		**(1,060)**	**(1,060)**
Balance as of March 31, 2021	**$ 187,365**	**$ 28,985**	**$ 3,115,038**	**$ 646**	**$ 751**	**$ 1,397**	**$ 1,662,333**	**$ 4,995,118**

The Company had 187,364,863 shares of common stock authorized, issued and outstanding, with a par value of $1 per share and 289,848 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2021 and 2020.

NIAGARA MOHAWK POWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Niagara Mohawk Power Corporation ("the Company"), a New York Corporation, is engaged principally in the regulated energy delivery business in New York State ("NYS"). The Company provides electric service to approximately 1.7 million customers in the areas of eastern, central, northern, and western New York and sells, distributes, and transports natural gas to approximately 0.6 million customers in the areas of central, northern, and eastern New York.

The Company is a wholly-owned subsidiary of Niagara Mohawk Holdings, Inc. ("NMHI"), which 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.

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

The novel coronavirus ("COVID-19") pandemic has disrupted the U.S. and global economies and continues to have a significant impact on global health. In March 2020, COVID-19 was declared a pandemic by the World Health Organization ("WHO") and the Centers for Disease Control and Prevention. In March 2020, the Company ceased certain customer cash collection activities in response to regulatory instructions and to changes in State, Federal and City level regulations and guidance, and actions to minimize risk to employees. In March 2020, the Company ceased customer field collections and service terminations in response to New York State executive orders restricting non-essential work activities. Subsequent legislation passed in June 2020, imposed a moratorium on residential service terminations during the ongoing COVID-19 state of emergency, which was recently extended through May 25, 2021. The initial moratorium legislation expired on March 31, 2021, but new legislation passed in May 2021 established a new moratorium for qualifying customers commencing May 11, 2021. The May 2021 moratorium legislation also extended protection from service termination to qualifying small businesses with fewer than 25 customers. The Company is presently following the timeline of the declared COVID-19 state of emergency, which precludes residential and qualifying small business service terminations during the current state of emergency. Once the current state of emergency is lifted, the moratorium will continue for residential and qualifying small business affected by the pandemic for an additional 180 days, or June 30, 2022, whichever occurs first.

The Company has seen adverse impacts from COVID-19 on earnings and cash flow. Earnings are impacted by increased incremental costs, increased bad debt expense, lower capitalization rates of workforce costs, and reduced late payment revenues, slightly offset by reduced costs and other mitigation efforts by the Company. Cash flow is negatively impacted by the higher level of operating costs and lower cash collections, compounded by the Company's agreement to voluntarily delay its approved electric and gas rate increases effective April 1, 2020 with full effect in rates as of March 31, 2021. As of March 31, 2021 and March 31, 2020, the Company recorded additional reserves for uncollectible accounts related to the COVID-19 impact for the electric and gas businesses.

Despite the negative impacts on cash flow, the Company has maintained access to National Grid's money pool, which has insulated the Company from immediate impacts on liquidity. Similarly, there has also been no impact on access to capital at present. On June 23, 2020, the Company issued $1.1 billion of long-term debt. This was done in two tranches, a $600 million 10-year tranche with a fixed interest rate of 1.96% and a $500 million 30-year tranche with a fixed interest rate of 3.025%.

On June 11, 2020, the New York Public Service Commission ("NYPSC") opened a proceeding to investigate the impacts of COVID-19 on utilities' customers, operations, finances and ability to provide safe and reliable service at just and reasonable rates. The Company along with the other New York State utilities are working closely with our regulators to develop approaches that support residential and commercial customers, utilities, clean energy developers, and other stakeholders, all of whom contribute to the State's economic health. On January 20, 2021, the Department of Public Service ("DPS") Staff issued a guidance letter regarding deferral treatment of incremental COVID-19 costs. The letter articulated two scenarios under which utilities could seek deferral of such costs – through change in law provisions contained in utilities' existing rate plans or through a separate deferral petition. On February 4, 2021, the DPS issued a Whitepaper providing recommendations in both the proceeding for Energy Affordability for Low Income utility customers and the proceeding on the effects of COVID-19 on utility service. On August 12, 2021 the NYPSC issued an order to adopt recommendations that aim to provide uniformity of energy affordability programs statewide via standardized practices and facilitate the ease of enrollment and customer participation. These modifications address; the identification of low-income customers through data sharing and file matching between utilities and the New York State Office of Temporary and Disability Assistance ("OTDA") and a customer self-certification mechanism; the stratification of low-income customers into additional tiers or usage groups to enhance bill discount targets; and, the identification of highest usage low-income customers for participation in energy efficiency programs. The Commission also adopted modifications to the bill discount calculation methodology to move further toward achieving the Commission's six percent energy burden goal. In the order, the NYPSC directs the joint utilities to update their respective Energy Affordability program bill discounts and file tariff modifications to become effective on a temporary basis, on September 1, 2021 to quickly provide relief to low income customers. The Company continues to evaluate the ongoing impact of COVID-19 on both customers and financial performance, and will continue to work with regulators to adjust the its affordability programs and implement the new protections for NY customers impacted by COVID-19.

The Company has evaluated subsequent events and transactions through September 28, 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.

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 NYPSC regulate the rates the Company charges its customers. In certain cases, the rate actions of the FERC and NYPSC 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.

Revenue Recognition

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

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas and electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and expected to be paid for the years ended March 31, 2021, 2020, and 2019 were $44.2 million, $35.9 million, and $38.7 million, respectively.

The state of New York imposes on corporations a franchise tax that is computed as the higher of a tax based on income or a tax based on capital. To the extent the Company's state tax based on capital is in excess of the state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

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.

Restricted Cash and Special Deposits

Restricted cash consists of collateral paid to the Company's counterparties for outstanding derivative instruments. Special deposits primarily consist of a reserve for potential environmental violations. The Company had restricted cash of zero and $9.6 million and special deposits of $1.2 million and $3.1 million as of March 31, 2021 and 2020, respectively.

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 $118.5 million, $67.9 million, and $55.2 million for the years ended March 31, 2021, 2020, and 2019, respectively, within operation and maintenance expenses in the accompanying statements of operations and comprehensive income. For the years ended March 31, 2021 and 2020, bad debt expense reflects the estimated impact of COVID-19.

Inventory

Inventory is composed of materials and supplies, purchased Renewable Energy Certificates ("RECs"), as well as gas in storage.

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

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 $60.5 million and $54.4 million, purchased RECs of $1.0 million and $1.2 million, and gas in storage of $5.8 million and $12.6 million as of March 31, 2021 and 2020, respectively.

Renewable Energy Standard Obligation

RECs and Zero-Emissions Credits ("ZECs") are stated at cost and are used to measure compliance with State renewable energy standards. RECs support new renewable generation resources whereas ZECs support generation by in-state nuclear power plants. RECs and ZECs are held primarily to be utilized in fulfillment of NYS compliance obligations. At March 31, 2021 and 2020, the Company recorded a renewable energy standard obligation of $63.8 million and $55.2 million, respectively.

Derivative Instruments

The Company uses derivative instruments to manage commodity price risk. All derivative instruments, except those that qualify for the normal purchase normal sale exception, are recorded on the balance sheet at fair value. All commodity costs, including the impact of derivative instruments, are passed on to customers through the Company's commodity rate adjustment mechanisms. Regulatory assets or regulatory liabilities are recorded to defer the recognition of unrealized losses or gains on derivative instruments, respectively. The gains or losses on the settlement of these contracts are recognized as purchased electricity and purchased gas on the statements of operations and comprehensive income and then refunded to, or collected from, customers consistent with regulatory requirements.

The Company has certain non-trading instruments for the physical purchase of electricity that qualify for the normal purchase normal sale exception and are accounted for upon settlement. If the Company were to determine that a contract no longer qualifies for the normal purchase normal sale exception, then the Company would recognize the fair value of the contract and account for the gains and losses using the regulatory accounting described above.

The Company's accounting policy is to not offset fair value amounts recognized for derivative instruments and related cash collateral receivable or payable with the same counterparty under a master netting agreement, but rather to record and present the fair value of the derivative instrument on a gross basis, with related cash collateral recorded within restricted cash and special deposits on the balance sheet.

Fair Value Measurements

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

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

Property, Plant and Equipment

Property, plant and equipment is stated at original cost. The capitalized cost of additions to property, plant and equipment includes costs such as direct material, labor and benefits, and an allowance for funds used during construction (“AFUDC”). 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 NYPSC. The average composite rates for the years ended March 31, 2021, 2020, and 2019 are as follows:

	Composite Rates		
	March 31,		
	2021	2020	2019
Electric	**2.4%**	2.4%	2.6%
Gas	**2.1%**	2.1%	2.3%
Common	**3.0%**	3.1%	3.3%

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 asset or 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 $317.9 million and $306.5 million as of March 31, 2021 and 2020, respectively.

Allowance for Funds Used During Construction

The Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. The equity component of AFUDC is reported in the accompanying statements of operations and comprehensive income as non-cash income in other income (deductions), net. The debt component of AFUDC is reported as a non-cash offset to other interest, including affiliate interest, net. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base. The Company recorded AFUDC related to equity of $11.8 million, $6.3 million, and $13.5 million, and AFUDC related to debt of $4.9 million, $7.1 million, and $5.4 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 5.5%, 4.4%, and 6.7%, 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 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 0" test and requires the Company to evaluate relevant events and circumstances including, but not limited to, macroeconomic conditions, industry and market considerations, cost factors, and other relevant entity-specific events that may indicate the existence of a decline in fair value that is other than temporary. The qualitative assessment indicated that it was more likely than not that the fair value of the Company exceeds its carrying value and, as such, no impairment loss exists for the year ended March 31, 2021. The Company did not record any goodwill impairment during the years ended March 31, 2021 and 2020.

Employee Benefits

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

Supplemental Executive Retirement Plans

The Company has corporate assets included in other non-current assets on the balance sheet representing funds designated for Supplemental Executive Retirement Plans, nonqualified retirement, and deferred compensation benefits. These funds are invested in corporate owned life insurance policies and securities primarily consisting of equity investments and investments in municipal and corporate bonds. The corporate owned life insurance investments are measured at cash surrender value or at fair value, with increases and decreases in the value of these assets recorded in the accompanying statements of operations and comprehensive income.

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; 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 an 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 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. Expense related to short-term leases was not material for the years ended March 31, 2021 and 2020.

Right-of-use 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. Right-of-use 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 requiring certain revisions to disclosures related to recurring fair value measurements in Note 8, “Fair Value”. Upon adoption, the amendments in the standard were applied retrospectively to all periods presented, except the amendments on 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 define 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 benefit plans and did not affect the Company's financial position, results of operations, or cash flows.

Internal-Use Software

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

Accounting Guidance Not Yet Adopted

Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU No. 2016-13 "Financial Instruments–Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements" which requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The accounting standards provide a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses that replaces the incurred loss impairment methodology of delayed recognition of credit losses. A broader range of reasonable and supportable information must be considered in developing estimates of credit losses. 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 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, except for held-to-maturity debt securities. For the Company, the requirements in these updates, as amended in November 2019 by ASU 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 (beginning April 1, 2023 for the Company), 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 presentation, results of operations, cash flows, and financial position of the Company.

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 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. The Company will adopt this standard on April 1, 2021, and interim periods within. The Company does not expect the adoption to 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 purposes 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. The Company will adopt this standard on April 1, 2021, and interim periods within. The Company does not expect the adoption to have a material impact on its financial statements.

Callable Debt Securities

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

Reclassifications

Certain reclassifications have been made to the financial statements to conform the prior period's balances to the current period's presentation. These reclassifications had no effect on reported income, statement of cash flows, total assets, or stockholders' equity as previously reported.

3. REVENUE

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

	Years ended March 31		
	2021	2020	2019
	(in thousands of dollars)		
Revenue from contracts with customers:			
Electric services	**$ 2,694,821**	$ 2,440,741	$ 2,557,146
Gas distribution	**567,799**	557,256	644,152
Total revenue from contracts with customers	**3,262,620**	2,997,997	3,201,298
Revenue from regulatory mechanisms	**1,447**	130,237	193,231
Other revenue	**21,913**	18,367	17,888
Total operating revenues	**$ 3,285,980**	$ 3,146,601	$ 3,412,417

Electric Services and Gas Distribution: Revenue from contracts with customers, includes electric services and gas distribution. Electric services are comprised of electric distribution and transmission services.

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

The performance obligation related to distribution sales is to provide electricity and natural gas to the customers on demand. The electricity and natural gas supplied under the respective tariff each 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 or natural gas as the Company provides these services. The Company records revenues related to the distribution sales based upon the approved tariff rate and the volume delivered to the customers, which corresponds with the amount the Company has the right to invoice.

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

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

The Company owns and operates transmission facilities, which is used to transmit electricity on behalf of other parties and is subject to regulation by FERC. The Company provides open access to the transmission facilities based on the rates approved by the FERC, which are designed to recover the cost of providing the service along with a return on the investments made by the Company, including Transmission Congestion Contract auctions. The Company is a participant in the New York Independent Service Operator ("NYISO"), the organization designated by the FERC for managing the movement of electricity across the New York electric grid. As a participant in the NYISO the Company is compensated by the NYISO for the use of its facilities to transmit electricity.

Transmission services are provided as demanded by the customers and represents a single performance obligation. The price for the services provided are based on the underlying tariff rates established by FERC related to both the Company and NYISO. The performance obligation is satisfied over time as the transmission services are provided by the Company. The Company records revenue related to transmission services based on the volumes delivered and the approved tariff rates, which corresponds with the amount the Company has the right to invoice, as the Company is entitled to compensation for the performance completed to date.

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. Revenue from Regulatory Mechanisms include various deferral mechanisms such as capital trackers, energy efficiency programs, storm deferral, 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 and gas distribution rates both 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 rate making mechanisms. The Company recognizes ARP's with a corresponding offset to a regulatory asset or liability account when the regulatory specified events or conditions have been met, when the amounts are determinable, and are probable of recovery (or payment) through future rate adjustments within 24-months from the end of the annual reporting period.

Other Revenues: 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
	(in thousands of dollars)	
Regulatory assets		
Current:		
Derivative instruments	**$ 30,110**	$ 97,396
Gas costs adjustment	**12,358**	2,605
Rate adjustment mechanisms	**20,593**	17,317
Clean Energy Standard	**5,082**	4,658
Revenue decoupling mechanism	**1,275**	25,404
Other	**3,359**	3,278
Total	**72,777**	150,658
Non-current:		
Environmental response costs	**359,835**	356,828
Postretirement benefits	**-**	48,386
Storm costs	**75,649**	42,075
Other	**53,860**	53,911
Total	**489,344**	501,200
Regulatory liabilities		
Current:		
Energy efficiency	**304,627**	356,299
Rate adjustment mechanisms	**13,049**	14,037
Other	**16,034**	18,120
Total	**333,710**	388,456
Non-current:		
Cost of removal	**317,889**	306,491
Postretirement benefits	**534,924**	-
Rate plan deferral credits	**6,269**	31,073
Regulatory tax liability, net	**805,609**	801,642
Other	**687,800**	505,228
Total	**$ 2,352,491**	$ 1,644,434

Clean Energy Standard: Under the Clean Energy Standard order issued by the NYPSC the Company is required to purchase Renewable Energy Certificates (RECs) and Zero-Emission Credits (ZECs) to support the New York's goal to reduce statewide greenhouse gas emissions. The Company defers the difference between the cost of the RECs and ZECs and the actual collections through the Clean Energy Standard Supply charge billed to retail commodity customers.

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

Derivative instruments: The Company evaluates open commodity derivative instruments for regulatory deferral by determining if they are probable of recovery from, or refund to, customers through future rates. Derivative instruments that qualify for recovery are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs.

Energy efficiency: Represents the difference between revenue billed to customers through a rate allowance included in Company's current rate plan and the costs of the Company's energy efficiency programs as approved by the NYPSC.

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.

Gas costs adjustment: The Company is subject to rate adjustment mechanisms for commodity costs, whereby an asset or liability is recognized resulting from differences between billed revenues and the underlying cost of supply. These amounts will be refunded to, or recovered from, customers over the following calendar year.

Postretirement benefits: The regulatory asset balance represents the Company's, unamortized, non-cash accrual of net actuarial gains and losses in addition to actual costs associated with Company's pension plans in excess of amounts received in rates that are to be collected in future periods. The regulatory liability represents the Company's, unamortized, non-cash accrual of net postretirement benefit other than pension ("PBOP") actuarial gains and losses in addition to excess amounts received in rates over actual costs of the Company's PBOP plans that are to be passed back 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 actual revenues and the underlying cost being recovered or differences between actual revenues and targeted amounts as approved by the NYPSC.

Rate plan deferral credits: Under the Rate Plan order, the Company will credit electric customers with a portion of the forecast deferral balance in the amount of $200.4 million and $56.1 million for electric and gas customers, respectively. These recorded credits allow for a gradual transition to full cost-of-service rates, implemented as step increases from Rate Year One ("RY1") to Rate Year Two ("RY2"), from Rate Year Two to Rate Year Three ("RY3"), and from Rate Year Three to the twelve-months ending March 31, 2022 ("RY4"). The rate plan deferral credit balances are being amortized over the term of the rate plan ($116.9 million in RY1, $59.3 million in RY2, $19.5 million in RY3 and $4.7 million in RY4 for electric customers, and $32.3 million in RY1, $16.9 million in RY2, $5.3 million in RY3 and $1.6 million in RY4 for gas customers).

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

Revenue decoupling mechanism ("RDM"): As approved by the NYPSC, the Company has electric and gas RDM's 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 annual electric revenue requirements provide funding for major storm incremental costs of $23.0 million in each of the Rate Years under the current three-year rate plan. The Company defers the difference between the base rate allowance and the allowable actual major storm incremental costs for future refund to or recovery from customers.

5. RATE MATTERS

Electric and Gas Filing

On March 15, 2018, the NYPSC issued a final order approving the Joint Proposal ("JP") for a three-year rate for the period ending March 31, 2021. The JP reflected the new federal tax law changes and provided a cumulative revenue requirement increase of $240.8 million and $60.8 million for the electric and gas business, respectively, based on a 9.0% return on equity and 48% common equity ratio. To promote rate stability and mitigate bill impacts to customers, the JP provided a gradual transition to full cost-of-service rates by phasing in the delivery rate increases over the time of the rate plan.

As of March 31, 2018, resulting from the order, a new electric rate plan settlement credit of $44.9 million and a new gas rate plan settlement credit of $28.4 million were established. These credits are included in other non-current regulatory liabilities in the preceding table within Note 4, “Regulatory Assets and Liabilities.” The Company applied $38.4 million of existing regulatory liabilities towards the creation of these credits.

Due to the impacts of COVID-19, the Company filed petitions to postpone for four months the electric and gas delivery rate increases that were scheduled to go into effect on April 1, 2020 and recover the annual authorized rate increase over the eight- month period August 1, 2020 through March 31, 2021. The petitions were approved by the Commission on an emergency basis.

On July 31, 2020, the Company filed a rate case to increase its base electric and gas delivery revenues by $100.4 million and $41.8 million per year, respectively, beginning with the twelve months period July 1, 2021 through June 30, 2022 (“Rate Year”). To facilitate a potential multi-year settlement, the Company submitted comprehensive financial information for two additional Data Years ending June 30, 2023 and June 30, 2024. The filings propose to invest approximately $3.5 billion across the Rate Year and Data Years and present a comprehensive framework to advance New York State’s energy goals outlined in the Climate Leadership and Community Protection Act. The Company filed Corrections and Updates on October 14, 2020, which requested rate increases of $103.3 million for electric delivery and $37.1 million for gas delivery. To facilitate settlement discussions by the parties, the NYPSC approved the Company’s extension of the suspension period in these proceedings, such that new rates would become effective March 1, 2022. This extension is subject to a make whole provision that would assure that the Company is restored to the same financial position it would have been in had there been no extension and new rates went into effect on July 1, 2021.

On September 27, 2021, the Company, DPS Staff and other settlement parties filed a JP for a three-year rate plan for NMPC’s electric and gas businesses beginning July 1, 2021 and ending June 30, 2024. The highlights of the rate plan include: enhanced energy affordability programs and services for low and moderate income customers; initiatives to reduce methane emissions and deploy clean energy solutions, including electric vehicles, battery storage and energy efficiency and demand response programs, in support of New York’s Climate Leadership and Community Protection Act (CLCPA); support for deploying Advanced Metering Infrastructure; and funding for $3.3 billion in capital projects to improve safety, resiliency and reliability of our energy networks. If approved by the NYPSC, the proposed revenue increases are 1.4 % for electric operations and 1.8% for gas operations in Rate Year One and 1.9% for both electric and gas operations in Rate Year Two and Rate Year Three. In addition, the JP also includes mechanisms that would allow the Company to extend the rate plan by nine months (Stayout Period), such that new rates would become effective April 1, 2025. To mitigate the potential bill impacts on customers, the settlement applies existing deferral credits of $146 million and $53 million for electric and gas customers, respectively, over the term of the rate plan and Stayout Period. The settlement is based upon a 9% return on equity and a ratemaking capital structure reflecting a common equity component of 48%. The JP includes earnings sharing mechanisms by which customers will share annual earnings in excess of a 9.5% calculated return on equity.

Outside of the rate filing on September 29, 2020, the Company filed a petition for approval to implement a COVID-19 Customer Assistance Program which deploys up to $50.0 million of deferred economic development and low-income funds to provide immediate COVID-19 relief to support our most economically vulnerable residential customers, as well as businesses that are struggling because of COVID-19 in the Company’s upstate NY territory. We anticipate NYPSC consideration of our proposal in the later part of fiscal year 2022 as part of the NYPSC’s Affordability and COVID-19 proceeding.

On November 20, 2020, the NYPSC approved the Company’s proposal for the deployment of Advanced Metering Infrastructure (“AMI”), also referred to as smart meters. The upstate NY Smart Meter program will provide our customers with real-time energy consumption data and tools to make clean energy choices and reduce costs. The approval assumes a six-year project deployment schedule (two years of back-office systems followed by four years of meter deployment) to begin in the second quarter of 2021.

Tax Act

On November 21, 2019, the FERC issued Order 864 to address ratemaking and regulatory reporting of excess or deficient Accumulated Deferred Income Taxes ("ADIT"), related to the Tax Act. The order applies to public utility transmission providers with formula rates and stated rates and provides that public utilities with formula rates submit a compliance filing within 30 days of the effective date of the final rule or in the public utilities next annual informational filing following the issuance of the final rule. The compliance filing must demonstrate how the public utilities formula rate adjusts rate base via a Rate Adjustment mechanism, returns or recovers excess or deficient ADIT via an Income Tax Allowance Mechanism and must include an ADIT worksheet to support the excess or deficient ADIT calculation and amortization. The ADIT worksheet must be populated and will be a new and permanent worksheet. The mechanisms and worksheet must remain applicable to any future changes to tax rates that give rise to excess or deficient ADIT, including changes to state and local tax rates. Excess or deficient ADIT associated with future tax rate changes will automatically be included in a public utility's formula rate without the need for a Section 205 filing. The order does not prescribe a recovery/refund period for deficient/excess ADIT for unprotected excess/deficient ADIT that is not subject to the normalization requirements. FERC will evaluate proposed amortization periods on a case by case basis. The Company submitted a compliance filing with the June 15, 2020 annual informational filing proposing adjustments to the formula rate for the inclusion of the Rate Adjustment and Income Tax Allowance Mechanisms. The filing also included a populated and unpopulated proposed permanent ADIT worksheet. The Company requested leave to submit the proposed amortization period to be used in the Transmission Services Charge ("TSC") for unprotected excess or deficient ADIT associated with the Tax Act to the FERC in a subsequent compliance filing after the NYPSC approves an amortization period for unprotected excess or deficient ADIT in the Company's upcoming retail rate case. On July 24, 2020, the Company filed an amended compliance filing including a proposed amortization period of 10 years for unprotected non-plant based deficient ADIT and the use of Average Rate Assumption Method ("ARAM") for protected and unprotected plant based excess ADIT. The Company estimates that approximately 9% of the transmission related portion of the Company's $703.8 million net electric excess ADIT balance will be returned to TSC wholesale customers. The Company received a deficiency letter in May 2021 in response to its amended compliance filing. On July 1, 2021, the Company made a filing at FERC addressing the issues from the FERC's deficiency letter and is currently awaiting a response from the FERC. The Company does not anticipate the resolution of the compliance filing will have a material impact on the Company's results of operations, financial position, or cash flows.

In response to the Tax Act, the NYPSC issued an Order Instituting Proceeding under Case 17-M-0815 - Proceeding on Motion of the Commission on Changes in Law that May Affect Rates. This proceeding was instituted to solicit comments on the Tax Act's implications and places the utilities on notice of the NYPSC's intent to protect ratepayers' interest and to ensure that any cost reductions from the changes in federal income taxes are deferred for future ratepayer benefit. On August 9, 2018, the NYPSC issued an order in its generic proceeding considering the impacts of federal tax reform. NYPSC Staff had advocated that unless already reflected in rates all New York utilities implement a sur-credit by October 1, 2018 that would reflect the immediate effects of the Tax Act and also return any deferred benefits to customers. In response, the Company filed a proposal to (i) delay any sur-credit to January 1 to offset scheduled rate increases and (ii) retain any deferred benefits, including accumulated deferred federal income taxes ("ADFIT"), for future rate moderation.

The NYPSC's order effectively approved all aspects of the Company's proposal. The NYPSC agreed that the Company should be allowed to defer both the pass back of calendar year 2018 tax savings (to the extent not already returned in the new rate plan) and the amortization of excess ADFIT balances, and use the benefits as a rate moderator when base rates are next revised. Specifically, the NYPSC directed that no sur-credit is required as the current rate plan already reflects the reduction of the tax rate to 21% and the termination of bonus depreciation. The NYPSC approved the Company's proposal to defer the tax benefit realized for the three-month period (January-March) prior to new rates, of $18.0 million for electric and $4.6 million for gas, to offset future rate increases or investments.

New York Management Audit

Under the New York Public Service Law, the NYPSC is required to conduct periodic audits of various aspects of public utility activities. In 2018 the NYPSC initiated a comprehensive management and operations audit of our three New York regulated businesses. New York law requires periodic management audits of all utilities at least once every five years. National Grid's

New York regulated business last underwent a New York management audit in 2014 and 2015, when the NYPSC audited our New York gas business.

In September 2018, the NYPSC selected Saleeby Consulting Group as the independent auditor to perform the audit. The Company was fully committed to the audit with the goal of demonstrating its full capabilities and receiving meaningful feedback that would drive useful recommendations to improve the Company's electric and gas operations for the benefit of its customers. The audit began in November 2018 and ran until August 2019, with a final report due in September 2019. Unexpectedly, in October 2019, the NYPSC employees advised us that they were terminating the contract with the auditors, effective immediately, because of concerns with the quality of the draft audit report by the auditor, with no fault whatsoever on the part of the Company. NYPSC staff completed the audit using their own internal staff and a final report was approved by the Commission and released to the public on November 19, 2020. The Company filed the required Management Audit Implementation Plan on December 21, 2020 and the Plan was subsequently approved by the NYPSC on May 13, 2021. The Company is required to implement the plan and file quarterly updates, with the first report due to the NYPSC on October 31, 2021.

6. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,			
	2021		2020	
	(in thousands of dollars)			
Plant and machinery	**$**	**13,332,363**	$	12,715,828
Land and buildings		**682,650**		658,804
Assets in construction		**559,019**		474,217
Software and other intangibles		**11,046**		9,102
Operating leases		**306,198**		271,193
Total property, plant and equipment		**14,891,276**		14,129,144
Accumulated depreciation and amortization		**(3,980,210)**		(3,817,347)
Operating lease accumulated depreciation		**(82,496)**		(40,777)
Property, plant and equipment, net	**$**	**10,828,570**	$	10,271,020

7. DERIVATIVE INSTRUMENTS

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

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

Volumes

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

	March 31,	
	2021	2020
	(in thousands)	
Gas contracts (dths)	**10,154**	9,762
Electric contracts (mwhs)	**12,761**	13,195

Derivative Financial Instruments

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

March 31, 2021
(in thousands of dollars)

ASSETS:	**Gross amounts of recognized assets (liabilities)** *A*	**Gross amounts offset in the Balance Sheets** *B*	**Net amounts of assets (liabilities) presented in the Balance Sheets** *C=A+B*	**Gross amounts not offset in the Balance Sheets** *D*	**Net amount** *E=C-D*
Current assets					
Gas contracts	**$ 124**	**$ -**	**$ 124**	**$ 91**	**$ 33**
Electric contracts	**11,200**	**-**	**11,200**	**6,467**	**4,733**
Non-current assets					
Gas contracts	**-**	**-**	**-**	**-**	**-**
Electric contracts	**2,846**	**-**	**2,846**	**2,496**	**350**
Total	**14,170**	**-**	**14,170**	**9,054**	**5,116**
LIABILITIES:					
Current liabilities					
Gas contracts	**(583)**	**-**	**(583)**	**(91)**	**(492)**
Electric contracts	**(24,314)**	**-**	**(24,314)**	**(6,467)**	**(17,847)**
Non-current liabilities					
Gas contracts	**-**	**-**	**-**	**-**	**-**
Electric contracts	**(19,383)**	**-**	**(19,383)**	**(2,496)**	**(16,887)**
Total	**(44,280)**	**-**	**(44,280)**	**(9,054)**	**(35,226)**
Net liabilities	**$ (30,110)**	**$ -**	**$ (30,110)**	**$ -**	**$ (30,110)**

March 31, 2020 *(in thousands of dollars)*					
ASSETS:	**Gross amounts of recognized assets (liabilities)** ***A***	**Gross amounts offset in the Balance Sheets** ***B***	**Net amounts of assets (liabilities) presented in the Balance Sheets** ***C=A+B***	**Gross amounts not offset in the Balance Sheets** ***D***	**Net amount** ***E=C-D***
Current assets					
Gas contracts	**$ 218**	**$ -**	**$ 218**	**$ 90**	**$ 128**
Electric contracts	**4,682**	**-**	**4,682**	**3,205**	**1,477**
Non-current assets					
Gas contracts	**6**	**-**	**6**	**-**	**6**
Electric contracts	**1,370**	**-**	**1,370**	**730**	**640**
Total	**6,276**	**-**	**6,276**	**4,025**	**2,251**
LIABILITIES:					
Current liabilities					
Gas contracts	**(419)**	**-**	**(419)**	**(90)**	**(329)**
Electric contracts	**(63,097)**	**-**	**(63,097)**	**(3,205)**	**(59,892)**
Non-current liabilities					
Gas contracts	**-**	**-**	**-**	**-**	**-**
Electric contracts	**(40,157)**	**-**	**(40,157)**	**(10,330)**	**(29,827)**
Total	**(103,673)**	**-**	**(103,673)**	**(13,625)**	**(90,048)**
Net liabilities	**$ (97,397)**	**$ -**	**$ (97,397)**	**$ (9,600)**	**$ (87,797)**

The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduces its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty.

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

Credit and Collateral

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

The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduces its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty.

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

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

The Company's credit exposure for all commodity derivative instruments, and applicable payables and receivables, net of collateral, and instruments that are subject to master netting agreements, was a net liability of $30.1 million and a net liability of $87.8 million as of March 31, 2021 and 2020, respectively.

The aggregate fair value of the Company's commodity derivative instruments with credit-risk-related contingent features that were in a liability position as of March 31, 2021 and 2020 was $30.5 million and $97.8 million, respectively. The Company had $0 million and $9.6 million collateral posted for these instruments as of March 31, 2021 and 2020, respectively. At March 31, 2021, if the Company's credit rating were to be downgraded by one, two, or three levels, it would be required to post additional collateral to its counterparties of $3.5 million, $18.7 million, or $31.3 million, respectively. At March 31, 2020, if the Company's credit rating were to be downgraded by one, two, or three levels, it would be required to post additional collateral to its counterparties of $8.5 million, $26.6 million, or $98.4 million, respectively.

8. FAIR VALUE MEASUREMENTS

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

	March 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
	(in thousands of dollars)			
Assets:				
Derivative instruments				
Gas contracts	$ -	$ 22	$ 102	$ 124
Electric contracts	-	13,510	536	14,046
Securities	28,977	15,040	-	44,017
Total	28,977	28,572	638	58,187
Liabilities:				
Derivative instruments	-	-	-	-
Gas contracts	-	30	553	583
Electric contracts	-	42,162	1,535	43,697
Total	-	42,192	2,088	44,280
Net assets (liabilities)	$ 28,977	$ (13,620)	$ (1,450)	$ 13,907

	March 31, 2020			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative instruments				
Gas contracts	$ -	$ 8	$ 216	$ 224
Electric contracts	-	5,089	963	6,052
Securities	21,610	12,747	-	34,357
Total	21,610	17,844	1,179	40,633
Liabilities:				
Derivative instruments				
Gas contracts	-	144	275	419
Electric contracts	-	102,531	723	103,254
Total	-	102,675	998	103,673
Net assets (liabilities)	$ 21,610	$ (84,831)	$ 181	$ (63,040)

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

The Company's Level 3 fair value derivative instruments consist of gas option and purchase, and electric option and capacity transactions, which are valued based on internally-developed models. Industry-standard valuation techniques, such as the Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivative instruments valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility, and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. The Company considers non-performance risk and liquidity risk in the valuation of derivative instruments categorized in Level 2 and Level 3.

The significant unobservable inputs used in the fair value measurement of the Company's gas derivative instruments and electric derivative instruments are implied volatility, electric forward curves, and gas forward curves. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

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

9. EMPLOYEE BENEFITS

The Company participates in two non-contributory defined benefit pension plans (the "Pension Plans") and two PBOP plans (the "PBOP Plans," together with the Pension Plans, the "Plans"). The Company calculates benefits under these plans based on age, years of service and pay using March 31 as a measurement date. In addition, the Company also participates in defined contribution plans for eligible employees. The plans are sponsored by National Grid USA Service Company.

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

Pension Plans

The Pension Plans are composed of both a qualified and a non-qualified plan. The qualified pension plan provides substantially all union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. The qualified pension plan is a cash balance pension plan design in which pay-based credits are applied based on service time and interest credits are applied at rates set forth in the plan. For non-union employees, effective January 1, 2011, pay-based credits are based on a combination of service time and age. Some employees who met certain age and service requirements (referred to as the Transition Group) were grandfathered into the final average pay formula and upon retirement receive the greater of the final average pay formula or the cash balance formula benefit under the plan. The non-qualified pension plan provides additional pension benefits to certain eligible participants whose compensation levels exceeds IRS limits. The funding policy is determined largely by the Company's rate agreements with the NYPSC. However, the contribution to the qualified pension plan for any year will not be less than the minimum amount required under Internal Revenue Service ("IRS") regulations. During the years ended March 31, 2021, 2020, and 2019, the Company has not made any contributions to the qualified pension plans. The Company does not expect to contribute to the 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 $106.6 million, $101.9 million, and $148.6 million, respectively.

PBOP Plans

The Company's PBOP Plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their health coverage. The PBOP Plans are funded based on rate agreements with the NYPSC. During the years ended March 31, 2021, 2020, and 2019, the Company did not make any 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 $71.1 million, $76.1 million, and $69.8 million, respectively.

Net Periodic Benefit Costs

The Company's total pension cost for the years ended March 31, 2021, 2020, and 2019 are $8.2 million, $10.2 million, and $45.3 million, respectively.

The Company's total PBOP cost for the years ended March 31, 2021, 2020, and 2019 are $7.4 million, $2.2 million, and $11.4 million, respectively.

Amounts Recognized in OCI and Regulatory Assets/Liabilities

The following tables summarize other pre-tax changes in actuarial gains/losses and prior service costs recognized primarily in regulatory assets and other comprehensive income as of March 31, 2021, 2020, and 2019:

	Pension Plans		
	March 31,		
	2021	2020	2019
		(in thousands of dollars)	
Net actuarial (gain) loss	**$ (103,404)**	**$ 18,690**	$ (7,386)
Amortization of net actuarial losses	**(18,279)**	**(31,821)**	(50,432)
Amortization of prior service cost, net	**(1,154)**	**(1,571)**	(2,832)
Total	**$ (122,837)**	**$ (14,702)**	$ (60,650)
Change in regulatory assets	**$ (122,913)**	**$ (14,734)**	$ (60,162)
Change in AOCI	**76**	**32**	(488)
Total	**$ (122,837)**	**$ (14,702)**	$ (60,650)

	PBOP Plans		
	March 31,		
	2021	2020	2019
		(in thousands of dollars)	
Net actuarial (gain) loss	**$ (453,960)**	$ 107,126	$ 39,428
Amortization of net actuarial losses	**(15,195)**	(13,066)	(16,174)
Amortization of prior service benefit, net	**-**	-	91
Total	**$ (469,155)**	$ 94,060	$ 23,345
Change in regulatory assets	**$ (468,240)**	$ 95,014	$ 23,345
Change in AOCI	**(915)**	(954)	-
Total	**$ (469,155)**	$ 94,060	$ 23,345

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

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

	Pension Plans		
	March 31,		
	2021	2020	2019
		(in thousands of dollars)	
Net actuarial (gain) loss	**$ (86,197)**	$ 35,486	$ 48,617
Prior service cost	**2,473**	3,627	5,198
Total	**$ (83,724)**	$ 39,113	$ 53,815
Included in regulatory (liabilities) assets	**$ (84,576)**	$ 38,337	$ 53,071
Included in AOCI	**852**	776	744
Total	**$ (83,724)**	$ 39,113	$ 53,815

	PBOP Plans		
	March 31,		
	2021	2020	2019
		(in thousands of dollars)	
Net actuarial (gain) loss	**$ (384,590)**	$ 84,565	$ (9,495)
Prior service benefit	**(425)**	(425)	(425)
Total	**$ (385,015)**	$ 84,140	$ (9,920)
Included in regulatory (liabilities) assets	**$ (383,146)**	$ 85,094	$ (9,920)
Included in AOCI	**(1,869)**	(954)	-
Total	**$ (385,015)**	$ 84,140	$ (9,920)

Reconciliation of Funded Status to Amount Recognized

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2021	2020	**2021**	2020
	(in thousands of dollars)			
Projected benefit obligation	**$ (1,267,364)**	$ (1,276,772)	**$ (1,659,764)**	$ (1,674,903)
Allocated fair value of assets	**1,757,162**	1,651,512	**1,637,824**	1,272,844
Funded status	**$ 489,798**	$ 374,740	**$ (21,940)**	$ (402,059)
Non-current assets	**$ 490,466**	$ 375,635	**$ 134,986**	$ -
Current liabilities	**(245)**	(257)	**(3,944)**	(4,074)
Non-current liabilities	**(423)**	(638)	**(152,982)**	(397,985)
Total	**$ 489,798**	$ 374,740	**$ (21,940)**	$ (402,059)

For the year end March 31, 2021, the net actuarial gain for pension and PBOP was largely the result of asset performance and lower contract pricing negotiated on certain prescription benefit costs within the PBOP Plans, partially offset by liability losses generated from the discount rate decrease. For the year end March 31, 2020, the net actuarial loss for pension and PBOP was primarily driven by the discount rate decrease. PBOP experienced additional losses related to asset performance below expectations. The loss for pension and PBOP was partially offset by a gain related to a change in the mortality assumption and a PBOP assumption change for post-65 participation rates. For the year end March 31, 2019, the small net actuarial gain for pension was primarily generated by a decrease in the interest crediting rate assumption, offset by the discount rate decrease. Whereas for PBOP, the net actuarial loss was overall driven by the decrease in discount rate and asset performance below expectations, partially offset by assumption changes related to pre-65 participant rates.

Expected Benefit Payments

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

(in thousands of dollars) **Years Ended March 31,**	**Pension Plans**	**PBOP Plans**
2022	$ 132,273	$ 71,259
2023	114,866	72,707
2024	101,296	73,726
2025	95,798	74,413
2026	91,890	75,093
2027-2031	402,449	379,776
Total	$ 938,572	$ 746,974

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)	**4.25%**	3.50%	3.50%
Weighted average cash balance interest crediting rate	**2.75%**	3.30%	4.10%
Net periodic benefit costs:			
Discount rate	**3.65%**	4.10%	4.10%-4.50%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**5.00%**	6.00%	6.00%
Weighted average cash balance interest crediting rate	**3.30%**	4.10%	4.80%

	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 Above Median Curve along with the expected future cash flows from the Company retirement plans to determine the weighted average discount rate assumption.

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

Assumed Health Cost Trend Rate

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

Plan Assets

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

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

The RPC has established and reviews at least annually the Investment Policy Statement ("IPS") which sets forth the guidelines for how plan assets are to be invested. The IPS contains a strategic asset allocation for each plan which is intended to meet the objectives of the plans by diversifying its funds across asset classes, investment styles and fund managers. An asset/liability study typically is conducted periodically to determine whether the current strategic asset allocation continues to represent the appropriate balance of expected risk and reward for the plan to meet expected liabilities. Each study considers the investment risk of the asset allocation and determines the optimal mix of assets for the plan. The target asset allocation for 2021 reflects the results of such a pension study conducted in 2019. As a result of that asset liability study the asset mix for the Niagara Mohawk Pension Plan was changed to further reduce investment risk given the overfunded nature and shorter duration of liabilities in that plan compared to the other pension plans. The PBOP Plan asset liability studies are expected to be run within the next 12-18 months.

Individual fund managers operate under written guidelines provided by the RPC, which cover such areas as investment objectives, performance measurement, permissible investments, investment restrictions, trading and execution, and communication and reporting requirements. National Grid management in conjunction with a third party investment advisor, regularly monitors, and reviews asset class performance, total fund performance, and compliance with asset allocation guidelines. This information is reported to the RPC at quarterly meetings. The RPC changes fund managers and rebalances the portfolio as appropriate.

Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across market segments and is mainly invested in investment grade securities. Where investments are made in non-investment grade assets the higher volatility is carefully judged and balanced against the expected higher returns. While the majority of plan assets are invested in equities and fixed income other asset classes are utilized to further diversify the investments. These asset classes include private equity, real estate, and diversified alternatives. The objective of these other investments 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	**18%**	18%	**63%**	63%	**70%**	70%
Diversified alternatives	**6%**	6%	**17%**	17%	**0%**	-
Fixed income securities	**70%**	70%	**20%**	20%	**30%**	30%
Private equity	**3%**	3%	**0%**	-	**0%**	-
Real estate	**2%**	2%	**0%**	-	**0%**	-
Infrastructure	**1%**	1%	**0%**	-	**0%**	-
	100%	100%	**100%**	100%	**100%**	100%

Fair Value Measurements

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

	March 31, 2021				
	Level 1	Level 2	Level 3	Not categorized	Total
			(in thousands of dollars)		
Pension assets:					
Equity	$ 77,570	$ -	$ -	$ 217,169	$ 294,739
Diversified alternatives	38,399	-	-	76,979	115,378
Corporate bonds	-	819,134	-	260,542	1,079,676
Government securities	2,228	262,465	-	66,168	330,861
Private equity	-	-	-	125,667	125,667
Real estate	-	-	-	44,682	44,682
Infrastructure	-	-	-	32,279	32,279
Insurance contracts	-	-	-	-	-
Total assets	$ 118,197	$ 1,081,599	$ -	$ 823,486	$ 2,023,282
Pending transactions					(135,608)
Total net assets					$ 1,887,674
PBOP assets:					
Equity	$ 220,782	$ -	$ -	$ 895,461	$ 1,116,243
Diversified alternatives	112,025	-	-	108,872	220,897
Corporate bonds	-	10,801	-	-	10,801
Government securities	25,743	313,452	-	822	340,017
Total assets	$ 358,550	$ 324,253	$ -	$ 1,005,155	$ 1,687,958
Pending transactions					1,214
Total net assets					$ 1,689,172

	March 31, 2020				
	Level 1	Level 2	Level 3	Not categorized	Total
	(in thousands of dollars)				
Pension assets:					
Equity	$ 66,435	$ -	$ -	$ 173,217	$ 239,652
Diversified alternatives	31,485	-	-	68,995	100,480
Corporate bonds	-	748,253	-	236,612	984,865
Government securities	(4,457)	282,846	-	102,734	381,123
Private equity	-	-	-	101,278	101,278
Real estate	-	-	-	47,659	47,659
Infrastructure	-	-	-	32,268	32,268
Insurance contracts	-	-	-	516	516
Total assets	$ 93,463	$1,031,099	$ -	$ 763,279	$ 1,887,841
Pending transactions					(116,726)
Total net assets					$ 1,771,115
PBOP assets:					
Equity	$ 159,985	$ -	$ -	$ 610,921	$ 770,906
Diversified alternatives	84,881	-	-	87,521	172,402
Corporate bonds	-	8,296	-	-	8,296
Government securities	23,374	271,691	-	411	295,476
Total assets	$ 268,240	$ 279,987	$ -	$ 698,853	$ 1,247,080
Pending transactions					4,246
Total net assets					$ 1,251,326

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

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

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

Corporate bonds: Consists of debt issued by various corporations and corporate money market funds. Corporate Bonds also includes small investments in preferred securities as the investments form part of 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: Includes U.S. agency and treasury securities, as well as state and local municipality bonds. U.S. Government money market funds are also included. The plans also include a small amount of Non-U.S. government debt which is also captured here. In addition, interest rate futures and swaps are held in this category as a tool to manage interest rate risk.

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

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: Consists of limited partnerships 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: Consists of Trust Owned Life Insurance.

Pending transactions/Receivables/Payables: Accounts receivable and accounts payable are short term cash transactions that are expected to settle within a few days of the measurement date.

Defined Contribution Plan

NGUSA has defined contribution retirement plans that covers substantially all employees. For the years ended March 31, 2021, 2020, and 2019, the Company recognized an expense in the accompanying statements of operations and comprehensive income of $11.5 million, $10.7 million, and $10.4 million, respectively, for matching contributions.

10. CAPITALIZATION

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

(in thousands of dollars) March 31,	Maturities of Long-Term Debt
2022	$ -
2023	300,000
2024	69,800
2025	500,000
2026	75,000
Thereafter	2,679,365
Total	$ 3,624,165

The Company's debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants such as restrictions on the level of indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the Company's debt and may restrict the Company's ability to draw upon its facilities or access the capital markets. As of March 31, 2021 and 2020, the Company was in compliance with all such covenants.

Debt Authorizations

The Company had regulatory approval from the FERC to issue up to $1.0 billion of short-term debt internally or externally. The authorization was renewed with an effective date of January 11, 2021 and expires on October 14, 2022. The Company had no external short-term debt as of March 31, 2021 and 2020. Refer to Note 15, "Related Party Transactions" under "Intercompany Money Pool" for short-term debt outstanding with associated companies.

The NYPSC authorized the Company to issue up to $2.1 billion of incremental long-term debt in one or more transactions through March 31, 2020. The authorization includes the option to issue up to $429.5 million of the total authorization for a refunding of the Company's existing debt.

Under the authorization, the Company converted $424.2 million of tax-exempt revenue bonds from a variable interest rate into a fixed rate and issued $500.0 million of unsecured long-term debt at 4.28%. Prior to the expiration, the Company filed and received approval from the NYPSC for a one-year extension of the remaining $1.1 billion of authorization through March

31, 2021. In June 2020, the Company issued $1.1 billion of long-term debt consisting of $600 million 10-year fixed rate bond, paying a semi-annual coupon of 1.96% and maturing on June 27, 2030 (first Green Bond issuance) and a $500 million 30-year fixed rate bond, paying a semi-annual coupon of 3.025% and maturing on June 27, 2050.

On April 1, 2021, Niagara Mohawk petitioned the NYPSC for authorization to issue, from time to time, through June 30, 2024, new long-term debt in an amount not to exceed $3 billion. On September 13, 2021, the NYPSC authorized the Company to issue up to $2.3 billion of new long-term debt securities. The authorized securities will enable the Company to fund the construction of utility plant, refinance maturing and/or redeemed issues of debt, redemption of preferred stock, refinance callable debt, refinance short-term debt with long-term debt, finance the capital needs of the Company, and meet other general corporate purposes through June 30, 2024, subject to the terms of the order. In addition, NYPSC authorized the Company to issue debt to redeem approximately $29 million of preferred stock, if it is economical and in the best interest of customers.

In addition, the Company had unsecured long-term debt of $750.0 million at 4.88% which matured on August 15, 2019.

State Authority Financing Bonds

The Company had approximately $429.5 million of tax-exempt revenue bonds in a variable interest rate mode (“TE Bonds”) issued by the New York State Energy Research and Development Authority (“NYSERDA”). The Company pledged to NYSERDA collateral, in the form of first mortgage bonds (“Pledged Bonds”), to secure the repayment of the NYSERDA TE bonds. The Pledged Bonds were issued under its 1937 Mortgage Trust Indenture, as amended and supplemented from time to time, that established a blanket lien (the “Indenture”) (i.e. mortgage lien) on substantially all of the Company’s operating properties.

In September and October 2018, the Company requested and received approval from NYSERDA to convert the TE Bonds into a fixed rate mode which was fully completed on October 11, 2018. In connection with the mode conversion the Company i) cancelled the Insurance Policy, ii) replaced the Pledge Bonds with an unsecured note which eliminated the Pledge Bonds and effectively discharged the mortgage lien under the Indenture and iii) made other modifications to NYSERDA TE Bonds transactional documents. The TE bonds were converted from a variable interest rate mode into a fixed rate interest mode ranging from 3.23% to 3.48%. These conversions were accounted for as extinguishments in accordance with ASC 470, “Debt.” Prior to the conversion the bonds bore interest at short-term interest rates ranging from 0.84% to 5.53% as of March 31, 2019.

Dividend Restrictions

The Company is limited by the various rate plans, NYPSC orders, and FERC orders with respect to the amount of dividends the Company can pay. If the Company’s total debt exceeds 55% of its total capital excluding goodwill but does not exceed 57%, then the Company will be permitted to pay dividends up to an amount equal to but no greater than 50% of its net income for the previous twelve months until its average total debt for the most recent six month period is less than or equal to 55%. If the Company’s total capital exceeds 57% then the Company may not pay dividends until the average total debt for the most recent six months ending is less than or equal to 55%. As long as the bond ratings on the least secure forms of debt issued by the Company and National Grid plc remain investment grade and do not fall to the lowest investment grade rating (with one or more negative watch downgrade notices issued with respect to such debt), the Company is allowed to pay dividends. During the years ended March 31, 2021, 2020 and 2019, the Company was in compliance with all such covenants.

The Company’s filed rate plan includes a ratemaking capital structure of approximately 52% debt and 48% equity through the combination of long-term debt issuance and dividend payments.

Cumulative Preferred Stock

The Company has certain issues of non-participating cumulative preferred stock outstanding where the security is guaranteed by National Grid plc and 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:

	Shares Outstanding		Amount		
	March 31,		March 31,		Call
Series	**2021**	2020	**2021**	2020	Price
	(in thousands of dollars, except per share and number of shares data)				
$100 par value -					
3.40% Series	**$ 57,524**	$ 57,524	**$ 5,753**	$ 5,753	$ 103.50
3.60% Series	**137,152**	137,152	**13,715**	13,715	104.85
3.90% Series	**95,171**	95,171	**9,517**	9,517	106.00
Golden Share	**1**	1	**-**	-	Non-callable
Total	**$ 289,848**	$ 289,848	**$ 28,985**	$ 28,985	

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

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 $1.1 million as of March 31, 2021, 2020, and 2019.

11. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2021	2020	2019
	(in thousands of dollars)		
Current tax expense (benefit):			
Federal	**$ 55,322**	$ 19,776	$ 9,170
State	**4,545**	2,262	7,724
Total current tax expense (benefit)	**59,867**	22,038	16,894
Deferred tax expense (benefit):			
Federal	**(5,498)**	45,676	55,210
State	**6,402**	16,238	11,494
Total deferred tax expense (benefit)	**904**	61,914	66,704
Amortized investment tax credits [1]	**(1,100)**	(1,100)	(1,276)
Total deferred tax expense (benefit)	**(196)**	60,814	65,428
Total income tax expense (benefit)	**$ 59,671**	$ 82,852	$ 82,322

(1) Investment tax credits ("ITC") 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 are 23.7%, 23.8%, and 22.6%, respectively. The following table presents a reconciliation of income tax expense (benefit) at the federal statutory tax rate of 21% to the actual tax expense:

	Years Ended March 31,		
	2021	2020	2019
	(in thousands of dollars)		
Computed tax	**$ 52,792**	$ 73,005	$ 76,430
Change in computed taxes resulting from:			
Investment tax credits	**(1,100)**	(1,100)	(1,276)
State income tax, net of federal benefit	**8,648**	14,615	15,183
Temporary differences flowed through	**(4,825)**	(3,459)	(4,224)
Audit and related reserve movements	**4,963**	496	(826)
Other items, net	**(807)**	(705)	(2,965)
Total changes	**6,879**	9,847	5,892
Total income tax expense (benefit)	**$ 59,671**	$ 82,852	$ 82,322

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

Deferred Tax Components

	March 31,	
	2021	2020
	(in thousands of dollars)	
Deferred tax assets:		
Allowance for doubtful accounts	**$ 74,544**	$ 46,603
Environmental remediation costs	**94,053**	93,257
Postretirement benefits	**64,214**	125,034
Regulatory liabilities	**621,503**	454,212
Reserves not currently deducted	**68,294**	73,995
Other items - net	**46,069**	62,013
Total deferred tax assets	**968,677**	855,114
Deferred tax liabilities:		
Postretirement benefits - asset	**163,462**	98,006
Property-related differences	**1,675,663**	1,631,510
Regulatory assets	**146,910**	170,363
Other items	**27,304**	2,725
Total deferred tax liabilities	**2,013,339**	1,902,604
Net deferred income tax liabilities	**1,044,662**	1,047,490
Deferred investment tax credits	**11,106**	12,205
Deferred income tax liabilities, net	**$ 1,055,768**	$ 1,059,695

In April 2021 New York State enacted the 2021/2022 state budget which included several tax related provisions. The enacted budget includes raising the corporate franchise tax rate to 7.25% and reinstating the capital base of the franchise tax at 0.1875% for three years as part of a three-year COVID-19 recovery plan. The new legislation is effective for tax years beginning on or after January 1, 2021 and before January 1, 2024, which for the Company includes fiscal years ending March 31, 2022 through March 31, 2024. The Company is evaluating the impact of the new legislation, but in accordance with US GAAP no adjustments have been made as of the balance sheet date.

Net Operating Losses

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

Expiration of Net Operating Losses	Carryforward Amount	Expiration Period
	(in thousands of dollars)	
Federal	$ 9,564	2036
New York	20,820	2040

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 IRS for the tax years ended March 31, 2013, 2014 and 2015. As a result of the settlement, the company incurred an income tax expense of $5.4 million and made a payment for tax and interest of $3.8 million.

During the year ended March 31, 2021, the IRS informed the Company that it does not intend to audit the Company’s income tax returns for the periods ended March 31, 2016 and 2017 and commenced its examination of the next audit cycle which includes periods ended March 31, 2018 and 2019. While the income tax returns for fiscal years 2016 and 2017 are not currently being audited by the IRS, the statute of limitations for these tax periods does not expire until December 31, 2021. Therefore, the income tax returns for the years ended March 31, 2016 through March 31, 2021 remain subject to examination by the IRS.

The state of New York continues its examinations of the Company's income tax returns for the years ended March 31, 2013 through March 31, 2015. The income tax returns for the subsequent years through March 31, 2021 remain subject to examination by the state of New York.

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

Jurisdiction	Tax Year
Federal	March 31, 2016
New York	March 31, 2013

Uncertain Tax Positions

The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income, net, in the accompanying statements of operations and comprehensive income. As of March 31, 2021 and 2020, the Company has accrued for interest related to unrecognized tax benefits of $6.5 million and $16.7 million, respectively. During the years ended March 31, 2021, 2020, and 2019, the Company recorded interest income of $9.0 million, and interest expense of $8.9 million, and $16.3 million, respectively. No tax penalties were recognized during the years ended March 31, 2021, 2020, or 2019.

It is reasonably possible that other events will occur during the next twelve months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, the Company does not believe any such increases or decreases would be material to its results of operations, financial position, or cash flows.

12. ENVIRONMENTAL MATTERS

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

The United States Environmental Protection Agency ("EPA"), and the New York State Department of Environmental Conservation ("DEC"), 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 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 the DEC. Expenditures incurred for the years ended March 31, 2021, 2020, and 2019 were $19.5 million, $23.5 million, and $9.8 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $359.9 million and $356.8 million as of March 31, 2021 and 2020, respectively. These costs are expected to be incurred over approximately 40 years, and these undiscounted amounts have been recorded as estimated liabilities on the balance sheet. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders effective April 1, 2018, NYPSC has decreased the annual rate allowance from $42.0 million to $32.1 million ($27.3 million in electric base rates and $4.8 million in gas base rates). Any annual spend above the $32.1 million rate allowance is deferred for future recovery. Previous rate orders have provided for similar recovery mechanisms (with different rate allowances and thresholds). Accordingly, as of March 31, 2021 and 2020, the Company has recorded environmental regulatory assets of $359.8 million and $356.8 million, respectively, and environmental regulatory liabilities of $79.5 million and $66.9 million, respectively.

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

13. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

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

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

(in thousands of dollars) **March 31,**		**Energy Purchases**
2022	$	162,267
2023		162,668
2024		159,018
2025		151,709
2026		143,331
Thereafter		348,626
Total	$	1,127,619

Legal Matters

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

On June 17, 2021, five former National Grid employees in the downstate New York facilities department were arrested on federal charges alleging fraud and bribery. It is National Grid's understanding that the investigation by the US Attorney's Office and FBI remains ongoing; National Grid is a victim of the alleged crimes and will continue to comply with the government's investigation. The NYPSC, the Massachusetts Department of Public Utilities, and the Rhode Island Public Utilities Commission have each issued requests for information related to the alleged criminal conduct. At this time, it is not possible to predict the outcome of the 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.

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

Nuclear Contingencies

As of March 31, 2021 and 2020, the Company had a liability of $177.8 million and $177.6 million, recorded in non-current liabilities on the balance sheet, for the disposal of nuclear fuel irradiated prior to 1983. The Nuclear Waste Policy Act of 1982 provides three payment options for liquidating such liability and the Company has elected to delay payment, with interest, until the year in which Constellation Energy Group Inc., which purchased the Company's nuclear assets, initially plans to ship irradiated fuel to an approved Department of Energy ("DOE") disposal facility.

The 2010 Federal budget (which became effective October 1, 2009) eliminated almost all funding for the creation of the Yucca Mountain repository. A Blue Ribbon Commission ("BRC") on America's Nuclear Future, appointed by the U.S. Energy Secretary, released a report on January 26, 2012, detailing comprehensive recommendations for creating a safe, long-term solution for managing and disposing of the nation's spent nuclear fuel and high-level radioactive waste.

In early 2013, the DOE issued an updated "Strategy for the Management and Disposal of Used Nuclear Fuel and High-Level Radioactive Waste" in response to the BRC recommendations. This strategy included a consolidated interim storage facility that was planned to be operational in 2025. However, due to continued delays on the part of the DOE, and the amount of time required for DOE to select a site location and develop the necessary infrastructure for long-term spent nuclear fuel storage, the Company cannot predict the date at which the DOE will begin accepting spent nuclear fuel.

14. LEASES

The Company has various operating leases, primarily related to a transmission line, buildings, land, and fleet vehicles used to support the electric and gas operations, with lease terms ranging between 3 and 48 years.

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

The expense related to operating leases was $59.0 million and $54.7 million for the years ended March 31, 2021 and 2020, respectively. Rent expense for operating leases was $10.4 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:

	Year Ended March 31,			
	2021		2020	
(In thousands of dollars)				
Cash paid for amounts included in lease liabilities				
Operating cash flows from operating leases	**$**	**58,996**	$	54,686
ROU assets obtained in exchange for new operating lease liabilities	**$**	**37,598**	$	27,201
Weighted-average remaining lease term – operating leases		**2.86%**		2.94%
Weighted-average discount rate – operating leases		**9 years**		9 years

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
Year Ending March 31,	*(in thousands of dollars)*
2022	**$ 46,099**
2023	**41,380**
2024	**34,162**
2025	**28,247**
2026	**25,443**
Thereafter	**80,210**
Total future minimum lease payments	**255,541**
Less: imputed interest	**(32,048)**
Total	**$ 223,493**
Reported as of March 31, 2021:	
Current lease liability	**$ 41,857**
Non-current lease liability	**181,636**
Total	**$ 223,493**

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.

15. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2021	2020	**2021**	2020
	(in thousands of dollars)			
NGUSA	**$ -**	$ -	**$ 7,261**	$ 9,112
NGUSA Service Company	**22,728**	26,506	**105,635**	116,586
Niagara Mohawk Holdings	**-**	-	**-**	18,434
Other	**787**	1,505	**606**	2,881
Total	**$ 23,515**	$ 28,011	**$ 113,502**	$ 147,013

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool in which it participates. The Company is a participant in the Regulated Money Pool and can both borrow and invest funds. Investments in 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 consolidated 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 $130.1 million as of March 31, 2021 and intercompany money pool borrowings of $487.4 million as of March 31, 2020. The average interest rates for the intercompany money pool were 0.7%, 2.4%, and 2.4% for the years ended March 31, 2021, 2020, and 2019, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at cost without a markup. 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 allocate to the Company using the second and third tiers noted above were $502.9 million, $496.2 million, and $419.9 million, respectively.