Massachusetts Electric Company

Financial Statements

For the years ended March 31, 2022, 2021, and 2020

MASSACHUSETTS ELECTRIC COMPANY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Massachusetts Electric Company

Opinion

We have audited the financial statements of Massachusetts Electric Company (the "Company"), which comprise the balance sheets and statements of capitalization as of March 31, 2022 and 2021, and the related statements of income, cash flows and shareholders' equity for each of the three years in the period ended March 31, 2022, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher

than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Deloitte & Touche LLP

July 1, 2022

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

	Years Ended March 31,		
	2022	2021	2020
Operating revenues	**$ 2,490,683**	$ 2,429,179	$ 2,456,591
Operating expenses:			
Purchased electricity	**562,256**	517,289	676,749
Operations and maintenance	**1,454,260**	1,445,881	1,310,363
Depreciation	**165,778**	157,660	153,560
Other taxes	**92,659**	85,852	79,096
Total operating expenses	**2,274,953**	2,206,682	2,219,768
Operating income	**215,730**	222,497	236,823
Other income and (deductions):			
Interest on long-term debt	**(76,712)**	(70,954)	(67,828)
Other interest, including affiliate interest, net	**1,499**	(1,357)	(1,922)
Other income (deductions), net	**10,929**	(3,095)	36,500
Total other deductions, net	**(64,284)**	(75,406)	(33,250)
Income before income taxes	**151,446**	147,091	203,573
Income tax expense	**31,914**	25,158	46,256
Net income	**$ 119,532**	$ 121,933	$ 157,317

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

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

	Years Ended March 31,		
	2022	2021	2020
Operating activities:			
Net income	**$ 119,532**	$ 121,933	$ 157,317
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**165,778**	157,660	153,560
Accrued interest on tax reserves	**59**	(719)	-
Deferred income tax expense (benefit)	**27,405**	(13,551)	25,397
Bad debt expense	**34,116**	107,822	80,935
Allowance for equity funds used during construction	**(6,980)**	(2,650)	(6,394)
Amortization of debt discount and issuance costs	**685**	521	445
Pension and postretirement benefit expenses	**24,513**	7,129	2,639
Pension and postretirement benefit contributions	**(12,412)**	(10,086)	(17,218)
Environmental remediation payments	**(6,291)**	(9,348)	(6,112)
Changes in operating assets and liabilities:			
Accounts receivable, net, and unbilled revenues	**(51,527)**	(171,056)	(24,205)
Accounts receivable from/payable to affiliates, net	**(14,593)**	15,078	42,592
Inventory	**(574)**	(3,611)	(4,068)
Regulatory assets and liabilities (current), net	**12,605**	(57,582)	(32,023)
Regulatory assets and liabilities (non-current), net	**(43,383)**	(48,853)	(103,072)
Prepaid and accrued taxes, net	**(4,681)**	4,701	(32,821)
Accounts payable and other liabilities	**50,642**	76,624	2,023
Renewable energy certificate obligations, net	**(3,752)**	15,811	(11,909)
Other, net	**(9,431)**	15,056	(9,345)
Net cash provided by operating activities	**281,711**	204,879	217,741
Investing activities:			
Capital expenditures	**(326,344)**	(299,197)	(308,957)
Intercompany money pool	**75,547**	(227,328)	-
Cost of removal	**(28,563)**	(32,028)	(30,137)
Financial investments	**11,531**	(2,302)	(80)
Other, net	**(20)**	104	207
Net cash used in investing activities	**(267,849)**	(560,751)	(338,967)
Financing activities:			
Preferred stock dividends	**(100)**	(100)	(100)
Issuance of long-term debt	-	500,000	-
Payment of debt issuance costs	-	(2,403)	-
Intercompany money pool	-	(136,114)	117,303
Net cash (used in) provided by financing activities	**(100)**	361,383	117,203
Net increase (decrease) in cash, cash equivalents, restricted cash, and special deposits	**13,762**	5,511	(4,023)
Cash, cash equivalents, restricted cash, and special deposits, beginning of year	**15,512**	10,001	14,024
Cash, cash equivalents, restricted cash, and special deposits, end of year	**$ 29,274**	$ 15,512	$ 10,001
Supplemental disclosures:			
Interest paid	**$ (75,865)**	$ (68,876)	$ (68,281)
Income taxes paid	**(18,678)**	(38,070)	(49,934)
Significant non-cash items:			
Capital-related accruals included in accounts payable	**11,854**	7,420	9,173
Parent tax loss allocation	**5,796**	10,045	-

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

MASSACHUSETTS ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 12,940**	$ 15,511
Restricted cash and special deposits	**16,334**	1
Accounts receivable	**712,277**	696,816
Allowance for doubtful accounts	**(231,862)**	(266,310)
Accounts receivable from affiliates	**25,164**	13,404
Intercompany moneypool asset	**151,781**	227,328
Unbilled revenues	**76,701**	91,284
Inventory	**140,325**	129,854
Regulatory assets	**182,862**	190,337
Other	**9,966**	7,937
Total current assets	**1,096,488**	1,106,162
Property, plant, and equipment, net	**4,193,148**	3,958,769
Non-current assets:		
Regulatory assets	**772,530**	802,557
Goodwill	**1,008,244**	1,008,244
Postretirement benefits asset	**31,138**	-
Other	**30,952**	31,983
Total non-current assets	**1,842,864**	1,842,784
Total assets	**$ 7,132,500**	$ 6,907,715

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

MASSACHUSETTS ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2022	2021
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 379,744**	$ 325,537
Accounts payable to affiliates	**152,901**	155,734
Taxes accrued	**17,426**	26,309
Customer deposits	**14,306**	13,622
Interest accrued	**23,634**	23,655
Regulatory liabilities	**12,312**	8,967
Renewable energy certificate obligations	**188,488**	182,343
Payroll and benefits accruals	**24,070**	26,565
Environmental remediation costs	**10,907**	9,122
Distributed generation	**68,590**	63,301
Other	**34,676**	36,046
Total current liabilities	**927,054**	871,201
Non-current liabilities:		
Regulatory liabilities	**728,757**	654,832
Asset retirement obligations	**1,354**	1,338
Deferred income tax liabilities, net	**491,545**	463,100
Postretirement benefits	**888**	65,022
Environmental remediation costs	**68,671**	68,476
Other	**83,125**	78,550
Total non-current liabilities	**1,374,340**	1,331,318
Commitments and contingencies (Note 11)		
Capitalization:		
Shareholders' equity	**3,041,896**	2,916,670
Long-term debt	**1,789,210**	1,788,526
Total capitalization	**4,831,106**	4,705,196
Total liabilities and capitalization	**$ 7,132,500**	$ 6,907,715

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

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

			March 31,	
			2022	2021
Total shareholders' equity			**$ 3,041,896**	$ 2,916,670
Long-term debt:	Interest Rate	Maturity Date		
Senior note	1.73%	November 24, 2030	**500,000**	500,000
Senior note	5.90%	November 15, 2039	**800,000**	800,000
Senior note	4.00%	August 15, 2046	**500,000**	500,000
Total debt			**1,800,000**	1,800,000
Unamortized debt discount			**(1,571)**	(1,659)
Unamortized debt issuance costs			**(9,219)**	(9,815)
Total long-term debt			**1,789,210**	1,788,526
Total capitalization			**$ 4,831,106**	$ 4,705,196

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

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

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Available-For-Sale Securities	Accumulated Other Comprehensive Income (Loss): Pension and Other Postretirement Benefits	Accumulated Other Comprehensive Income (Loss): Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2019	**$ 59,953**	**$ 2,259**	**$ 1,853,349**	**$ 31**	**$ 4,759**	**$ 4,790**	**$ 707,551**	**$ 2,627,902**
Net income	-	-	-	-	-	-	157,317	157,317
Other comprehensive income:								
Unrealized gains on securities, net of $79 tax expense	-	-	-	210	-	210	-	210
Change in pension and other postretirement obligations, net of $11 tax expense	-	-	-	-	29	29	-	29
Total comprehensive income								157,556
Preferred stock dividends	-	-	-	-	-	-	(100)	(100)
Impact of adoption of reclassification of certain tax effects from accumulated other comprehensive income standard	-	-	-	10	(4,759)	(4,749)	4,749	-
Balance as of March 31, 2020	**$ 59,953**	**$ 2,259**	**$ 1,853,349**	**$ 251**	**$ 29**	**$ 280**	**$ 869,517**	**$ 2,785,358**
Net income	-	-	-	-	-	-	121,933	121,933
Other comprehensive income (loss):								
Unrealized gains on securities, net of $6 tax expense	-	-	-	15	-	15	-	15
Change in pension and other postretirement obligations, net of $218 tax benefit	-	-	-	-	(581)	(581)	-	(581)
Total comprehensive income								121,367
Parent tax loss allocation	-	-	10,045	-	-	-	-	10,045
Preferred stock dividends	-	-	-	-	-	-	(100)	(100)
Balance as of March 31, 2021	**$ 59,953**	**$ 2,259**	**$ 1,863,394**	**$ 266**	**$ (552)**	**$ (286)**	**$ 991,350**	**$ 2,916,670**
Net income	-	-	-	-	-	-	119,532	119,532
Other comprehensive (loss) income:								
Unrealized losses on securities, net of $5 tax benefit	-	-	-	(14)	-	(14)	-	(14)
Change in pension and other postretirement obligations, net of $4 tax expense	-	-	-	-	12	12	-	12
Total comprehensive income								119,530
Parent tax loss allocation	-	-	5,796	-	-	-	-	5,796
Preferred stock dividends	-	-	-	-	-	-	(100)	(100)
Balance as of March 31, 2022	**$ 59,953**	**$ 2,259**	**$ 1,869,190**	**$ 252**	**$ (540)**	**$ (288)**	**$ 1,110,782**	**$ 3,041,896**

The Company had 2,398,111 shares of common stock authorized, issued, and outstanding, with a par value of $25 per share, and 22,585 shares of cumulative preferred stock authorized, issued, and outstanding, with a par value of $100 per share, as of March 31, 2022 and 2021.

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

MASSACHUSETTS ELECTRIC COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

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

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

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

The novel coronavirus ("COVID-19") pandemic has disrupted the U.S. and global economies and continues to have a significant impact on global health. In March 2020, COVID-19 was declared a pandemic by the World Health Organization and the U.S. Centers for Disease Control and Prevention. In March 2020, the Company ceased certain customer cash collection activities in response to regulatory instructions and changes in federal, state, and local regulations and guidance, and took actions to minimize risk to its employees. The Company also ceased certain customer termination activities, as requested by relevant local authorities. Effective July 1, 2021, the Company recommenced normal collections activities, which includes issuing notices of amounts in arrears and alerting customers that their service is subject to disconnection for non-payment. See Note 5, "Rate Matters," for additional details.

The Company has seen adverse impacts from COVID-19 on earnings and cash flow. Earnings have been impacted by increased incremental costs, increased bad debt expense during the years ended March 31, 2021 and 2020, lower capitalization rates of workforce costs, and reduced late payment revenues, which were partially offset by other reduced costs and mitigation efforts by the Company. Cash flow has been negatively impacted by the higher level of operating costs and lower cash collections.

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

The Company has evaluated subsequent events and transactions through July 1, 2022, 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, 2022, with the exception of items otherwise disclosed in these financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC") and the DPU regulate the rates the Company charges its customers. In certain cases, the rate actions of the FERC and the DPU can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. In accordance with Accounting Standards Codification ("ASC") 980, "Regulated Operations," regulatory assets and liabilities are reflected on the balance sheet consistent with the treatment of the related costs in the ratemaking process. As of March 31, 2022, there were no amounts capitalized for an allowance on shareholders' investment for ratemaking purposes that have been derecognized for financial reporting.

Revenue Recognition

Revenues are recognized for electric distribution services billed on a monthly cycle basis, together with unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the reporting period. See Note 3, "Revenue," for additional details.

Income Taxes

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

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

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

Other Taxes

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

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

Cash and Cash Equivalents

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

Restricted Cash and Special Deposits

Restricted cash and special deposits consist of collateral paid to the Independent System Operator – New England ("ISO-NE") in connection with the ISO-NE's market participant financial assurance requirement.

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 $34.1 million, $107.8 million, and $80.9 million for the years ended March 31, 2022, 2021, and 2020, respectively, within operations and maintenance expense in the accompanying statements of income.

Inventory

Inventory is composed of materials and supplies as well as purchased renewable energy certificates ("RECs"). Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized into property, plant, and equipment as used. Purchased RECs are stated at cost. There were no significant write-offs of obsolete inventory for the years ended March 31, 2022, 2021, and 2020.

The Company had materials and supplies of $29.9 million and $29.4 million and purchased RECs of $110.4 million and $100.5 million as of March 31, 2022 and 2021, respectively.

Renewable Energy Certificate Obligations

RECs are stated at cost and are used to measure compliance with state renewable energy standards. RECs support new renewable generation resources and are held primarily to be utilized in fulfillment of the Company's compliance obligations. As of March 31, 2022 and 2021, the Company recorded renewable energy certificate obligations of $188.5 million and $182.3 million, respectively.

Distributed Generation

Distributed generation refers to electricity that is generated from sources located near the point of use instead of centralized generation sources. Customers wishing to connect a power-generating facility to the Company's electric power system are responsible for all review and study costs, interconnection equipment costs, and system modification costs reasonably incurred by the Company that are attributable to the proposed interconnection project. The Company bills customers for

the costs that it expects to incur, and customers must pay these costs before the Company performs any work. The Company records such customer contributions that have not yet been spent within the distributed generation liability on the balance sheet. As of March 31, 2022 and 2021, the Company's distributed generation liability was $68.6 million and $63.3 million, respectively.

Fair Value Measurements

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data;
- Level 3: unobservable inputs, such as internally developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs; and
- Not categorized: Investments in funds that meet certain conditions of ASC 820 are not required to be categorized within the fair value hierarchy. These investments are typically in commingled funds or limited partnerships that are not publicly traded and have ongoing subscription and redemption activity. As a practical expedient, the fair value of these investments is the Net Asset Value per fund share.

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

Property, Plant, and Equipment

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

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the FERC and the DPU. The average composite rates for the years ended March 31, 2022, 2021, and 2020 were 3.1%, 3.1%, and 3.2%, respectively.

Depreciation expense includes a component for the estimated cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant, and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company recognized a regulatory liability for the amount recovered that was in excess of costs incurred of $325.9 million and $307.1 million as of March 31, 2022 and 2021, respectively.

Allowance for Funds Used During Construction

The Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant, and equipment. The equity component of AFUDC is reported in the accompanying statements of income as non-cash income in other 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 $7.0 million, $2.7 million, and $6.4 million, and AFUDC related to debt of $3.4 million, $1.9 million, and $3.2 million, for the years ended March 31, 2022, 2021, and

2020, respectively. The average AFUDC rates for the years ended March 31, 2022, 2021, and 2020 were 7.3%, 3.7%, and 6.8%, respectively.

Impairment of Long-Lived Assets

The Company tests the impairment of long-lived assets when events or changes in circumstances indicate that the carrying amount of the asset (or asset group) may not be recoverable. If such an event or change in circumstances is identified, the recoverability of an asset is determined by comparing its carrying value to the estimated undiscounted cash flows that the asset is expected to generate. If the comparison indicates that the carrying value is not recoverable, an impairment loss is recognized for the excess of the carrying value over the estimated fair value. For the years ended March 31, 2022, 2021, and 2020, 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," eliminating step two from the two-step goodwill impairment test previously required under the former standard. The goodwill impairment test requires a recoverability test 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, 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 applies two valuation methodologies to estimate its fair value, principally discounted projected future net cash flows and market-based multiples, which are commonly referred to as the income and market approaches, respectively. Key assumptions include, but are not limited to, the use of estimated future cash flows, multiples of earnings, and an appropriate discount rate. In estimating future cash flows, the Company incorporates current market information and historical factors. The determination of fair value incorporates significant unobservable inputs, requiring the Company to make significant judgments, whereby actual results may differ from assumed and estimated amounts. For the year ended March 31, 2022, the Company applied a balanced 50/50 weighting for each valuation methodology, as it believes that each approach provides equally valuable and reliable information regarding the Company's estimated fair value.

The Company did not recognize any goodwill impairment during the years ended March 31, 2022, 2021, and 2020.

Employee Benefits

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

Leases

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

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

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

Lease liabilities are recognized based on the present value of the lease payments over the lease term at the commencement date. For any leases that do not provide an implicit rate, the Company uses an estimate of its collateralized incremental borrowing rate, based on the information available at the commencement date, to determine the present value of future payments. In measuring lease liabilities, the Company excludes variable lease payments, other than those that depend on an index or a rate, or those that are, in substance, fixed payments, and includes lease payments made at or before the commencement date. Variable lease payments were not material for the years ended March 31, 2022, 2021, and 2020. The Company does not reflect short-term leases on the balance sheets. The expense related to short-term leases was not material for the years ended March 31, 2022, 2021, and 2020.

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

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

New and Recent Accounting Guidance

Accounting Guidance Recently Adopted

Income Taxes

In December 2019, the Financial Accounting Standards Board ("FASB") issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes," which simplifies various aspects of the accounting for income taxes by eliminating certain exceptions to current requirements. The standard also enhances and simplifies other requirements, including the tax basis step-up in goodwill obtained in a transaction that is not a business combination, ownership changes in investments, and interim-period accounting for enacted changes in tax law. The Company early adopted this new guidance prospectively on April 1, 2021. The adoption did not have a material impact on the Company's financial position, results of operations, or cash flows for the fiscal year ended March 31, 2022.

Investments – Equity Securities

In January 2020, the FASB issued ASU No. 2020-01, "Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (a consensus of the FASB Emerging Issues Task Force)," which clarifies that an entity should consider transaction prices for the purpose of measuring the fair value of certain equity securities immediately before applying or upon discontinuing the equity method. This accounting standard also clarifies that when accounting for contracts entered into to purchase equity securities, an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, the underlying securities would be accounted for under the equity method or the fair value option. The Company early adopted this new guidance prospectively on April 1, 2021. The adoption did not have a material impact on the Company's financial position, results of operations, or cash flows for the fiscal year ended March 31, 2022.

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," which clarifies 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, and the premium should be amortized over the period ending at the earliest call date. The Company early adopted this new guidance prospectively on April 1, 2021. The adoption did not have a material impact on the Company's financial position, results of operations, or cash flows for the fiscal year ended March 31, 2022.

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 standard provides a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses, which will replace the existing incurred loss impairment methodology requiring 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 No. 2019-05, "Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief," permitting entities to irrevocably elect the fair value option for financial instruments that were previously recorded at amortized cost basis within the scope of Topic 326, except for held-to-maturity debt securities. In March 2022, the FASB issued ASU No. 2022-02, "Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." The update eliminates the accounting guidance for troubled debt restructurings by creditors and enhances the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty.

The Company will adopt these updates on April 1, 2023 and is currently assessing the application of these standards to determine whether their adoption will have a material impact on its financial statements.

3. REVENUE

The following table presents, for the years ended March 31, 2022, 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,		
	2022	2021	2020
		(in thousands of dollars)	
Revenue from contracts with customers:			
Electric services	**$ 2,484,650**	$ 2,366,495	$ 2,321,357
Total revenue from contracts with customers	**2,484,650**	2,366,495	2,321,357
(Loss) revenue from regulatory mechanisms	**(20,957)**	42,261	125,609
Other revenue	**26,990**	20,423	9,625
Total operating revenues	**$ 2,490,683**	$ 2,429,179	$ 2,456,591

Electric services: The Company owns, maintains, and operates an electric distribution network in upstate Massachusetts. Distribution revenues are primarily from the sale of electricity and related services to retail customers. Distribution sales are regulated by the DPU, which is responsible for determining the prices and other terms of services as part of the ratemaking process. The arrangement where a utility provides a service to a customer in exchange for a price approved by a regulator is referred to as a tariff sales contract. Electric services revenues are derived from the regulated sale and distribution of electricity to residential, commercial, and industrial customers within the Company's service territory under the tariff rates.

The tariff rates approved by the regulator are designed to recover the costs incurred by the Company for the products and services provided, along with a return on investment.

The performance obligation related to these sales is to provide electricity to the customers on demand. The electricity supplied under the tariff represents a single performance obligation, as it is a series of distinct goods or services that are substantially the same. The performance obligation is satisfied over time because the customer simultaneously receives and consumes the electricity as the Company provides these services. The Company records revenues based upon the approved tariff rate and the volume delivered to the customers, which corresponds with the amount the Company has the right to invoice.

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

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

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

(Loss) revenue from regulatory mechanisms: The Company records revenues in accordance with accounting principles for rate-regulated operations for arrangements between the Company and the regulator, which are not accounted for as contracts with customers. These include various deferral mechanisms, such as capital trackers, energy efficiency programs, and other programs that also qualify as Alternative Revenue Programs ("ARPs"). ARPs enable the Company to adjust rates in the future in response to past activities or completed events. The Company's electric distribution rates have a revenue decoupling mechanism ("RDM"), which allows for annual adjustments to the Company's delivery rates as a result of the reconciliation between allowed revenue and billed revenue. The Company also has other ARPs related to the achievement of certain objectives, demand-side management initiatives, and certain other ratemaking mechanisms. The Company recognizes ARPs with a corresponding offset to a regulatory asset or liability account when the regulatory-specified events or conditions have been met and the amounts are determinable and probable of recovery (or payment) through future rate adjustments within 24 months from the end of the annual reporting period.

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

4. REGULATORY ASSETS AND LIABILITIES

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

	March 31,	
	2022	2021
	(in thousands of dollars)	
Regulatory assets		
Current:		
Rate adjustment mechanisms	**$ 66,978**	$ 75,168
Renewable energy certificates	**78,096**	81,848
Residential assistance adjustment factor	**35,053**	-
Revenue decoupling mechanism	**-**	18,140
Transmission service	**2,735**	15,181
Total	**182,862**	190,337
Non-current:		
COVID-19 delivery bad debt	**38,353**	56,967
Energy efficiency	**34,114**	12,019
Environmental response costs	**75,970**	74,789
Net metering deferral	**169,898**	190,607
Postretirement benefits	**102,767**	161,981
Rate adjustment mechanisms	**42,214**	45,415
Storm costs	**268,487**	215,965
Other	**40,727**	44,814
Total	**772,530**	802,557
Regulatory liabilities		
Current:		
Rate adjustment mechanisms	**7,818**	131
Residential assistance adjustment factor	**-**	8,836
Revenue decoupling mechanism	**4,494**	-
Total	**12,312**	8,967
Non-current:		
Cost of removal	**325,876**	307,092
Environmental response costs	**15,247**	16,526
Postretirement benefits	**62,816**	-
Regulatory tax liability, net	**305,791**	306,831
Other	**19,027**	24,383
Total	**$ 728,757**	$ 654,832

As of March 31, 2022, other than $105.8 million of the non-current regulatory assets reflected in the table above (consisting of $103.4 million of postretirement benefits and $2.4 million of other costs), all regulatory assets earn a rate of return.

As of March 31, 2022, there were no allowances for earnings on shareholders' investment that were capitalized for ratemaking purposes but not for U.S. GAAP reporting.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. RATE MATTERS

General Rate Case

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

PBR Plan Filing

On June 15, 2021, the Company and Nantucket Electric filed the second annual PBR plan filing for rates effective October 1, 2021. The PBR plan filing adjusts base distribution rates pursuant to a revenue cap formula, provides a credit to customers for any customer share of excess earnings pursuant to the earnings sharing mechanism, and recovers from or credits customers for the impact of costs in excess of a threshold associated with exogenous events, including storms having incremental costs in excess of $30 million. The result of the revenue cap formula was a proposed increase to base distribution revenue of 2.709%, or $22.8 million. On September 8, 2021, the DPU approved the Company and Nantucket Electric's proposed PBR and Capital Expenditure Adjustment filing, effective October 1, 2021, subject to further investigation and reconciliation in the second phase of the proceeding. On February 23, 2022, the DPU issued its final approval of the Company and Nantucket Electric's proposed PBR and Capital Expenditure Adjustment filing.

On June 17, 2022, the Company and Nantucket Electric filed the third annual PBR plan filing for rates effective October 1, 2022. The Company and Nantucket Electric requested approval of a PBR adjustment of $43.9 million, based on a PBR percentage of 4.92%. This adjustment reflects the implementation of the Company and Nantucket Electric's proposed one-time Customer Impact Mitigation Plan, which the Company is proposing due to the extreme economic circumstances currently impacting customers. In the absence of the Customer Impact Mitigation Plan, the Company and Nantucket Electric would be proposing a PBR adjustment of $68.1 million, based on a PBR percentage of 7.63%, which includes the annualized impact of a change in how several Massachusetts communities assess municipal property taxes, in addition to requesting recovery of $10.6 million annually over five years associated with an exogenous storm event in which the Company and Nantucket Electric incurred incremental costs in excess of $30 million, resulting in a total of $78.7 million, in accordance with the PBR formula. The Company cannot predict the outcome of this request.

Recovery of Transmission Costs

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

According to the FERC's orders, the Company is compensated for its actual monthly transmission costs, with its authorized maximum ROE of 11.74% on its transmission assets. The amounts remitted by NEP to the Company for the years ended

March 31, 2022, 2021, and 2020 were $24.2 million, $22.8 million, and $20.4 million, respectively, which are reflected as credits within operations and maintenance expense in the accompanying statements of income. See Note 13, "Related Party Transactions," for additional details.

The ROE for transmission rates under the ISO-NE OATT is the subject of four complaints pending before the FERC. On October 16, 2014, the FERC issued an order on the first complaint, Opinion No. 531-A, resetting the base ROE applicable to transmission assets under the ISO-NE OATT from 11.14% to 10.57% effective as of October 16, 2014 and establishing a maximum ROE of 11.74%. On March 3, 2015, the FERC issued an Order on Rehearing, Opinion No. 531-B, affirming the 10.57% base ROE and clarifying that the 11.74% maximum ROE applies to all individual transmission projects with ROE incentives previously granted by the FERC. On April 14, 2017, the U.S. Court of Appeals for the D.C. Circuit ("Court of Appeals") vacated and remanded the FERC's Opinion No. 531 (and successor orders), through which the FERC had lowered the New England Transmission Owners' ("NETOs") base ROE from 11.14% to 10.57% and capped the total incentives at 11.74%. Despite the Court of Appeals' ruling, the base ROE in New England remains at 10.57%. NEP appealed the FERC's decision to keep the base ROE in New England at 10.57%, and this appeal is still pending.

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

In November 2019, the FERC issued an order in the Midcontinent Independent System Operator ("MISO") transmission owner ROE complaint dockets, changing the way it arrives at a just and reasonable ROE. Base ROEs were reduced from 10.32% to 9.88% when the FERC applied this revised methodology in two MISO ROE complaints. In the MISO order, the FERC made statements that it is setting new ROE policy nationwide. In December 2019, the NETOs filed a supplemental brief in the New England ROE complaint dockets, showing the FERC the detrimental effects on New England if the 2019 MISO order was applied to New England. In that brief, the NETOs asked the FERC to reopen the record in New England so that the NETOs could submit more testimony. Other stakeholders had an opportunity to reply to the NETOs' supplemental brief by January 21, 2020 and did so, arguing that the NETOs' request should be denied, and that the record in New England should not be reopened.

On May 21, 2020, the FERC, on rehearing, revised the methodology to determine MISO transmission owner ROEs. The FERC's November 2019 order proposed to create "zones of reasonableness" based on averages of two (rather than four) models to judge whether ROEs are just and reasonable in complaint cases. The May 2020 order relies on three models to estimate ROEs. The application of this new methodology increased base ROEs in the MISO complaints from 9.88% to 10.02%. On November 19, 2020, the FERC issued a further order on rehearing in the MISO complaint dockets, upholding the 10.02% base ROE. The FERC's MISO ROE orders are currently on appeal before the Court of Appeals.

On March 17, 2022, the FERC issued an order in a case addressing the base ROE for Pacific Gas and Electric Company ("PG&E"). The FERC applied the ROE methodology from the 2020 MISO ROE orders and found that 9.26% was the just and reasonable base ROE for PG&E in that proceeding. Requests for a rehearing on this March 2022 PG&E order are pending before the FERC.

The Company does not believe the outcomes of these complaints will have a material impact on the Company's financial condition, results of operations, or cash flows.

Tax Act

In February 2018, the DPU opened an investigation to examine the effect of the Tax Act on the rates of the investor-owned utilities in Massachusetts as of January 1, 2018 and directed the utilities to account for any revenues associated with the difference between the previous and current corporate income tax rates and establish a regulatory liability for excess

recovery in rates of accumulated deferred income taxes ("ADIT"). On December 21, 2018, the DPU issued an order requiring all utilities to begin crediting in rates the amortization of excess deferred federal income taxes, to the extent such amortization was not already included in base distribution rates, through the combination of factors associated with certain reconciling mechanisms and a separate factor for the amortization of the remaining amounts.

On February 15, 2019, the DPU issued an order (D.P.U. 18-15-F) finding that the Massachusetts utilities were not required to refund tax savings previously accrued from January 1, 2018 through June 30, 2018 as a result of the federal income tax rate reduction, on grounds that refunds would not be "appropriate," based upon the prohibition against retroactive ratemaking. On March 7, 2019, the Massachusetts Attorney General's ("AG") office filed a motion for clarification and reconsideration, requesting that the DPU provide additional clarity regarding its ruling and reconsider its determination to allow utilities to keep the federal tax savings accrued from January 1, 2018 through June 30, 2018. On October 22, 2021, the DPU issued a ruling denying the AG's motion for reconsideration on grounds that the AG established no mistake or inadvertence in the DPU's initial determination. Accordingly, the DPU upheld its 2019 decision in D.P.U. 18-15-F, finding that the "timing of the Act, and retroactive nature of any rate adjustments [made] a refund of tax savings accrued from January 1, 2018 to June 30, 2018 inappropriate." The deadline for the AG to appeal the DPU's ruling on this issue to the Massachusetts Supreme Judicial Court ("SJC") expired on November 1, 2021, and, as no appeal was filed, order D.P.U. 18-15-F is final.

On November 21, 2019, the FERC issued Order 864 to address ratemaking and regulatory reporting of excess or deficient ADIT related to the Tax Act. On June 29, 2020, NEP, on behalf of the Company, submitted a compliance filing to address the application of Order 864 in NEP's Tariff No. 1. The filing proposes changes to various revenue requirement calculations in the tariff for the inclusion of the Rate Adjustment and Income Tax Allowance mechanisms. The filing also includes the populated permanent ADIT worksheet, which will be provided with the issuance of final bills pursuant to the provisions of the tariff. NEP has proposed for the Company to amortize transmission-related, protected property-related excess or deficient ADIT associated with the 2017 Tax Act using the Average Rate Assumption Method ("ARAM"), and a 21-year amortization period for unprotected property-related excess or deficient balances. Other unprotected excess or deficient ADIT is proposed to be amortized over five years, consistent with the time period approved in the DPU docket addressing the Tax Act. The FERC has not yet acted on NEP's compliance filing.

Grid Modernization Plan

On August 19, 2015, the Company, together with Nantucket Electric, filed its first proposed grid modernization plan ("GMP") with the DPU. On May 10, 2018, the DPU issued an order in this proceeding. The order approved $82 million in grid-facing investments over three years in (1) conservation voltage reduction and volt/volt-amps reactive optimization; (2) advanced distribution automation; (3) feeder monitors; (4) communications and information/operational technologies; and (5) advanced distribution management/distribution supervisory control and data acquisition. The DPU allowed recovery of both operations and maintenance ("O&M") expenses and capital costs through a reconciling mechanism. The DPU did not approve any customer-facing (i.e., advanced metering infrastructure, or "AMI") investments; the DPU said it would address these in a further investigation to see if there are ways to achieve cost-effective deployment of these investments. The Company has filed annual reports and cost recovery filings with the DPU for its GMP in 2019, 2020, 2021, and 2022.

In an order in D.P.U. 20-69-A, on May 21, 2021, the DPU directed the Company to include an AMI proposal in its July 1, 2021 GMP filing. The Company filed its proposed four-year GMP (for calendar years 2022–2025) on July 1, 2021, which includes proposals to continue the previously-approved investments (designated as "Track 1" in the proceeding), invest in a distributed energy resource management system ("DERMS"), conduct two demonstration projects, and deploy AMI (designated as "Track 2" in the proceeding). The Company is seeking authorization for $316.3 million in grid-facing investments over four years, consisting of $289.3 million for Track 1 investments, $7.9 million for DERMS investments, $6.4 million for the two demonstration projects, and $12.7 million to support the implementation of FERC Order No. 2222. The proceedings on Track 1 have concluded, and, on December 30, 2021, the DPU issued an interim order allowing investments in Track 1 to continue, pending the DPU's final order on Track 1. The DPU's investigation of Track 2 is ongoing, with hearings concluding in April 2022 and orders expected sometime in 2022.

Operational and Management Audit

On September 30, 2019, in its decision regarding the Company's most recent request for a change in base distribution rates, the DPU stated that, pursuant to its supervisory authority, it would require a comprehensive independent management audit of the Company, including a review of its relationship with National Grid USA Service Company, Inc. On November 25, 2019, the DPU formally opened the investigation to undertake an independent audit. The draft audit report was provided to the Company on March 1, 2021 for review and factual corrections, and the final report was submitted to the DPU on March 29, 2021. On April 30, 2021, the Company filed a comprehensive response to the audit report, formally adopting the findings and recommendations, with certain modifications, for the DPU's consideration. On June 30, 2021, the AG's office filed written comments in response to the final audit report. The Company and the independent auditor filed reply comments to the AG on July 21, 2021. On November 24, 2021, the DPU issued a final order finding that the Company and Nantucket Electric shall implement the recommendations contained in the final report and file a comprehensive update regarding the implementation of the recommendations at or around the time of the next base rate proceeding.

COVID-19 Moratorium on Utility Shut Offs

Between March 24, 2020 and February 26, 2021, the Chairman of the DPU declared a moratorium prohibiting all residential utility collection activities due to the COVID-19 pandemic until July 1, 2021. Effective July 1, 2021, the Company recommenced normal collections activities, which includes issuing notices of amounts in arrears and alerting customers that their service is subject to disconnection for non-payment. The commercial and industrial ("C&I") moratorium was lifted effective September 1, 2020. The following are highlights of the customer assistance programs implemented to assist customers during the pandemic:

- Extended deferred payment arrangements ("DPAs") - up to 12 months for residential and small C&I customers, with the ability to extend to 18 months for unique circumstances; up to six months for large C&I customers, with the terms to be determined on a case-by-case basis. On January 24, 2022, the Company discontinued the zero down payment COVID-19 DPAs, and the Company discontinued its transitional DPA program in May 2022.

- Late fees for C&I customers were waived during the pandemic and resumed effective January 7, 2022.

- Revisions to residential AMPs to provide more flexible enrollment terms and an increase in arrearages forgiven (from $4,000 to $12,000) are still in effect. The Company has proposed to continue to apply most of the COVID-19 AMP terms for the 2022 AMP program year in its AMP filing submitted on February 25, 2022.

- Established a COVID-19 small C&I Arrearage Forgiveness Program that was extended several times and expired on September 30, 2021.

On December 31, 2020, the DPU approved the following implementation items related to the ratemaking treatment of the COVID-19 customer assistance programs on which the Massachusetts local distribution companies and the AG's office had reached consensus: (1) the distribution companies should be allowed to record, defer, and track their bad debt and other COVID-related expenses; (2) cost recovery should be limited to the incremental costs incurred; and (3) certain costs must be extraordinary to qualify for recovery. As of March 31, 2022, the Company has deferred $38.4 million of delivery bad debt (for both the Company and Nantucket Electric) and $0.8 million of other COVID-related costs, as the Company believes that these amounts are probable of recovery.

The DPU decided that the contested issues, including the extent to which the distribution companies will be allowed to recover their COVID-19 costs, should be fully adjudicated in a new docket, D.P.U. 20-91. The AG opposes recovery by distribution companies with PBR plans (including the Company) of incremental COVID-related O&M expenses. The AG also opposes using the pre-tax overall weighted cost of capital for the calculation of carrying charges on bad debt, arguing that the short-term debt rate, or, in the alternative, an interest rate contemporaneous to two-year U.S. Treasury notes, is the correct rate. The AG also takes the position that the DPU should consider the significance of the distribution companies' net

incremental O&M costs due to COVID-19 to determine whether they resulted in substantial harm to the distribution companies' financial position. The briefing phase has concluded, and the DPU's order is pending.

Massachusetts Petition for Waiver of Jurisdiction Regarding the Rhode Island Sale

On March 17, 2021, NGUSA announced the sale of its Rhode Island business to PPL Energy Holdings, LLC. On May 3, 2021, PPL Energy Holdings, LLC assigned its right to acquire NECO to its wholly owned subsidiary, PPL Rhode Island Holdings, LLC ("PPL Rhode Island"), such that, upon closing, PPL Rhode Island will own 100 percent of the outstanding shares of common stock in NECO. On May 4, 2021, NGUSA filed a petition with the DPU for a waiver of jurisdiction under G.L. c. 164, § 96(c), based on a finding that the sale of NECO to PPL Rhode Island will have no adverse impacts on any electric or gas company subject to the DPU's jurisdiction, as applicable, or the customers of any such electric or gas company. On July 16, 2021, the DPU issued an order (D.P.U. 21-60) approving NGUSA's request for a waiver of Section 96 regarding the sale of NECO.

On August 12, 2021, the AG filed an appeal of the DPU's waiver of jurisdiction with the SJC. The AG filed a motion to stay order D.P.U. 21-60 along with a request for the court to issue a decision on the motion on or before February 14, 2022. On January 7, 2022, NGUSA filed its opposition to the AG's motion to stay the order. On February 10, 2022, the single SJC justice referred the matter to the full court instead of ruling on the motion for a stay. On February 16, 2022, the full court issued an order requesting that the single justice make a recommendation to the full court regarding the motion for a stay. On February 24, 2022, the single justice issued a temporary stay of the DPU's order. NGUSA provided an update to the single justice and the SJC on the Rhode Island legal process and the anticipated closing date of March 8, 2022 and requested a decision on the stay by March 4, 2022. On March 3, 2022, the full court issued a docket entry order allowing the AG's motion to stay the DPU decision in docket D.P.U. 21-60 "until further order." On March 25, 2022, NGUSA reached a settlement with the AG and jointly petitioned the SJC to lift the stay and withdraw the appeal. On March 29, 2022, the SJC approved the motion to lift the stay and dismissed the appeal. On May 25, 2022, NECO was sold to PPL Rhode Island after all regulatory approvals were obtained.

As a result of NGUSA's settlement with the AG and the sale of NECO to PPL Rhode Island, the Company, together with Nantucket Electric, expects to incur the following costs:

- The Company expects to record a regulatory liability of up to $3.0 million relating to the potentially excess recovery of indirectly attributable service company ("IASC") costs. The Company will ultimately need to provide a credit to customers equal to any incremental amount of IASC costs above the calendar year 2021 baseline level, and the Company will true-up the regulatory liability accordingly.

- Over the course of 90 days, the Company, together with Nantucket Electric, will forgive $3.0 million in arrearages for electric distribution customers.

- $0.6 million contribution from the Company and Nantucket Electric to the AG's residential energy assistance grant program.

- As compensation to customers for potential future increases in IASC costs during the first five years after the NECO divestiture, the Company and Nantucket Electric will provide a one-time credit of $4.2 million to customers. The form and timing of this one-time credit will be subject to the DPU's review and approval.

Storm Threshold Deferral Requests

On June 15, 2021, the Company and Nantucket Electric petitioned the DPU for authorization to defer for future recovery from the storm fund $13.95 million in storm cost threshold amounts associated with nine qualifying major storm events that occurred in calendar year 2020. On December 22, 2021, the DPU allowed the Company and Nantucket Electric to defer the nine storm fund threshold amounts from calendar year 2020 until the next base rate case, at which point the DPU will determine the appropriate level of recovery for the storm threshold amounts, if any.

On June 17, 2022, the Company and Nantucket Electric petitioned the DPU for authorization to defer for future recovery from the storm fund $6.2 million in storm cost threshold amounts associated with four qualifying major storm events that occurred in calendar year 2021. The Company cannot predict the outcome of this request.

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,	
	2022	2021
	(in thousands of dollars)	
Plant and machinery	**$ 5,369,586**	$ 5,129,677
Land and buildings	**234,134**	230,519
Assets in construction	**280,164**	223,676
Operating leases	**92,273**	75,300
Total property, plant, and equipment	**5,976,157**	5,659,172
Accumulated depreciation and amortization	**(1,747,371)**	(1,676,676)
Operating lease accumulated depreciation	**(35,638)**	(23,727)
Property, plant, and equipment, net	**$ 4,193,148**	$ 3,958,769

7. EMPLOYEE BENEFITS

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

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

Pension Plans

The Qualified Pension Plans are defined benefit plans which provide most union employees, as well as non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. During the years ended March 31, 2022, 2021, and 2020, the Company made contributions of approximately $14.8 million, $9.9 million, and $16.7 million, respectively, to the Qualified Pension Plans. The Company expects to contribute approximately $25.4 million to the Qualified Pension Plans during the year ending March 31, 2023.

Benefit payments to Pension Plan participants for the years ended March 31, 2022, 2021, and 2020 were approximately $32.0 million, $31.6 million, and $30.9 million, respectively.

PBOP Plans

The PBOP Plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements, and, in most cases, retirees must contribute to the cost of their coverage. During the years ended March 31, 2022, 2021, and 2020, the Company made no contributions to the PBOP Plans. The Company expects to contribute $0.7 million to the PBOP Plans during the year ending March 31, 2023.

Benefit payments to PBOP Plan participants for the years ended March 31, 2022, 2021, and 2020 were approximately $10.1 million, $9.0 million, and $12.0 million, respectively.

Net Periodic Benefit Costs

The Company's total pension costs for the years ended March 31, 2022, 2021, and 2020 were $20.6 million, $17.2 million, and $11.4 million, respectively.

The Company's total PBOP costs (benefits) for the years ended March 31, 2022, 2021, and 2020 were $0.7 million, $(0.6) million, and $1.3 million, respectively.

Amounts Recognized in Regulatory Assets and Accumulated Other Comprehensive Income

The following tables summarize the Company's changes in actuarial gains/losses and prior service costs recognized in regulatory assets and accumulated other comprehensive income ("AOCI") as of March 31, 2022, 2021, and 2020:

	Pension Plans		
	March 31,		
	2022	2021	2020
		(in thousands of dollars)	
Net actuarial (gains) losses	**$ (54,426)**	$ (56,292)	$ 60,728
Amortization of net actuarial losses	**(17,834)**	(15,672)	(12,299)
Amortization of prior service cost, net	**(4)**	(5)	(84)
Total	**$ (72,264)**	$ (71,969)	$ 48,345
Change in regulatory assets	**$ (72,248)**	$ (72,768)	$ 48,385
Change in AOCI	**(16)**	799	(40)
Total	**$ (72,264)**	$ (71,969)	$ 48,345

	PBOP Plans		
	March 31,		
	2022	2021	2020
		(in thousands of dollars)	
Net actuarial (gains) losses	**$ (45,233)**	$ (75,705)	$ 6,522
Amortization of net actuarial losses	**-**	(116)	(613)
Total	**$ (45,233)**	$ (75,821)	$ 5,909
Change in regulatory assets	**$ (45,233)**	$ (75,821)	$ 5,909
Total	**$ (45,233)**	$ (75,821)	$ 5,909

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

The following tables summarize the Company's amounts recognized in regulatory assets and AOCI on the balance sheet that have not yet been recognized as components of net actuarial loss as of March 31, 2022, 2021, and 2020:

	Pension Plans		
	March 31,		
	2022	2021	2020
		(in thousands of dollars)	
Net actuarial losses	**$ 104,131**	$ 176,391	$ 248,355
Prior service cost	**7**	11	16
Total	**$ 104,138**	$ 176,402	$ 248,371
Recognized in regulatory assets	**$ 103,395**	$ 175,643	$ 248,411
Recognized in AOCI	**743**	759	(40)
Total	**$ 104,138**	$ 176,402	$ 248,371

	PBOP Plans		
	March 31,		
	2022	2021	2020
		(in thousands of dollars)	
Net actuarial (gains) losses	**$ (62,816)**	$ (17,583)	$ 58,238
Total	**$ (62,816)**	$ (17,583)	$ 58,238
Recognized in regulatory assets	**$ (62,816)**	$ (17,583)	$ 58,238
Total	**$ (62,816)**	$ (17,583)	$ 58,238

Reconciliation of Funded Status to Amounts Recognized

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2022	2021	**2022**	2021
		(in thousands of dollars)		
Projected benefit obligation	**$ (801,614)**	$ (838,769)	**$ (289,201)**	$ (334,016)
Allocated fair value of assets	**822,389**	791,022	**298,612**	316,561
Funded status	**$ 20,775**	$ (47,747)	**$ 9,411**	$ (17,455)
Non-current assets	**$ 21,663**	$ -	**$ 9,475**	$ -
Other current liabilities	**-**	(103)	**(64)**	(77)
Non-current liabilities	**(888)**	(47,644)	**-**	(17,378)
Total	**$ 20,775**	$ (47,747)	**$ 9,411**	$ (17,455)

For the year ended March 31, 2022, the net actuarial gains for the Pension and PBOP Plans were largely driven by an increase in the discount rate and a change in the mortality assumption resulting from the recent experience study, which were partially offset by small asset losses due to returns that were less than expected. For the year ended March 31, 2021, the net actuarial gains for the Pension and PBOP Plans were largely the result of favorable asset performance and lower contract pricing negotiated on certain prescription benefit costs within the PBOP Plans, which were partially offset by the impact of the discount rate decrease. For the year ended March 31, 2020, the net actuarial losses for the Pension and PBOP Plans were primarily driven by the discount rate decrease and unfavorable asset performance. These losses were partially offset by gains related to a change in the mortality assumption and a PBOP assumption change for post-65 participation rates.

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2022:

(in thousands of dollars) Years Ending March 31,	Pension Plans	PBOP Plans
2023	$ 37,366	$ 13,434
2024	38,924	14,210
2025	40,381	14,800
2026	41,861	15,243
2027	43,220	15,721
2028-2032	228,623	82,724
Total	$ 430,375	$ 156,132

Assumptions Used for Employee Benefits Accounting

	Pension Plans		
	Years Ended March 31,		
	2022	2021	2020
Benefit obligations:			
Discount rate	**3.65%**	3.25%	3.65%
Rate of compensation increase (non-union)	**4.30%**	4.10%	3.50%
Rate of compensation increase (union)	**4.25%**	4.05%	3.50%
Weighted average cash balance interest crediting rate	**2.75%**	2.75%	2.75%
Net periodic benefit costs:			
Discount rate	**3.25%**	3.65%	4.10%
Rate of compensation increase (non-union)	**4.10%**	3.50%	3.50%
Rate of compensation increase (union)	**4.05%**	3.50%	3.50%
Expected return on plan assets	**5.50%**	6.00%	6.50%
Weighted average cash balance interest crediting rate	**2.75%**	2.75%	3.25%

	PBOP Plans		
	Years Ended March 31,		
	2022	2021	2020
Benefit obligations:			
Discount rate	**3.65%**	3.25%	3.65%
Net periodic benefit costs:			
Discount rate	**3.25%**	3.65%	4.10%
Expected return on plan assets	**5.00%-5.50%**	6.50%-7.00%	6.50%-7.25%

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

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

Assumed Health Cost Trend Rate

	Years Ended March 31,	
	2022	2021
Health care cost trend rate assumed for next year		
Pre-65	**6.60%**	6.80%
Post-65	**5.00%**	5.40%
Prescription	**7.40%**	7.70%
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 trusteed non-contributory defined benefit plan covering all eligible represented employees of the Company and eligible non-represented employees of the participating National Grid companies. The PBOP Plans are both a contributory and non-contributory, trusteed, employee life insurance and medical benefit plan sponsored by NGUSA. Life insurance and medical benefits are provided for eligible retirees, dependents, and surviving spouses of NGUSA.

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

The RPC has established and reviews at least annually the Investment Policy Statement ("IPS"), which sets forth the guidelines for how plan assets are to be invested. The IPS contains a strategic asset allocation for each plan, which is intended to meet the objectives of the Plans by diversifying their funds across asset classes, investment styles, and fund managers. An asset/liability study is conducted periodically to determine whether the current strategic asset allocation continues to represent the appropriate balance of expected risk and reward for the plan to meet expected liabilities. Each study considers the investment risk of the asset allocation and determines the optimal mix of assets for the plan. The target asset allocation for fiscal year-end 2022 reflects the results of such a pension study conducted and implemented in fiscal year 2022. As a result of the pension study, the asset mix for the Pension Plan was changed to further reduce investment risk given the increased funded status of the Pension Plan and the strong returns over the past 12 to 18 months. The Union PBOP Plan

asset/liability study was conducted in 2021. As a result of the Union PBOP study, the RPC approved changes to the Union PBOP asset allocation effective in fiscal year 2022. The Non-Union PBOP Plan asset/liability study is expected to be conducted within the next 12 to 18 months.

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

Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across market segments and is mainly invested in investment-grade securities. Where investments are made in non-investment grade assets, the higher volatility is carefully judged and balanced against the expected higher returns. While the majority of plan assets are invested in equities and fixed income securities, other asset classes are utilized to further diversify the investments. These asset classes include private equity, real estate, and diversified alternatives. The objective of these other investments is enhancing long-term returns while improving portfolio diversification. For the PBOP Plans, since the earnings on a portion of the assets are taxable, those investments are managed to maximize after-tax returns consistent with the broad asset class parameters established by the asset/liability study. Investment risk and return are reviewed by the plan investment advisors, National Grid management, and the RPC on a regular basis. The assets of the Plans have no significant concentration of risk in one country (other than the United States), industry, or entity.

The target asset allocations for the benefit plans as of March 31, 2022 and 2021 are as follows:

	Pension Plan		**Union PBOP Plans**		**Non-Union PBOP Plans**	
	March 31,		**March 31,**		**March 31,**	
	2022	2021	**2022**	2021	**2022**	2021
Equity	**30%**	37%	**39%**	63%	**70%**	70%
Diversified alternatives	**8%**	10%	**11%**	17%	**0%**	0%
Fixed income securities	**50%**	40%	**50%**	20%	**30%**	30%
Private equity	**5%**	5%	**0%**	0%	**0%**	0%
Real estate	**4%**	5%	**0%**	0%	**0%**	0%
Infrastructure	**3%**	3%	**0%**	0%	**0%**	0%
	100%	100%	**100%**	100%	**100%**	100%

Fair Value Measurements

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

	March 31, 2022			
	Level 1	**Level 2**	**Not Categorized**	**Total**
		(in thousands of dollars)		
Pension assets:				
Equity	$ 155,495	$ -	$ 700,116	$ 855,611
Diversified alternatives	67,590	-	137,329	204,919
Corporate bonds	-	527,035	190,015	717,050
Government securities	(10,940)	459,423	294,402	742,885
Private equity	-	-	243,149	243,149
Real estate	-	-	118,669	118,669
Infrastructure	-	-	68,254	68,254
Total assets	**$ 212,145**	**$ 986,458**	**$ 1,751,934**	**$ 2,950,537**
Pending transactions				(38,898)
Total net assets				**$ 2,911,639**
PBOP assets:				
Equity	$ 122,877	$ -	$ 255,978	$ 378,855
Diversified alternatives	33,181	-	28,091	61,272
Corporate bonds	-	166,769	-	166,769
Government securities	64,695	108,710	628	174,033
Insurance contracts	-	-	40,103	40,103
Total assets	**$ 220,753**	**$ 275,479**	**$ 324,800**	**$ 821,032**
Pending transactions				904
Total net assets				**$ 821,936**

	March 31, 2021			
	Level 1	Level 2	Not Categorized	Total
	(in thousands of dollars)			
Pension assets:				
Equity	$ 244,018	$ -	$ 891,362	$ 1,135,380
Diversified alternatives	70,409	-	203,187	273,596
Corporate bonds	-	514,588	168,106	682,694
Government securities	480	294,487	238,270	533,237
Private equity	-	-	168,914	168,914
Real estate	-	-	110,603	110,603
Infrastructure	-	-	50,489	50,489
Total assets	**$ 314,907**	**$ 809,075**	**$ 1,830,931**	**$ 2,954,913**
Pending transactions				(148,083)
Total net assets				**$ 2,806,830**
PBOP assets:				
Equity	$ 196,570	$ -	$ 335,943	$ 532,513
Diversified alternatives	45,255	-	41,632	86,887
Corporate bonds	-	3,792	-	3,792
Government securities	14,864	157,025	1,032	172,921
Insurance contracts	-	-	43,934	43,934
Total assets	**$ 256,689**	**$ 160,817**	**$ 422,541**	**$ 840,047**
Pending transactions				1,103
Total net assets				**$ 841,150**

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

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

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

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

Government securities: Government securities include individual U.S. agency securities, U.S. Treasury securities, state and local municipal bonds, as well as a U.S. Treasury exchange-traded fund. The Plans hold a small amount of non-U.S. government debt, which is also captured here. U.S. government money market funds are also included. In addition, interest rate futures and swaps are included in this category as a tool to manage interest rate risk.

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

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

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

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

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

Defined Contribution Plans

NGUSA has defined contribution retirement plans that cover substantially all employees. For the years ended March 31, 2022, 2021, and 2020, the Company recognized an expense in the accompanying statements of income of $4.3 million, $4.7 million, and $4.0 million, respectively, for matching contributions.

8. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to March 31, 2022 are as follows:

(in thousands of dollars) **March 31,**	**Maturities of Long-Term Debt**
2023	$ -
2024	-
2025	-
2026	-
2027	-
Thereafter	1,800,000
Total	$ 1,800,000

The Company's debt agreements and banking facilities contain general covenants, including those relating to the periodic and timely provision of financial information by the issuing entity, and financial covenants, such as restrictions on the level of indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the Company's debt, and may restrict the Company's ability to draw upon its facilities or access the capital markets. As of March 31, 2022 and 2021, the Company was in compliance with all such covenants.

Debt Authorizations

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

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

Dividend Restrictions

Pursuant to the Company's preferred stock arrangement, as long as any preferred stock is outstanding, certain restrictions on the payment of common stock dividends would come into effect if the common stock equity was, or by reason of the payment of such dividends became, less than 25% of total capitalization. The Company was in compliance with this covenant, and, accordingly, the Company was not restricted as to the payment of common stock dividends under the foregoing provisions as of March 31, 2022 or 2021.

Cumulative Preferred Stock

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

	Shares Outstanding		**Amount**		
	March 31,		**March 31,**		**Call**
Series	**2022**	2021	**2022**	2021	**Price**
	(in thousands of dollars, except per share and number of shares data)				
$100 par value - 4.44% Series	**22,585**	22,585	**$ 2,259**	$ 2,259	$ 104.068

The Company did not redeem any preferred stock as of March 31, 2022, 2021, or 2020. The annual dividend requirement for cumulative preferred stock was $0.1 million as of March 31, 2022, 2021, and 2020.

9. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2022	2021	2020
		(in thousands of dollars)	
Current tax expense:			
Federal	**$ 1,027**	$ 36,520	$ 15,815
State	**3,482**	2,189	5,044
Total current tax expense	**4,509**	38,709	20,859
Deferred tax expense (benefit):			
Federal	**18,837**	(23,819)	14,691
State	**8,902**	10,560	10,998
Total deferred tax expense (benefit)	**27,739**	(13,259)	25,689
Amortized investment tax credits [1]	**(334)**	(292)	(292)
Total deferred tax expense (benefit)	**27,405**	(13,551)	25,397
Total income tax expense	**$ 31,914**	$ 25,158	$ 46,256

(1) Investment tax credits are accounted for using the deferral and gross-up method of accounting, and are 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, 2022, 2021, and 2020 were 21.1%, 17.1%, and 22.7%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 21.0% to the actual tax expense:

	Years Ended March 31,		
	2022	2021	2020
	(in thousands of dollars)		
Computed tax	**$ 31,803**	$ 30,889	$ 42,750
Change in computed taxes resulting from:			
State income tax, net of federal benefit	**9,783**	10,072	12,674
Amortization of regulatory tax liability, net	**(9,059)**	(8,264)	(8,959)
Audit and related reserve movements	**648**	(7,176)	56
Investment tax credits	**(334)**	(292)	(292)
Other items, net	**(927)**	(71)	27
Total changes	**111**	(5,731)	3,506
Total income tax expense	**$ 31,914**	$ 25,158	$ 46,256

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

Deferred Tax Components

	March 31,	
	2022	2021
	(in thousands of dollars)	
Deferred tax assets:		
Regulatory liabilities	**$ 123,110**	$ 105,749
Allowance for doubtful accounts	**63,345**	72,756
Renewable energy certificate obligations	**51,495**	49,816
Net operating losses	**40,159**	57,844
Environmental remediation costs	**21,898**	21,357
Postretirement benefits	**3,138**	26,417
Other items	**65,560**	47,368
Total deferred tax assets	**368,705**	381,307
Deferred tax liabilities:		
Property-related differences	**556,489**	543,122
Regulatory assets	**261,013**	271,259
Other items	**9,084**	1,588
Total deferred tax liabilities	**826,586**	815,969
Net deferred income tax liabilities	**457,881**	434,662
Deferred investment tax credits	**33,664**	28,438
Deferred income tax liabilities, net	**$ 491,545**	$ 463,100

Net Operating Losses

The amount and expiration dates of the Company's net operating losses carryforward as of March 31, 2022 are as follows:

Jurisdiction	Carryforward Amount	Expiration Period
	(in thousands of dollars)	
Federal	$ 325,966	2033–2038

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.

Tax Years Subject to Examination

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

Jurisdiction	Tax Year
Federal	March 31, 2020
Massachusetts	March 31, 2013

In May 2022, the Company reached an audit settlement agreement with the Internal Revenue Service ("IRS") for the years ended March 31, 2018 and 2019. The outcome of the settlement did not have a material impact on the Company's results of operations, financial position, or cash flows. The income tax returns for the years ended March 31, 2020 through March 31, 2022 remain subject to examination by the IRS.

Uncertain Tax Positions

The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest, net and related penalties, if applicable, in other income (deductions), net in the accompanying statements of income. As of March 31, 2022 and 2021, the Company has accrued for interest related to unrecognized tax benefits of $0.3 million and $0.2 million, respectively. During the years ended March 31, 2022, 2021, and 2020, the Company recorded interest expense (income) related to unrecognized tax benefits of $0.1 million, $(0.7) million, and $0.3 million, respectively. No tax penalties were recognized during the years ended March 31, 2022, 2021, and 2020.

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

10. ENVIRONMENTAL MATTERS

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

The United States Environmental Protection Agency ("EPA") and the Massachusetts Department of Environmental Protection ("DEP"), as well as private entities, have alleged that the Company is a potentially responsible party under state or federal law for the remediation of numerous sites. The Company's most significant liabilities relate to former Manufactured Gas Plant ("MGP") facilities, which were formerly owned or operated by the Company. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA and DEP. Expenditures incurred for the years ended March 31, 2022, 2021, and 2020 were $6.6 million, $9.0 million, and $6.1 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $79.6 million and $77.6 million as of March 31, 2022 and 2021, respectively. These costs are expected to be incurred over approximately 34 years, and these undiscounted amounts have been recorded as estimated liabilities on the balance sheet. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other

insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

The DPU has approved a settlement agreement that provides for rate recovery of remediation costs of former MGP sites and certain other hazardous waste sites located in Massachusetts. Under that agreement, qualified costs related to these sites are paid out of a special fund established as a regulatory liability on the balance sheet. Rate-recoverable contributions of approximately $4.5 million were made to the fund during the year ended March 31, 2022, along with interest, lease payments, and any recoveries from insurance carriers and other third parties. Accordingly, as of March 31, 2022 and 2021, the Company has recorded environmental regulatory assets of $76.0 million and $74.8 million, respectively, and environmental regulatory liabilities of $15.2 million and $16.5 million, respectively. See Note 4, "Regulatory Assets and Liabilities," for additional details.

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

11. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

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

The Company's commitments under these contracts for the years subsequent to March 31, 2022 are summarized in the table below:

(in thousands of dollars) **March 31,**	**Energy Purchases**
2023	$ 331,090
2024	7,143
2025	-
2026	-
2027	-
Thereafter	-
Total	$ 338,233

Power Purchase Agreements for Renewable Energy Projects

Section 83A

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

Three-State Procurement: Section 83A

On June 15, 2018, the DPU approved ten long-term (20-year) contracts for the purchase of the electricity and renewable energy credits from ten separate generating facilities. The Massachusetts Electric Companies will purchase the actual output generated by the individual facilities, which in aggregate represents approximately 91 MWs of nameplate capacity. The Massachusetts Electric Companies entered into agreements after a three-state solicitation for renewable energy generation, pursuant to Section 83A of the Green Communities Act. The approval by the DPU allows the Massachusetts Electric Companies to recover the costs incurred under the agreements, including 2.75% remuneration on the annual payments made under the contracts. As of December 31, 2021, all projects have either become operational or terminated. Of the contracted 91 MWs, approximately 73 MWs are currently operational, and approximately 18 MWs have been terminated.

Clean Energy Procurement: Section 83D

On June 13, 2018, the Massachusetts Electric Companies entered into two separate agreements for the transportation and purchase of electricity and the related environmental attributes from hydroelectric facilities located in the Canadian province of Québec. The two agreements were entered into pursuant to Section 83D of the Green Communities Act. The first agreement is a 20-year power purchase agreement ("PPA") with H.Q. Energy Services Inc. ("H.Q. Energy") for the purchase of approximately 498 megawatt-hours of electricity and the related environmental attributes from a portfolio of hydroelectric facilities owned and operated by affiliates of H.Q. Energy. The second agreement is a 20-year transmission service agreement ("TSA") with NECEC Transmission LLC ("NECEC"). This agreement was assigned to NECEC by Central Maine Power Company, with the consent of the Massachusetts Electric Companies. The TSA provides for the transmission of the electricity supplied by H.Q. Energy on a proposed new transmission line that will run from the United States border to Lewiston, Maine, where it will interconnect with the ISO-NE system. Both the TSA with NECEC and the PPA with H.Q. Energy are contingent on the successful development and construction of the underlying transmission line by NECEC. The anticipated commercial operations date of the transmission line is in August 2024, based on the contractual terms. The DPU approved the Section 83D contracts on June 25, 2019, and the Massachusetts Electric Companies will be able to recover the costs incurred under the agreements, including 2.75% remuneration on the annual payments made. NextEra Energy Resources, LLC filed an appeal of the DPU's approval of the PPA with H.Q. Energy on July 12, 2019. On September 3, 2020, the Massachusetts Supreme Judicial Court upheld the DPU's approval. On November 2, 2021, the citizens of Maine passed a referendum which rejected the construction of the NECEC transmission line. NECEC has halted construction at the request of Maine's Governor while appeals are ongoing. The Massachusetts electric distribution companies have filed a joint amicus brief supporting continuation of the project, and oral arguments in the case began in May 2022.

Offshore Wind Energy Procurement: Section 83C Round 1

On July 31, 2018, the Massachusetts Electric Companies entered into two separate 20-year PPAs with Vineyard Wind LLC ("Vineyard Wind") for the purchase of 46.16% of the electricity and renewable energy credits generated by two offshore wind farms proposed by Vineyard Wind, with each individual wind farm having a capacity of up to 400 MWs. The contracts with Vineyard Wind were entered into pursuant to Section 83C of the Green Communities Act. On April 12, 2019, the DPU approved the contracts, and the Massachusetts Electric Companies will be able to recover the costs incurred under the agreements, including 2.75% remuneration on the annual payments made. Based on the terms of the contracts, the commercial operations date for the first wind farm was initially expected to be in January 2022, with the second wind farm anticipated in May 2022. On October 21, 2021, the DPU approved two amendments to the PPAs for both wind farms, which extend the critical milestone dates by twenty-four months, including the commercial operations dates. The new guaranteed commercial operations dates are January 15, 2024 for the first wind farm and May 31, 2024 for the second wind farm.

Offshore Wind Energy Procurement: Section 83C Round 2

On January 10, 2020, the Massachusetts Electric Companies entered into two separate 20-year PPAs with Mayflower Wind Energy LLC ("Mayflower Wind") for the purchase of 45.41% of the electricity and renewable energy credits generated by two offshore wind farms proposed by Mayflower Wind, with the first wind farm having a capacity of up to 408 MWs and the second having a capacity of up to 396 MWs. The contracts with Mayflower Wind were entered into pursuant to Section 83C of the Green Communities Act. Based on the terms of the contracts, the commercial operations date for the first wind farm

was initially expected to be in September 2025, with the second wind farm anticipated in December 2025. These contracts were filed with the DPU on February 10, 2020. On November 5, 2020, the DPU approved the contracts, and the Massachusetts Electric Companies will be able to recover the costs incurred under the agreements, including 2.75% remuneration on the annual payments made. The AG filed a motion for reconsideration on November 25, 2020, in which the AG asked the DPU for additional information regarding the DPU's approval of 2.75% remuneration on the annual payments made. The AG's motion was denied on June 23, 2021. On July 9, 2021, the decision became final and unappealable, and regulatory approval was achieved. On May 25, 2022, the Massachusetts Electric Companies filed an amendment to the PPAs for the DPU's review and approval. The amendment extends the critical milestone dates by approximately eighteen months, including the commercial operations dates.

Offshore Wind Energy Procurement: Section 83C Round 3

On April 8, 2022, the Massachusetts Electric Companies entered into a 20-year PPA with Commonwealth Wind LLC ("Commonwealth Wind") for the purchase of 43.87% of the electricity and renewable energy credits generated by a proposed offshore wind farm with a nameplate capacity of 1,232 MWs. On April 15, 2022, the Massachusetts Electric Companies entered into a 20-year PPA with Mayflower Wind for the purchase of 38.003% of the electricity and renewable energy credits generated by a proposed offshore wind farm with a nameplate capacity of 480 MWs. Both PPAs were filed with the DPU for its review and approval on May 25, 2022. These contracts were entered into pursuant to Section 83C of the Green Communities Act. The Commonwealth Wind project has a commercial operations date of November 2027, and the Mayflower Wind project has a commercial operations date of March 2028.

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.

Federal and Regulatory Investigations into Allegations of Fraud and Bribery

On June 17, 2021, five former employees of National Grid USA Service Company, Inc. in the downstate New York facilities department were arrested on federal charges alleging fraud and bribery. The five former employees subsequently pleaded guilty to the charges, pursuant to plea agreements. The defendants have been, or are scheduled to be, sentenced between May 2022 and July 2022. It is NGUSA's understanding that the investigation by the U.S. Attorney's office and the Federal Bureau of Investigation remains ongoing; NGUSA is a victim of the alleged crimes and will continue to comply with the federal government's investigation. The DPU, the New York Public Service Commission ("NY PSC"), and the Rhode Island Public Utilities Commission have issued requests for information related to the alleged criminal conduct. The DPU has indicated that it will open an investigation into this matter after the conclusion of the NY PSC's investigation. At this time, it is not possible to predict the outcome of the regulatory investigations or determine the amount, if any, of any potential liabilities that may be incurred by the Company related to this matter. However, the Company does not expect this matter will have a material adverse effect on its results of operations, financial position, or cash flows.

Energy Efficiency Programs Investigation

The Company is performing an internal investigation into conduct associated with its energy efficiency programs. At this time, it is not possible to predict the outcome of the internal investigation 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.

On April 29, 2022, an indictment was unsealed in the United States District Court of Massachusetts, alleging two individuals employed by a MassSave lead vendor paid bribes to obtain contracts for energy efficiency work. NGUSA's Massachusetts operating companies, along with other utilities in the state, collectively sponsor MassSave and recover costs associated with energy efficiency programs from their customers. NGUSA is complying with all information requests from the US Attorney's

office and has made the DPU aware of this matter. NGUSA is not a defendant in the indictment. At this time, it is not possible to predict the outcome of the investigation or determine whether the Company has incurred any losses.

Financial Guarantees

The Company unconditionally guarantees the full and prompt payment of the principal, premium, if any, and interest on certain tax-exempt bonds issued by the Massachusetts Development Finance Agency in connection with Nantucket Electric's financing of its first and second underground and submarine cable projects. The Company would be required to make any principal, interest, and premium payments if Nantucket Electric failed to pay. The carrying value of the debt guaranteed is approximately $51.3 million as of March 31, 2022, and the debt has maturities extending through 2042. This guarantee is absolute and unconditional. As of the date of this report, the Company has not had a claim made against it for this guarantee and has no reason to believe that Nantucket Electric will default on its obligations.

12. LEASES

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

Operating lease ROU assets are included in property, plant, and equipment, net, and operating lease liabilities are included in other current liabilities and other noncurrent liabilities on the balance sheet. As of March 31, 2022, the Company does not have any financing leases.

The expense related to operating leases was $14.1 million, $14.1 million, and $13.9 million for the years ended March 31, 2022, 2021, and 2020, respectively.

As of March 31, 2022, the Company does not have material rights or obligations under operating leases that have not yet commenced.

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

	Years Ended March 31,		
	2022	2021	2020
		(in thousands of dollars)	
Cash paid for amounts included in lease liabilities			
Operating cash flows from operating leases	**$ 14,132**	$ 14,136	$ 13,877
ROU assets obtained in exchange for new operating lease liabilities	**17,905**	16,659	9,127
Weighted average remaining lease term – operating leases	**5 years**	8 years	8 years
Weighted average discount rate – operating leases	**2.7%**	2.6%	2.7%

The following table contains the Company’s maturity analysis of its operating lease liabilities as of March 31, 2022, 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:

Year Ending March 31,	Operating Leases (in thousands of dollars)
2023	$ 13,874
2024	11,615
2025	8,055
2026	6,556
2027	5,383
Thereafter	18,142
Total future minimum lease payments	63,625
Less: imputed interest	6,990
Total	$ 56,635
Reported as of March 31, 2022:	
Current lease liability	$ 12,625
Non-current lease liability	44,010
Total	$ 56,635

There are certain leases in which the Company is the lessor. Revenue under such leases was immaterial for the years ended March 31, 2022, 2021, and 2020.

13. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2022	2021	**2022**	2021
	(in thousands of dollars)			
Boston Gas Company	**$ 1**	$ -	**$ 89**	$ 1,827
Nantucket Electric Company	**313**	268	**789**	1,482
New England Power Company	**5,421**	4,107	**76,555**	81,962
NGUSA	**-**	-	**3,599**	2,916
NGUSA Service Company	**19,276**	8,851	**71,699**	66,487
Niagara Mohawk Power Corporation	**-**	-	**80**	766
Other Affiliates	**153**	178	**90**	294
Total	**$ 25,164**	$ 13,404	**$ 152,901**	$ 155,734

As discussed in Note 5, "Rate Matters," NEP operates the pooled transmission facilities of the Company, NECO, and NEP as a single integrated system ("NEPOOL") under NEP's Tariff No. 1. These transmission services are regulated by both the ISO-NE and the FERC. NEP charges the ISO-NE for these transmission services. As NEP is the sole operator of the NEPOOL assets, ISO-NE revenues are remitted from NEP to the Company, representing the substantial portion of the accounts receivable due from NEP.

In turn, the ISO-NE charges the Company for Regional Network Service ("RNS"), with some of those charges being associated with the Company-owned transmission assets in the NEPOOL. $45.1 million and $49.6 million of the unpaid charges from the ISO-NE to the Company have been presented as a payable to NEP related to these Company-owned transmission assets as of March 31, 2022 and 2021, respectively. Additionally, NEP charges the Company for Local Network Service ("LNS"). The amounts paid to NEP for RNS and LNS for the years ended March 31, 2022, 2021, and 2020 were $374.3 million, $344.0 million, and $321.5 million, respectively. These amounts are presented within operations and maintenance expense in the accompanying statements of income.

Advances from Affiliates

The Company has an agreement with NGUSA whereby the Company can borrow up to $200 million from time to time for working capital needs. The advance is non-interest bearing. As of March 31, 2022 and 2021, the Company had no outstanding advances from affiliates.

Intercompany Money Pool

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

The Regulated Money Pool is funded by operating funds from participants. NGUSA has the ability to borrow up to $3.0 billion from National Grid plc for working capital needs, including funding of the Regulated Money Pool, if necessary. The Company had short-term intercompany money pool investments of $151.8 million and $227.3 million as of March 31, 2022 and 2021, respectively. The average interest rates for the intercompany money pool were 0.4%, 0.7%, and 2.4% for the years ended March 31, 2022, 2021, and 2020, respectively.

Related Party Reimbursement

In accordance with the Credit and Operating Support Agreement dated March 26, 1996, the Company will reimburse Nantucket Electric an amount equal to the difference between Nantucket Electric's actual net income for the year and the net income necessary for Nantucket Electric to earn its DPU-approved ROE for the year, which is currently 9.6%. This reimbursement represents additional revenue to Nantucket Electric and expense to the Company. If Nantucket Electric's actual ROE for the year exceeds its allowed ROE, there is no reimbursement. For the years ended March 31, 2022, 2021, and 2020, the Company reimbursed Nantucket Electric $6.3 million, $9.0 million, and $5.0 million, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at cost, without a mark-up. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, and total transmission

and distribution expenditures. Lastly, all other costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant, and equipment, and operations and maintenance expense.

Charges from the service companies of NGUSA to the Company are mostly related to traditional administrative support functions. For the years ended March 31, 2022, 2021, and 2020, costs allocated to the Company were $431.8 million, $389.3 million, and $375.5 million, respectively.