New England Power Company

Financial Statements

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

NEW ENGLAND POWER COMPANY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
New England Power Company

Opinion

We have audited the financial statements of New England Power Company (the "Company"), which comprise the balance sheets and statements of capitalization as of March 31, 2022 and 2021, and the related statements of operations and comprehensive 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

NEW ENGLAND POWER COMPANY
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(in thousands of dollars)

	Years Ended March 31,		
	2022	2021	2020
Operating revenues	**$ 477,051**	$ 464,135	$ 439,758
Operating expenses:			
Purchased electricity	**268**	1	132
Operations and maintenance	**119,631**	112,915	106,321
Depreciation	**87,531**	74,089	67,811
Other taxes	**60,438**	58,785	53,675
Total operating expenses	**267,868**	245,790	227,939
Operating income	**209,183**	218,345	211,819
Other income and (deductions):			
Interest on long-term debt	**(27,236)**	(23,297)	(20,408)
Other interest, including affiliate interest, net	**(4,001)**	(6,419)	(7,865)
Other income, net	**16,335**	9,688	4,643
Total other deductions, net	**(14,902)**	(20,028)	(23,630)
Income before income taxes	**194,281**	198,317	188,189
Income tax expense	**36,758**	54,695	50,425
Net income	**$157,523**	$ 143,622	$ 137,764
Other comprehensive income (loss), net of taxes:			
Unrealized gain (loss) on securities, net of $6, $(11), $(94) taxes in 2022, 2021 and 2020, respectively	**(17)**	29	261
Change in pension and other postretirement obligations, net of $(10), $(18), $213 taxes in 2021, 2020, and 2019, respectively	**28**	51	(591)
Total other comprehensive income (loss)	**11**	80	(330)
Comprehensive Income	**$157,534**	$ 143,702	$ 137,434

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

NEW ENGLAND POWER COMPANY

STATEMENTS OF CASH FLOWS

(in thousands of dollars)

	Years Ended March 31,		
	2022	2021	2020
Operating Activities:			
Net income	**$157,523**	$ 143,622	$ 137,764
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	**87,531**	74,089	67,811
Deferred income tax expense	**16,666**	21,730	23,669
Bad debt expense (benefit)	**694**	(582)	654
Income from equity investments, net of dividends received	**(113)**	(133)	(288)
Allowance for equity funds used during construction	**(15,053)**	(9,385)	(6,077)
Amortization of debt discount and issuance cost	**632**	831	809
Pension and postretirement benefits expenses, net	**(3,938)**	(2,679)	(3,307)
Pension and postretirement benefit contributions	**409**	(1,706)	(516)
Changes in operating assets and liabilities			
Accounts receivable and other receivables, net, and unbilled revenues	**557**	961	(5,237)
Accounts receivable from/payable to affiliates, net	**23,507**	(11,472)	(16,976)
Inventory	**(1,828)**	(1,073)	(1,193)
Regulatory assets and liabilities (current), net	**511**	(60)	(2,941)
Regulatory assets and liabilities (non-current), net	**(23,499)**	(2,629)	23,746
Prepaid and accrued taxes	**(870)**	17,243	(23,989)
Accounts payable and other liabilities	**28,412**	1,561	8,742
Accrued Yankee nuclear plant costs	**926**	(4,608)	(17,404)
Other, net	**(20,854)**	(2,653)	(4,738)
Net cash provided by operating activities	**251,213**	223,057	180,529
Investing Activities:			
Capital expenditures	**(257,172)**	(222,585)	(210,999)
Intercompany money pool	**190,862**	(200,285)	(25,206)
Cost of removal	**(7,673)**	(7,849)	(4,879)
Financial investments	**13,959**	-	-
Other	**(1,027)**	(2,602)	647
Net cash used in investing activities	**(61,051)**	(433,321)	(240,437)
Financing Activities:			
Common stock dividends to Parent	**(158,221)**	(237,379)	(165,000)
Return of capital to Parent	**(31,780)**	(92,621)	-
Preferred stock dividends	**(67)**	(67)	(67)
Payments on long-term debt		(286,450)	-
Proceeds from long-term debt		400,000	100,000
Payment on debt issuance costs		(3,232)	-
Equity infusion from Parent		430,000	125,000
Net cash provided by (used in) financing activities	**(190,068)**	210,251	59,933
Net increase (decrease) in cash, cash equivalents, restricted cash and special deposits	**94**	(13)	25
Cash, cash equivalents, beginning of year	**20**	33	8
Cash, cash equivalents, end of year	**$ 114**	$ 20	$ 33
Supplemental disclosures:			
Interest paid	**$ (24,010)**	$ (18,115)	$ (22,235)
Income taxes paid	**(16,785)**	(31,672)	(40,989)
Significant non-cash items:			
Capital-related accruals included in accounts payable	**18,280**	7,072	4,289
Parent tax loss allocation	**4,772**	7,605	-

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

NEW ENGLAND POWER COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 114**	$ 20
Accounts receivable	**8,513**	9,764
Accounts receivable from affiliates	**106,136**	112,299
Intercompany money pool asset	**52,993**	243,855
Inventory	**5,723**	3,895
Prepayment	**30,116**	55
Other current assets	**1,659**	715
Total current assets	**205,254**	370,603
Equity investments	**1,736**	1,686
Investment in affiliates	**2,030**	1,967
Property, plant and equipment, net	**3,060,431**	2,850,479
Other non-current assets:		
Regulatory assets	**33,864**	48,195
Goodwill	**337,614**	337,614
Postretirement benefits asset	**53,785**	36,622
Financial investments	**-**	14,000
Other noncurrent assets	**20,368**	22,353
Total other non-current assets	**445,631**	458,784
Total assets	**$3,715,082**	$ 3,683,519

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

NEW ENGLAND POWER COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2022	2021
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$57,732**	$ 21,407
Accounts payable to affiliates	**49,324**	31,980
Current portion of long-term debt	**106,150**	-
Taxes accrued	**26,713**	31,522
Other current liabilities	**58,590**	58,784
Total current liabilities	**298,509**	143,693
Other non-current liabilities:		
Regulatory liabilities	**297,906**	322,655
Accrued Yankee nuclear plant costs	**3,725**	2,794
Deferred income tax liabilities, net	**418,613**	383,663
Environmental remediation costs	**1,938**	1,828
Noncurrent liabilities	**7,003**	7,954
Total other non-current liabilities	**729,185**	718,894
Commitments and contingencies (Note 11)		
Capitalization:		
Shareholders’ equity	**1,896,041**	1,923,803
Long-term debt	**791,347**	897,129
Total capitalization	**2,687,388**	2,820,932
Total liabilities and capitalization	**$3,715,082**	$ 3,683,519

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

NEW ENGLAND POWER COMPANY
STATEMENTS OF CAPITALIZATION

(in thousands of dollars)

			March 31,	
			2022	2021
Total shareholders' equity			**$1,896,041**	$ 1,923,803
Long-term debt:	Interest Rate	Maturity Date		
Pollution Control Revenue Bonds:				
Massachusetts Development Finance Agency 2	Variable	October 1, 2022	**106,150**	106,150
			106,150	106,150
Term Loans:				
Unsecured Notes:				
Senior Notes	3.80%	December 5, 2047	**400,000**	400,000
Senior Notes	2.81%	October 6, 2050	**400,000**	400,000
Total Debt			**906,150**	906,150
Unamortized debt discount			**(2,308)**	(2,398)
Unamortized debt issuance costs			**(6,345)**	(6,623)
Total debt less unamortized costs			**897,497**	897,129
Current portion of long-term debt			**106,150**	-
Total long-term debt			**791,347**	897,129
Total capitalization			**$2,687,388**	$ 2,820,932

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

NEW ENGLAND POWER COMPANY
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

				Accumulated Other Comprehensive Income (Loss)				
	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Unrealized Gain (Loss) on Securities	Pension and Other Postretirement Benefits	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2019	**$ 72,398**	**$ 1,112**	**$ 1,317,581**	**$ 40**	**$ -**	**$ 40**	**$ 184,065**	**$ 1,575,196**
Net income	-	-	-	-	-	-	137,764	137,764
Other comprehensive income (loss):								
Unrealized gain on securities, net of $94 tax expense	-	-	-	261	-	261	-	261
Change in pension and other postretirement obligations, net of $213 tax benefit					(591)	(591)		(591)
Total comprehensive income								137,434
Equity infusion from Parent	-	-	125,000	-	-	-	-	125,000
Impact of adoption of reclassification of certain tax effects from accumulated other comprehensive income standard	-	-	-	13	-	13	(13)	-
Common stock dividends to Parent	-	-	-	-	-	-	(165,000)	(165,000)
Preferred stock dividends	-	-	-	-	-	-	(67)	(67)
Balance as of March 31, 2020	**$ 72,398**	**$ 1,112**	**$ 1,442,581**	**$ 314**	**$ (591)**	**$ (277)**	**$ 156,749**	**$ 1,672,563**
Net income	-	-	-	-	-	-	143,622	143,622
Other comprehensive income:								
Unrealized gain on securities, net of $11 tax expense	-	-	-	29	-	29	-	29
Change in pension and other postretirement obligations, net of $18 tax expense	-	-	-	-	51	51	-	51
Total comprehensive income								143,702
Equity infusion from Parent	-	-	430,000	-	-	-	-	430,000
Parent tax loss allocation	-	-	7,605	-	-	-	-	7,605
Return of Capital to Parent	-	-	(92,621)	-	-	-	-	(92,621)
Common stock dividends to Parent	-	-	-	-	-	-	(237,379)	(237,379)
Preferred stock dividends	-	-	-	-	-	-	(67)	(67)
Balance as of March 31, 2021	**$ 72,398**	**$ 1,112**	**$ 1,787,565**	**$ 343**	**$ (540)**	**$ (197)**	**$62,925**	**$1,923,803**
Net income	-	-	-	-	-	-	157,523	157,523
Other comprehensive income (loss):								
Unrealized gain on securities, net of $6 tax benefit	-	-	-	(17)	-	(17)	-	(17)
Change in pension and other postretirement obligations, net of $10 tax expense	-	-	-	-	28	28	-	28
Total comprehensive income								157,534
Parent tax loss allocation	-	-	4,772	-	-	-	-	4,772
Return of capital to Parent	-	-	(31,780)	-	-	-	-	(31,780)
Common stock dividends to Parent	-	-	-	-	-	-	(158,221)	(158,221)
Preferred stock dividends	-	-	-	-	-	-	(67)	(67)
Balance as of March 31 2022	**$ 72,398**	**$ 1,112**	**$ 1,760,557**	**$ 326**	**$ (512)**	**$ (186)**	**$ 62,160**	**$ 1,896,041**

The Company had 3,619,896 shares of common stock authorized, issued and outstanding, with a par value of $20 per share and 11,117 shares of preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2022, 2021, and 2020.

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

NEW ENGLAND POWER COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

New England Power Company ("the Company") operates electric transmission facilities in Massachusetts, New Hampshire, Vermont, and Rhode Island, which includes facilities operated on behalf of associated companies Massachusetts Electric Company ("MECO") and the Narragansett Electric Company ("NECO") in accordance with the integrated facilities agreement. 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.

The Company also owns non-controlling interests in three companies (the "Yankees") which own nuclear generating facilities that are permanently retired and are being decommissioned (refer to Note 7, "Equity Investments", and the "Decommissioning Nuclear Units" section in Note 11, "Commitments and Contingencies"). In addition, the Company has equity shares in New England Hydro-Transmission Electric Company, Inc. and New England Hydro-Transmission Corporation, which are two of its affiliates. NGUSA and the Company have 50.4% and 3.3% equity shares, respectively, in both New England Hydro-Transmission Electric Company, Inc. and New England Hydro-Transmission Corporation. The Company accounts for its ownership interests in the entities using the equity method of accounting for investments.

On March 18, 2021, it was announced that NECO is expected to be sold to PPL Corporation ("PPL") as part of a transaction with National Grid PLC in which National Grid PLC will acquire PPL's Western Power Distribution. The sale closed on May 25, 2022, and as of that date, NECO ceased to be an affiliate of the Company.

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 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.

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. Actual results could differ from those estimates.

Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC") has jurisdiction over the rates the Company charges its customers and certain activities, including (i) regulating certain transactions among the Company's affiliates; (ii) governing the issuance acquisition and disposition of securities and assets; and (iii) approving certain utility mergers and acquisitions. The Company is subject to the jurisdiction of the regulatory Commissions of Massachusetts, New Hampshire, Rhode Island, Maine, Vermont and the Nuclear Regulatory Commission (NRC). The Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. In accordance with ASC 980, “Regulated Operations,” regulatory assets and liabilities are reflected on the balance sheet consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

The Company has two primary sources of revenue: transmission and stranded cost recovery. Transmission revenues are based on a formula rate that recovers the Company’s actual costs plus a return on investment, which are recovered through regional network service (“RNS”) rates and local network service (“LNS”) rates. The Company has received authorization from the FERC to recover through contract termination charges (“CTC’s”) substantially all of the costs associated with the divestiture of its electricity generation investments (nuclear and non-nuclear) and related contractual commitments that were not recovered through the sale of those investments (i.e. stranded costs). Stranded costs are recovered from the former wholesale customers of the Company. See Note 5, “Rate Matters”, and Note 11, “Commitments and Contingencies”, for an explanation of stranded costs.

Other Taxes

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

The Company accrues property taxes in the period in which they are levied by the respective taxing authority.

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 benefit of consolidated tax losses and credits are allocated to the NGNA subsidiaries giving rise to such benefits in determining each subsidiary’s tax expense in the year that the loss or credit arises. In a year that a consolidated loss or credit carryforward is utilized, the tax benefit utilized in consolidation is paid proportionately to the subsidiaries that gave rise to the benefit regardless of whether that subsidiary would have utilized the benefit. The tax sharing agreement also requires NGNA to allocate its parent tax losses, excluding deductions from acquisition indebtedness, to each subsidiary in the consolidated federal tax return with taxable income. The allocation of NGNA’s parent tax losses to its subsidiaries is accounted for as a capital contribution and is performed in conjunction with the annual intercompany cash settlement process following the filing of the federal tax return.

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. The collectability of receivables is continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible. The Company recorded bad debt expense of $0.7 million, $(0.6) million and $0.7 million for the years ended March 31, 2022, 2021 and 2020, respectively, within operation and maintenance expenses in the accompanying statements of operations and comprehensive income.

Inventory

Inventory is primarily composed of materials and supplies. Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized as used. There were no significant write-offs of obsolete inventory for the years ended March 31, 2022, 2021, and 2020.

The Company had materials and supplies of $5.6 million and $3.8 million as of March 31, 2022 and 2021, respectively.

Fair Value Measurements

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

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

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

Property, Plant and Equipment

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

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. On October 29, 2021, ISO New England Inc. filed, on behalf of New England Power Company, a revised tariff to update the depreciation rates set forth in the Company wholesale Regional Network Service and Local Network Service rate formula. FERC has accepted the updated depreciation rate filing that will be effective January 1, 2022.

	2022	2021	2020
Composite rates	**2.7%**	2.4%	2.3%

Depreciation expense includes a component for 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 and difference in cumulative costs incurred in excess of costs recovered is recognized as a regulatory asset. 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 asset. The Company recognized a regulatory liability for the amount recovered that was in excess of costs incurred of $6.3 million as of March 31, 2022 and recognized a regulatory asset for the amount of costs incurred in excess of costs recovered of 4.2 million as of March 31, 2021.

Allowance for Funds Used During Construction

The Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. The equity component of AFUDC is reported in the accompanying statements of operations and comprehensive income as non-cash income in other income, net. The debt component of AFUDC is reported as a non-cash offset to other interest, including affiliate interest. As of January 1, 2022, the Company was permitted to recover 50% of construction work in progress through inclusion in rates and established a regulatory liability for 50% of AFUDC to avoid double recovery of the return on construction work in progress and AFUDC. The Company recorded AFUDC related to equity of $15.1 million, $9.4 million and $6.1 million and AFUDC related to debt of $2.6 million, $1.5 million, and $1.4 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 8.1%, 8.1%, and 6.6%, respectively.

Impairment of Long-Lived Assets

The Company tests the impairment of long-lived assets when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If 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 fiscal 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, commonly referred to as the income approach and market approach. 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 and 2021.

Variable Interest Entities

A variable interest entity ("VIE") is an entity that does not have a sufficient equity investment at risk to permit it to finance its activities without additional subordinated financial support, or whose equity investors lack the obligation to absorb losses, the right to receive residual returns or the right to make decisions about the entity's activities that most significantly impact the entity's economic performance. The primary beneficiary is the business enterprise that has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and the obligation to absorb losses or right to receive benefits that could be significant to the VIE. The primary beneficiary holds a controlling financial interest in an entity and is required to consolidate the VIE.

The Company determines whether they are the primary beneficiary of a VIE by evaluating the purpose and design of the entity, the nature of the VIE's risks and the risks that the Company absorbs, who has the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE, and who has the obligation to absorb losses or rights to receive benefits that could be significant to the VIE.

Employee Benefits

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

New and Recent Accounting Guidance

Accounting Guidance Recently Adopted

Income Taxes

In December 2019, the FASB issued ASU No. 2019-12 *"Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes"* which simplifies various aspects of the accounting for income taxes by eliminating certain exceptions to current requirements. The standard also enhances and simplifies other requirements, including 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 materially affect 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 that replaces 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 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 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 refinancing 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 ending 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 Transmission	**$ 465,737**	$ 445,846	$ 419,853
Stranded Cost Recovery (refund)	**(8,335)**	2,055	12,928
Total Revenues from Contracts with Customers	**457,402**	447,901	432,781
Revenue from Regulatory Mechanisms (Stranded Cost Recovery)	**14,370**	12,171	(1,382)
Other Revenue	**5,279**	4,063	8,359
Total Operating Revenues	**$ 477,051**	$ 464,135	$ 439,758

Electric Transmission

Transmission systems generally include overhead lines, underground cables and substations, connecting generation and interconnectors to the distribution system. The Company owns, maintains, and operates an electric transmission system spanning Massachusetts, Rhode Island, New Hampshire and Vermont. The Company's transmission services are provided under tariffs administered by the Regional Transmission Operators (i.e. Independent System Operators ("ISO") New England or under grandfathered agreements), approved and regulated by the FERC in respect of interstate transmission. Electric transmission revenues arise under Transmission Congestion Contract auctions, Transmission Service Agreements and Local / Regional Network Services under tariff/rate agreements. The Company bills its transmission services typically monthly, in the month after service has been provided. The Company recognizes the revenue over time when the amounts are billed.

The Company is a participating transmission owner in ISO New England which is a third party responsible for administering and collecting RNS transmission revenue from local distribution utilities, generators and municipalities, which includes revenues from affiliate companies MECO and NECO. The Company is also responsible for administering and collecting LNS transmission revenue from local distribution utilities, generators and municipalities, including affiliates MECO and NECO. For the years ended March 31, 2022, 2021, and 2020, the Company recognized revenues of $423.9 million, $396.7 million and $378.9 million from affiliated companies.

Stranded Cost Recovery

The Company has received authorization from the FERC to recover through CTC's, substantially all the costs associated with the divestiture of its electricity generation investments and related contractual commitments that were not recovered through the sale of those stranded investments. Stranded costs are recovered from the former wholesale customers of the Company. See the "Stranded Cost Recovery" section in Note 5. Rate Matters.

Other

Other revenues include proceeds from right of ways with affiliate companies and lease revenue from transmission pole rentals that are not considered to be revenues from contracts with customers.

Included in other revenue is revenue recognized for right of ways granted to affiliate companies New England Hydro-Transmission Electric Company, Inc., New England Hydro-Transmission Corporation, and New England Electric Transmission Corporation. For the years ended March 31, 2022, 2021, and 2020 the Company recognized revenue for right of ways from affiliates of $5.4 million, $3.0 million, and $7.2 million, respectively.

4. REGULATORY ASSETS AND LIABILITIES

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

	March 31,	
	2022	2021
	(in thousands of dollars)	
Regulatory assets		
Postretirement benefits	**$ 19,944**	$ 41,042
Yankee nuclear decommissioning costs	**3,804**	2,879
Over/Under Rate adjustment	**10,017**	-
Cost of removal	**-**	4,178
Other	**99**	96
Total	**$ 33,864**	$ 48,195
Regulatory liabilities		
CTC charges	**$ 34,257**	$ 44,869
Regulatory tax liability	**253,524**	276,086
Cost of removal	**6,348**	-
Rate adjustment mechanism (AFUDC)	**2,199**	-
Other	**1,657**	1,700
Total	**297,985**	322,655

The regulatory assets of $33.9 million summarized above do not earn a rate of return.

Cost of Removal: Represents cumulative removal amounts incurred/collected, but not yet collected/spent from customers, to dispose of property, plant and equipment.

CTC charges: Stranded cost recovery revenues are collected through a CTC, which is billed to former wholesale customers of the Company in connection with the Company's divestiture of its electricity generation investments. CTC-related liabilities consist of obligations to customers that resulted from the sale of certain stranded assets or amounts collected from third parties that will be refunded to customers. These amounts are being refunded to customers as determined per rate filings.

Over/Under Rate adjustment: As described in Note 2, Summary of Significant Accounting Policies, the Company defers costs when it is probably to recover from customers through future rates. The over/under rate adjustment is a result of differences between billed and allowed recoverable costs.

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

Rate adjustment mechanism (AFUDC): NEP is permitted to include 50% Construction Work in Progress ("CWIP") in rate base for all transmission projects on or after January 1, 2022 in the Local Service component of the Formula Rate. This amount represents the 50% of the capitalized AFUDC on transmission projects included in the Company's rate base.

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

Yankee nuclear decommissioning costs: The Yankees operated nuclear generating units which have been permanently decommissioned. Spent nuclear fuel remains on each site, awaiting fulfillment by the U.S. Department of Energy ("DOE") of its statutory obligation to remove it. In addition, groundwater monitoring is ongoing at each site. The Company has recorded a regulatory asset reflecting the estimated future decommissioning billings and the remaining asset retirement obligation from the Yankees.

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. Carrying charges are not recorded on items for which expenditures have not yet been made.

5. RATE MATTERS

Stranded Cost Recovery

Under the settlement agreements approved by state commissions and the FERC, the Company is permitted to recover stranded costs (those costs associated with its former generating investments (nuclear and non-nuclear) and related contractual commitments that were not recovered through the sale of those investments). The Company earns a return on equity ("ROE") related to stranded cost recovery consisting of nuclear-related investments. In Massachusetts and Rhode Island, the current ROEs are 9.2% and 10.46%, respectively. The Company will recover its remaining non-nuclear stranded costs until the costs associated with its decommissioned nuclear units cease, refer to "Decommissioning Nuclear Units" section in Note 11, "Commitments and Contingencies".

Transmission Return on Equity and Recovery of Transmission Costs

Transmission revenues are based on a formula rate that recovers the Company's actual costs plus a return on investment. Approximately 75% of the Company's transmission facilities are included under RNS rates. The Company earns an additional 0.5% ROE incentive adder on RNS-related transmission facilities approved under the Regional Transmission Organization's ("RTO") Regional System Plan and placed in service on or before December 31, 2008. It also earns a 1.25% ROE incentive on its portion of New England East-West Solution ("NEEWS") (see the "New England East-West Solution" section).

The Company's transmission rates applicable to transmission service through October 15, 2014 reflected a base ROE of 11.14% applicable to the Company's transmission facilities, plus an additional 0.5% RTO participation adder applicable to transmission facilities included under the RNS rate. On October 16, 2014, the FERC issued an order, Opinion No. 531-A, reducing the base ROE applicable to transmission assets from 11.14% to 10.57% effective as of the date of the order 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 FERC's Opinion No. 531 (and successor orders), through which the FERC had lowered the New England Transmission Owners ("NETO") return on equity from 11.14% to 10.57% and capped the total incentives at 11.74%.

On October 16, 2018, the FERC issued an order on all four of the Company's ROE complaints (see the "FERC ROE Complaints" section in Note 11, "Commitments and Contingencies") describing how it intends to address the issues that were remanded by the Court. The FERC proposed a new framework to determine whether an existing ROE is unjust and unreasonable and, if so, how to calculate a replacement ROE. The FERC stated that these calculations were merely preliminary and asked the parties to the NE Complaint cases to brief FERC and check the numbers. The Company along with other New England Transmission Operators ("NETO") filed a brief supporting FERC's new methodology and confirming the illustrative numbers that FERC arrived at in the October 2018 order containing a 10.41% base ROE. FERC has not issued a final order on the briefs submitted by the Company and the base ROE in NE remains at a 10.57%.

On November 21, 2019, the FERC issued an order on the Midcontinent ISO transmission owners ("MISO") ROE complaint docket addressing transmission ROEs. In that order, the FERC adopted a new methodology for determining base ROEs for the MISO and expressed that it was setting new ROE policies nationwide, which differed significantly from the methodology and framework set forth in its October 16, 2018 FERC order on the NETOs' ROE dockets. On December 23, 2019, the NETOs filed a Supplemental Paper Hearing Brief and a Motion to supplement the record in the NETO ROE dockets to respond to the new methodology proposed in the MISO order. There is uncertainty to whether the order is applicable to the NETOs' cases and if so, would have a negative effect on the Company's base ROE. On January 21, 2020, the FERC issued an order granting rehearing for further consideration to give the FERC more time to act on the substantive issues of the MISO ROE proceedings.

On May 21, 2020, the FERC issued a revised order on the MISO ROE complaint docket addressing the substantive issues identified with the November 21, 2019 order. The November 19, 2019 order proposed the application of the average of two models to judge whether ROEs are just and reasonable which resulted in a reduced ROE of 9.88%, from 10.32%, when the proposed methodology is applied to the two MISO ROE complaints. The May 2020 order proposes the average of three models to judge whether ROEs are just and reasonable. When applied to the two MISO ROE complaints the revised methodology using the average of three models resulted in a base ROE of 10.02%, an increase from the methodology proposed in the November 19, 2019 order. In November 2020, FERC issued an order largely affirming the May 21, 2020 order and dismissing rehearing.

The FERC orders on the MISO ROE complaint proceedings, and the proposed revised ROE methodology, are specific to MISO; however, the FERC could order the revised methodology be applied to all transmission companies including our own ROE complaint proceedings. On May 12, 2020, the Company filed jointly with other NETOs supplemental arguments in the ROE Notice of Inquiry ("NOI") docket, which was commenced on March 21, 2019 and to which the Company previously responded, addressing concerns with ROE policy making and the methodologies proposed by the FERC in the MISO ROE compliant proceedings. From the Company's perspective, the May 21, 2020 FERC order on the MISO ROE complaint proceedings represents an improvement from the November 19, 2019 order but it does not address all the arguments filed jointly by the Company and the NETOs.

As of January 2021, the Commission has a full complement of commissioners and has the ability apply the MISO orders to the NE Complaint proceedings at any time, but has not done so as of the date of these financial statements. Until the FERC issues a final decision on the Company's own ROE complaints or an order applying the revised ROE methodology proposed in the MISO orders to all transmission companies, there is significant uncertainty. The Company does not know the impact to its current base ROE and therefore no estimated accrual can be made.

Transmission Incentive Policy Inquiry

On March 21, 2019, the FERC announced a NOI seeking comments on possible improvements to its electric transmission incentives policy to ensure that it appropriately encourages the development of the infrastructure needed to ensure grid reliability and reduce congestion to reduce the cost of power for consumers. The Company filed comments in the NOI docket on June 26, 2019 and filed reply comments on August 26, 2019.

On March 19, 2020, the Commission issued a Notice of Proposed Rulemaking ("NOPR"). In the NOPR, the commission proposes to shift the test for transmission incentives from risks and challenges to an approach based on benefits to customers. The NOPR also proposes to: 1) Increase the incentives for joining and remaining a member of a Regional Transmission Organization, an Independent System Operator or other commission-approved transmission organization from 50 basis points to 100 basis points; 2) Provide 50 basis point to transmission projects that meet a pre-construction benefit-to-cost ratio in the top 25% of projects examined over a sample period and an additional 50 basis points for projects that meet a post-construction benefit-to-cost ratio in the top 10% percent of projects over the same sample period; 3) Provide 50 basis points for projects that demonstrate reliability benefits by providing quantitative analysis and 4) Offer a 100 basis point incentive for transmission technologies that enhance reliability, efficiency, and capacity as well as improve the operation of new or existing transmission facilities. The NOPR also proposes a 250 basis point cap on total ROE incentives rather than limitation to the zone of reasonableness. Comments are requested within 90 days of publication in the Federal Register after which, at some point, the Commission will issue a final rule. The Company filed comments in response to the NOPR on July 1, 2020.

On April 15, 2021, the Commission issued a Supplemental Notice of Proposed Rulemaking (the "Supplemental NOPR") reversing its proposal in the March 19, 2020 NOPR to increase the incentives for joining and remaining a member of a Regional Transmission Organization, an Independent System Operator or other commission-approved transmission organization from 50 basis points to 100 basis points. In the Supplemental NOPR, the Commission proposed that that incentive remain at 50 basis points and that the 50-basis-point increase in ROE be available for only the first three years after the transmitting utility transfers operational control of its facilities to an RTO/ISO. The Commission also stated that the statutory language actually only requires incentives to a utility that joins an RTO/ISO but not for remaining in an RTO/ISO in perpetuity. The Company filed joint comments on June 25th, 2021 with other New England Transmission owners opposing the Supplemental NOPR.

Tax Cuts and Jobs Act

On November 21, 2019, the FERC issued Order 864 to address ratemaking and regulatory reporting of excess or deficient ADIT related to the Tax Cuts and Jobs Act ("TCJA"). The order applies to public utility transmission providers with formula rates who must demonstrate how the public utilities formula rate adjusts rate base via a Rate Adjustment mechanism, returns or recovers excess or deficient ADIT via an Income Tax Allowance Mechanism and must include an ADIT worksheet to support the excess or deficient ADIT calculation and amortization. The order does not prescribe a recovery/refund period for deficient/excess ADIT for unprotected excess/deficient ADIT that is not subject to the normalization requirements.

On July 30, 2020, the Company, along with the NETO's, submitted a compliance filing to address the application of Order 864 in RNS and LNS rates. In the compliance filing, the Company proposed to amortize protected and unprotected property related excess ADIT associated with the 2017 TCJA using the Average Rate Adjustment Mechanism "ARAM" and a 10 year amortization period on unprotected other excess or deficient balances. The Commission issued the settlement agreement order approving the settlement filing in the FERC 206 Proceeding on Rate Transparency with an effective date of January 1, 2022.

Given that the Settled Formula Rate will become effective January 1, 2022, the NETO submitted a supplemental compliance filing on February 12, 2021 to propose tariff changes to the former version of Attachment F to the ISO-NE OATT in order to comply with Order No. 864 for the period January 1, 2020 through December 31, 2021.

On March 1, 2021, ISO-NE, on behalf of the Company, submitted a supplemental compliance filing to supplement the July 30 compliance filing with respect to LNS under Schedule 21-NEP to the ISO-NE OATT. As with the RNS filing, the Company proposed that the compliance revisions to Schedule 21-NEP submitted in the LNS filing be in effect for an interim period from January 1, 2020, through December 31, 2021. For the period commencing January 1, 2022, compliance with Order No. 864 for LNS provided by the Company will be governed by the compliance revisions to the ISO-NE OATT submitted by the Company and the other NETOs in the FERC 206 Proceeding on Rate Transparency. The Company has proposed the same amortization method and periods for protected and unprotected balances as proposed in the initial filing. On December 30, 2021, FERC issued an order on the Order No. 864 compliance filings for LNS service. The order found that NEP's proposed revisions comply with the requirements of Order No. 864, and accepted the proposed revisions subject to a further compliance filing relative to the effective date of the tariff changes. FERC directed the Company to file the revised tariff sheets with a January 27, 2020 effective date.

In compliance with Order 864, the Company has also submitted additional compliance filings to amend various service agreements and contracts to include the Rate Adjustment and Income Tax Allowance mechanisms as well as the new permanent ADIT worksheet. The FERC has not yet acted on any of these compliance filings.

The Company estimates that the net excess ADIT balance associated with the TCJA of $295 million will result in an annual reduction in revenue requirement of $3.4 million.

New England East-West Solution ("NEEWS") Project

In September 2008, the Company, its affiliate NECO, and Northeast Utilities jointly filed an application with the FERC to recover financial incentives for the NEEWS project, pursuant to the FERC's Transmission Pricing Policy Order No. 679. NEEWS consists of a series of inter-related transmission upgrades identified in the New England Regional System Plan and is being undertaken to address a number of reliability problems in Connecticut, Massachusetts, and Rhode Island. Effective November 18, 2008, the FERC granted (1) an incentive ROE of 12.89% (125 basis points above the approved base ROE of 11.64% including the RTO participation adder), (2) 100% construction work in progress in rate base, and (3) recovery of plant abandoned for reasons beyond the companies' control. As discussed in the preceding section, effective October 16, 2014, the FERC issued a series of orders establishing a maximum ROE of 11.74% that effectively caps the NEEWS incentive ROE at that level. The NEEWS upgrades were placed in service in December 2015.

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	**$ 3,287,041**	3,090,272
Assets in construction	**329,488**	242,092
Land and buildings	**155,237**	168,637
Motor vehicles and equipment	**64**	64
Software and other intangibles	**2,545**	2,548
Operating leases	**1,728**	1,662
Total utility plant and nonutility property	**3,776,103**	3,505,275
Accumulated depreciation and amortization	**(715,110)**	(654,400)
Operating lease accumulated depreciation	**(562)**	(396)
Utility plant and nonutility property, net	**$ 3,060,431**	$ 2,850,479

On May 25, 2022, approximately $12 million net book value plant assets were transferred to NECO as part of the asset purchase agreement.

7. EQUITY INVESTMENTS

Yankee Nuclear Power Companies

The Company has non-controlling interests in Yankee Atomic (34.5%), Connecticut Yankee (19.5%), and Maine Yankee (24%) (the "Yankees") which own nuclear generating facilities that are permanently retired and are being decommissioned which own nuclear generating facilities that are permanently retired and are being decommissioned. Spent nuclear fuel remains on each site, awaiting fulfillment by the DOE of its statutory obligation to remove it. In addition, groundwater monitoring is ongoing at each site. Summarized statement of income and balance sheet data for the Yankees are as follows:

	For the Years Ended March 31,		
	2022	2021	2020
	(in thousands of dollars)		
Operating revenue	**$ 474**	$ 337	$ 1,026
Operating expenses	**175**	53	1,117
Other income (deductions), net	**(83)**	(50)	699
Total expenses	**258**	103	418
Net income	**$ 216**	$ 234	$ 608

	March 31,	
	2022	2021
	(in thousands of dollars)	
Assets		
Current assets	**$ 10,258**	$ 9,553
Property, plant and equipment	**874**	874
Non-current assets	**620,083**	619,973
Total assets	**$ 631,215**	$ 630,400
Liabilities and equity		
Current liabilities	**$ 3,407**	$ 7,851
Non-current liabilities	**620,847**	615,802
Equity	**6,961**	6,747
Total liabilities and equity	**$ 631,215**	$ 630,400

8. EMPLOYEE BENEFITS

The Company participates with other NGUSA subsidiaries in a qualified and non-qualified non-contributory defined benefit plan (the "Pension Plans") and PBOP plans (together with the Pension Plan (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 primarily allocated to the Company based on its proportionate share of the projected benefit obligations. The Plan's 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. Pension and PBOP service costs are included within operations and maintenance expense, and non-service costs are included within other income, net in the accompanying statements of operations and comprehensive income. Portions of the net periodic benefit costs disclosed below have been capitalized as a component of property, plant and equipment.

Pension Plans

The 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 zero, $1.2 million and zero, respectively, to the Qualified Pension Plans. The Company expects to contribute $1.7 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 $9.8 million, $9.9 million, and $9.8 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 does not expect to contribute 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 $2.6 million, $3.6 million, and $2.2 million, respectively.

Net Periodic Benefit Costs

The Company's total pension cost for the years ended March 31, 2022, 2021, and 2020 were $1.1 million, $1.2 million, and $0.3 million, respectively.

The Company's total PBOP benefit for the years ended March 31, 2022, 2021, and 2020 were $1.0 million, $1.4 million, and $0.9 million, respectively.

Amounts Recognized in OCI and Regulatory Assets/Liabilities

The following tables summarize other pre-tax changes in actuarial gains/losses and prior service costs recognized primarily in regulatory assets and other comprehensive income as of March 31, 2022, 2021, and 2020:

	Pension Plans		
	Years Ended March 31,		
	2022	2021	2020
		(in thousands of dollars)	
Net actuarial losses (gains)	**$ (13,735)**	$ (12,856)	$ 10,751
Amortization of net actuarial losses	**(3,154)**	(3,184)	(2,658)
Total	**$ (16,889)**	$ (16,040)	$ 8,093
Change in regulatory assets	**$ (16,850)**	$ (15,970)	$ 7,290
Change in AOCI	**(39)**	(70)	803
Total	**$ (16,889)**	$ (16,040)	$ 8,093

	PBOP Plans		
	Years Ended March 31,		
	2022	2021	2020
	(in thousands of dollars)		
Net actuarial losses (gains)	**$ (4,213)**	$ (8,336)	$ 2,620
Amortization of net actuarial losses	**(24)**	(8)	(379)
Amortization of prior service cost, net	**(11)**	(11)	(11)
Total	**$ (4,248)**	$ (8,355)	$ 2,230
Change in regulatory assets	**$ (4,248)**	$ (8,355)	$ 2,230
Total	**$ (4,248)**	$ (8,355)	$ 2,230

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

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

	Pension Plans		
	March 31,		
	2022	2021	2020
	(in thousands of dollars)		
Net actuarial losses	**$ 18,989**	$ 35,878	$ 51,917
Total	**$ 18,989**	$ 35,878	$ 51,917
Included in regulatory assets	**$ 18,294**	$ 35,144	$ 51,114
Included in AOCI	**695**	734	803
Total	**$ 18,989**	$ 35,878	$ 51,917

	PBOP Plans		
	March 31,		
	2022	2021	2020
	(in thousands of dollars)		
Net actuarial losses	**$ 1,569**	$ 5,806	$ 14,150
Prior service cost	**80**	91	102
Total	**$ 1,649**	$ 5,897	$ 14,252
Included in regulatory assets	**$ 1,649**	$ 5,897	$ 14,252
Total	**$ 1,649**	$ 5,897	$ 14,252

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Reconciliation of Funded Status to Amount Recognized

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2022	2021	**2022**	2021
	(in thousands of dollars)			
Project benefit obligation	**$ (142,332)**	$ (164,618)	**$ (28,643)**	$ (34,935)
Allocated fair value of assets	**180,240**	184,118	**43,730**	46,602
Funded status	**$ 37,908**	$ 19,500	**$ 15,087**	$ 11,667
Non-current assets	**$ 38,623**	$ 24,893	**$ 15,162**	$ 11,729
Current liabilities	**-**	(481)	**(75)**	(62)
Non-current liabilities	**(715)**	(4,912)	**-**	-
Total	**$ 37,908**	$ 19,500	**$ 15,087**	$ 11,667

For the year end March 31, 2022, the net actuarial gain for pension and PBOP was largely driven by the increase in discount rate and change in the mortality assumption resulting from the recent experience study, partially offset by small asset losses due to returns that were less than expected. For the year end March 31, 2021, the net actuarial gains for pension and PBOP was largely the result of asset performance and lower contract pricing negotiated on certain prescription benefit costs within the PBOP Plans, partially offset by losses generated from the discount rate decrease. For the year end March 31, 2020, the net actuarial loss for pension and PBOP was primarily driven by the discount rate decrease and asset performance below expectations. This loss was partially offset by a gain related to a change in the mortality assumption 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 ended March 31,**	**Pension Plans**	**PBOP Plans**
2023	$ 11,419	$ 2,614
2024	11,896	2,563
2025	12,341	2,499
2026	12,793	2,433
2027	13,208	2,332
2028-2032	69,870	10,037
Total	**$ 131,527**	**$ 22,478**

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 (nonunion)	**4.30%**	4.10%	3.50%
Rate of compensation increase (union)	**4.25%**	4.05%	3.50%
Weighted average cash balance interest credit rate	**2.75%**	2.75%	2.75%
Net Periodic Benefit Costs:			
Discount rate	**3.25%**	3.65%	4.10%
Rate of compensation increase (nonunion)	**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 credit 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 both on analysis of historical rates of return and forward looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of the long-term assumptions. A small premium is added for active management of both equity and fixed income securities. The rates of return for each asset class are then weighted in accordance with the actual asset allocation, resulting in a long-term return on asset rate for each plan.

Assumed Health Cost Trend Rate

	March 31,	
	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 trusted non-contributory defined benefit plan covering all eligible represented employees of the Company and eligible non-represented employees of the participating National Grid companies. The PBOP Plans are both a contributory and non-contributory, trusteed, employee life insurance and medical benefit plan sponsored by NGUSA. Life insurance and medical benefits are provided for eligible retirees, dependents, and surviving spouses of the Company.

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 its 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 calendar year-end 2021 reflects the results of such a pension study conducted and implemented in 2021. As a result of that asset liability study, the asset mix for the National Grid Pension Plan and KeySpan Pension Plan were changed to further reduce investment risk given increased funded status of the plans and strong returns over the past 12-18 months. The Union PBOP Plan asset/ liability study was conducted in 2021. As a result of that study the RPC approved changes to the Union PBOP asset allocation effective in fiscal year 2022. The Non-Union PBOP Plan asset liability study is expected to be run within the next 12-18 months.

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

Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across market segments and is mainly invested in investment-grade securities. Where investments are made in non-investment grade assets the higher volatility is carefully judged and balanced against the expected higher returns. While the majority of plan assets are invested in equities and fixed income 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 Plans		**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%
Total	**100%**	100%	**100%**	100%	**100%**	100%

Fair Value Measurements

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

	March 31, 2022			
	Level 1	**Level 2**	**Not categorized**	**Total**
		(in thousands of dollars)		
Pension Assets:				
Investments				
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:				
Investments				
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:				
Investments				
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:				
Investments				
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 includes 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 includes U.S. agency and treasury securities, as well as state and local municipality bonds. The plans hold a small amount of Non-U.S. government debt which is also captured here. U.S. Government money market funds are also included. In addition, interest rate futures and swaps are included in this category as a tool to manage interest rate risk.

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

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

Insurance contracts: Insurance contracts consists of Trust Owned Life Insurance.

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

9. CAPITALIZATION

Long-term Debt

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

(in thousands of dollars) Years Ending March 31,	
2023	$ 106,150
2024	-
2025	-
2026	-
2027	-
Thereafter	800,000
Total	$ 906,150

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

Debt Authorizations

The Company had regulatory approval from the FERC to issue up to $1.5 billion of short-term debt. The authorization was renewed with an effective date of October 15, 2020 and expires on October 14, 2022. The Company had no short-term debt outstanding to third-parties as of March 31, 2022 and 2021.

On May 23, 2017, the Company had received all required approvals from the Massachusetts Department of Public Utilities, New Hampshire Public Utilities Commission and Vermont Public Service Board authorizing the Company to issue up to $800 million of long-term debt in one or more transactions through May 23, 2020. On November 30, 2017, the Company issued $400 million of unsecured senior long-term debt with a maturity date of December 5, 2047. In addition, the Company entered into a bank term loan for $100 million on March 31, 2020 with a maturity date of March 31, 2022. On October 30, 2020, the Company prepaid the $100 million bank term loan.

On August 31, 2020, the Company received additional approvals from the Massachusetts Department of Public Utilities, New Hampshire Public Utilities Commission and Vermont Public Service Board authorizing the Company to issue up to $1.1 billion of long-term debt in one or more transactions through August 31, 2023. On October 6, 2020, the Company issued $400 million of unsecured senior long-term debt with a maturity date of October 6, 2050, resulting in $700 million of remaining authorization.

Pollution Control Revenue Bonds

As of March 31, 2022, the Company had $106.2 million outstanding of Pollution Control Revenue Bonds in tax-exempt commercial paper mode with maturity date in October 2022. The debt is remarketed at periods of 1-270 days, and had variable interest rates ranging from 0.06% to 0.70% and 0.10% to 6.10% for the years ended March 31, 2022 and 2021, respectively.

On November 2, 2020, the Company's pollution control bonds totaling $186 million with the Business Finance Authority of the State of New Hampshire matured and were paid back respectively.

The Company has a Standby Bond Purchase Agreement ("SBPA") of $106.2 million, which was renewed in June 2018 and expires on June 14, 2023. This agreement is available to provide liquidity support for $106.2 million of the Company's Pollution Control Revenue Bonds. The Company has classified this debt as long-term due to its intent and ability to refinance the debt on a long-term basis if it is not able to remarket it. As of March 31, 2022 and 2021, there were no bond purchases made by the banks participating in this agreement.

Dividend Restrictions

Pursuant to provisions in connection with prior mergers, payment of dividends on common stock are not permitted if, after giving effect to such payment of dividends, common equity becomes less than 30% of total capitalization. At March 31, 2022 and 2021, common equity was 70.55% and 68.2% of total capitalization respectively. Under these provisions, none of the Company's retained earnings at March 31, 2022 and 2021 were restricted as to common dividends.

For the fiscal years ended 2022 and 2021, the Company paid dividends on common stock of $158 million and $237.4 million, respectively, to NGUSA to realign its capital structure.

Cumulative Preferred Stock

The Company has 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)				
$100 par value -					
6.00% Series	**11,117**	11,117	**$ 1,112**	$ 1,112	Non-callable

The Company did not redeem any preferred stock as of March 31, 2022 and 2021. The annual dividend requirement for cumulative preferred stock was $0.07 million as of March 31, 2022 and 2021.

Capital Contributions and Distributions

The Company received capital contributions of $125 million and $430 million in March and October of 2020, respectively. In December 2021 and November 2020, the Company made a capital distribution of $31.8 million and $92.6 million to NGUSA, respectively.

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2022	**2021**	**2020**
	(in thousands of dollars)		
Current tax expense:			
Federal	**$ 17,924**	$ 27,166	$ 20,567
State	**2,168**	5,799	6,189
Total current tax expense	**20,092**	32,965	26,756
Deferred tax expense:			
Federal	**6,086**	14,483	17,021
State	**10,808**	7,487	6,894
Total deferred tax expense	**16,894**	21,970	23,915
Amortized investment tax credits [1]	**(228)**	(240)	(246)
Total deferred tax expense	**16,666**	21,730	23,669
Total income tax expense	**$ 36,758**	$ 54,695	$ 50,425

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

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2022, 2021 and 2020 are 18.9%, 27.6%%, and 26.8% respectively. The following table presents a reconciliation of income tax expense (benefit) at the federal statutory tax rate of 21% to the actual tax expense:

	Years Ended March 31,		
	2022	**2021**	**2020**
	(in thousands of dollars)		
Computed tax	**$ 40,799**	$ 41,646	$ 39,520
Change in computed taxes resulting from:			
State income tax, net of federal benefit	**10,251**	10,496	10,336
Amortization of regulatory tax liability-net	**(13,196)**	2,809	665
Investment tax credits	**(228)**	(240)	(246)
Other	**(868)**	(16)	150
Total changes	**(4,041)**	13,049	10,905
Total income tax expense	**$ 36,758**	$ 54,695	$ 50,425

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	**$ 77,583**	$ 86,962
Net operating losses	**13,889**	14,693
Other items - net	**4,847**	2,107
Total deferred tax assets	**96,319**	103,762
Deferred tax liabilities:		
Property related differences	**490,397**	463,607
Regulatory assets	**8,965**	12,759
Other items	**14,161**	9,422
Total deferred tax liabilities	**513,523**	485,788
Net deferred income tax liabilities	**417,204**	382,026
Deferred investment tax credits	**1,409**	1,637
Deferred income tax liabilities, net	**$ 418,613**	$ 383,663

Net Operating Losses

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

	Gross Carryforward Amount	**Expiration Period**
	(in thousands of dollars)	
Federal	**$ 66,440**	**2033-2036**

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

Tax Years Subject to Examination

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

In May 2022, the Company reached an audit settlement agreement with the IRS for the years ended March 31, 2018 and March 31, 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 and related penalties, if applicable, in other income, net, in the accompanying statement of income. As of March 31, 2022 and 2021, the Company has accrued for interest related to unrecognized tax benefits of $0.2 million and zero, respectively. During the years ended March 31, 2022, 2021 and 2020, the Company recorded interest expense of $0.2 million, interest benefit of $0.1 million and interest expense of $1.2 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.

11. COMMITMENTS AND CONTINGENCIES

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.

In a lawsuit dated July 2, 2021, the Town of Littleton, MA, Water Department has alleged that, inter alia, fire-fighting fluid used in the 1990s to put out or control a fire at Sandy Pond substation and Sandy Pond HVDC Converter Terminal owned and operated by New England Hydro-Transmission Electric Company, Inc. and the Company, caused nearby town drinking water wells to become contaminated with PFAS substances. The lawsuit is still in its early stages and it is not possible to reasonably estimate what financial liability, if any, either of these National Grid companies may have in this matter, beyond certain legal expenses that will likely be incurred in defending the National Grid companies involved. In that regard, the Company accrued $0.1 million to cover outside legal costs that can be reasonably estimated at this time, divided equally between the Company and New England Hydro-Transmission Electric Company, Inc.

FERC ROE Complaints

Four separate complaints have been filed at the FERC by combinations of New England state attorneys general, state regulatory commissions, consumer advocates, consumer groups, municipal parties and other parties (collectively the "Complainants"). In each of the first three complaints, filed on October 1, 2011, December 27, 2012, and July 31, 2014, respectively, the Complainants challenged the NETO base ROE of 11.14% that had been utilized since 2005 and sought an order to reduce it prospectively from the date of the final FERC order and for the separate 15-month complaint periods. In the fourth complaint, filed April 29, 2016, the Complainants challenged the NETOs' base ROE of 10.57% and the maximum ROE for transmission incentive ("incentive cap") of 11.74%, asserting that these ROEs were unjust and unreasonable. The Company recorded a liability of $34 million and $32.6 million included in other current liabilities on the accompanying balance sheets as of March 31, 2022 and 2021, respectively, for the potential refund as a result of reduction of the base ROE.

With the exception of the FERC order issued on October 16, 2018 (refer to “Transmission Return on Equity” section in Note 5, “Rate Matters”), where 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 has not issued a final order on the Company’s ROE complaints nor the applicability of the FERC orders on the MISO ROE complaint proceedings on other transmission owners.

Given the significant uncertainty relating to the October 2018 FERC order and the subsequent orders issued on the MISO ROE complaint proceedings, the Company has concluded that there is no reasonable basis for a change to the reserve or recognized ROEs for any of the complaint periods at this time. Further, the Company believes that the current reserve is the best estimate of the potential loss.

FERC 206 Proceeding on Rate Transparency

On December 28, 2015, FERC initiated a proceeding under Section 206 of the Federal Power Act. It found that ISO-New England Transmission, Markets, and Services Tariff is unjust, unreasonable and unduly discriminatory or preferential. FERC found that ISO-New England’s tariff lacks adequate transparency and challenge procedures regarding the formula rates for ISO-NE Participating Transmission Owners (ISO-NE PTOs). In addition, the Commission found that the ISO-NE PTOs’ current Regional Network Service and Local Network Service formula rates appear to be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful. FERC explained that the formula rates appear to lack sufficient detail to determine how certain costs are derived and recovered in the formula rates. Accordingly, FERC established hearing and settlement judge procedures. Several parties are active in the proceeding, including FERC employees, various interested consumer parties, the New England States Committee on Electricity (NESCOE), and several municipal light departments. In August 2018, the parties to the proceeding agreed to the terms of a settlement and subsequently filed the proposed settlement with the settlement judge in the proceeding. It was opposed by certain municipal parties, making it a contested settlement. On May 22, 2019, FERC rejected the Formula Rate 206 settlement in its entirety and remanded the matter to the Chief Administrative Law Judge for hearing procedures. The parties continued settlement negotiations and were granted multiple suspensions of the procedural schedule to attempt to finalize settlement. The Chief ALJ held hearing procedures in abeyance while settlement discussions were underway.

On June 15, 2020, the parties filed a revised settlement agreement with FERC that is supported and signed by all parties, including all 6 New England states and the parties who opposed the 2018 settlement. The revised settlement reflects a number of transparency-related changes as well as affirmations regarding rate treatment on specific items as requested by FERC trial staff and represented municipal PTF owners. The Settling Parties requested that FERC accept the settlement by November 1, 2020 with an effective date of January 1, 2021, but the Commission did not act to do so. However, on December 28, 2020, FERC approved the settlement without modification. The settlement formula rates went into effect on January 1, 2022. Interim formula rate protocols went into effect on June 15, 2021 and terminate on June 14, 2023 at which point permanent protocols will go into effect. As part of the settlement approved by the Commission, the parties agreed to a moratorium which applies to Section 205 or Section 206 filings seeking to change Attachment F of the ISO-NE OATT, its appendices or the formula rate Protocols developed as part of the settlement, subject to certain exceptions, until December 31, 2024.

Decommissioning Nuclear Units

The Company is a minority equity owner of, and former purchaser of electricity from, the Yankees. The Yankees have been permanently shut down and physically decommissioned. Spent nuclear fuel remains on each site awaiting fulfillment by the DOE of its statutory and contractual obligation to remove it. Future estimated billings are as follows:

(in thousands of dollars)	The Company's Investment as of March 31, 2022			Future Estimated Billings to the Company
Unit	%	Amount	Date Retired	Amount
Yankee Atomic	34.5	$ 571	Feb 1992	$ -
Connecticut Yankee	19.5	466	Dec 1996	-
Maine Yankee	24.0	699	Aug 1997	3,804

The Yankees are periodically required to file rate cases for FERC review, which present the Yankees' estimated future decommissioning costs. The Yankees collect the approved costs from their purchasers, including the Company. Future estimated billings from the Yankees are based on cost estimates. These estimates include the projections of groundwater monitoring, security, liability and property insurance, and other costs. They also include costs for interim spent fuel storage facilities which the Yankees have constructed while they await removal of the fuel by the DOE as required by the Nuclear Waste Policy Act of 1982 and contracts between the DOE and each of the Yankees. The Company has recorded a current liability of $0.1 million as of both March 31, 2022 and 2021, which represents the current portion of accrued Yankee nuclear plant costs. As of March 31, 2022 and 2021, the Company has recorded a deferred liability of $3.7 million and $2.8 million, respectively. The sum of the current and deferred liabilities is offset by a regulatory asset of $3.8 million and $2.9 million as of March 31, 2022 and 2021, respectively, reflecting the estimated future decommissioning billings from the Yankees.

In 2013, the FERC accepted settlements establishing rate mechanisms by which each of the Yankees maintains funding for operations and decommissioning, and credits to its purchasers, including the Company, any net proceeds in excess of funding costs received as part of the DOE litigation proceedings discussed below.

The Yankees have brought several litigations against the DOE for the failure to remove their respective nuclear fuel stores as required by the Nuclear Waste Policy Act and contracts. This includes spent fuel storage costs incurred for the periods through 2002 (the "Phase I Litigation"), through 2008 (the "Phase II Litigation"), through 2013 (the "Phase III Litigation") and through 2016 (the "Phase IV Litigation"). For the respective periods, the Yankees were awarded approximately $160.0 million, $235.4 million, $76.8 million, and $104.0 million from the U.S. Court of Claims. The Company received $25.6 million, $57.8 million, $4.5 million, and $7.0 million, respectively. The Company refunds its share to its customers through the CTC's.

On March 25, 2021, the Yankees filed Phase V litigation against the DOE seeking damages aggregating more than $100 million for the period 2017-2021. The judge in the Phase V proceeding issued an order setting July 25, 2023 as the tentative trial date. On June 8, 2022, the damages claim was amended to include the period 2021.

Despite insufficient funding and actions of the DOE to block its construction, the U.S. Court of Appeals for the DC Circuit directed the Nuclear Regulatory Commission ("NRC") to resume the Yucca Mountain licensing process. On November 18, 2013, the NRC ordered its staff to resume work on its Yucca Mountain safety report, but scarce funding has precluded progress in the licensing process. The president has stated that nuclear waste will not be stored at Yucca Mountain under his administration. On January 26, 2012, a Blue Ribbon Commission ("BRC"), which was charged with advising the DOE regarding alternatives to disposal at Yucca Mountain, issued a final report recommending that priority be given to removal of spent fuel from shutdown reactor sites. The Secretary of Energy has begun a process to identifying a federal consent-based interim storage site. Private entities have initiated proposals, and submitted license applications to the NRC, to site consolidated interim storage facilities in Texas and New Mexico. On September 13, 2021, the NRC approved issuance of the license for the proposed Texas facility. Other necessary approvals have not been obtained. The Governors of Texas and New Mexico oppose the Texas proposal and have asked a U. S. Court of Appeals to vacate the NRC license. A Texas statute prohibits storage of nuclear waste except at existing sites. The Governor of New Mexico opposes the New Mexico proposal and has sued the NRC and United States to prevent the storage of high level nuclear waste at both sites. Numerous other governmental officials and citizens in each state are opposed to the proposals. It is impossible to predict when the DOE will fulfill its obligation to take possession of the Yankees' spent fuel. The Independent Spent Fuel Storage Installation (ISFSI) operation, maintenance and decommissioning costs that are actually incurred by the Yankees may substantially exceed the estimated amounts.

12. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates		**Accounts Payable to Affiliates**	
	March 31,		**March 31,**	
	2022	2021	**2022**	2021
	(in thousands of dollars)			
NGUSA	**$ -**	$ -	**$ -**	$ 354
NGUSA Service Company	**2,936**	2,161	**14,500**	13,257
Massachusetts Electric Company	**76,563**	81,972	**5,776**	4,461
The Narragansett Electric Company	**25,892**	27,764	**28,522**	13,803
Other	**745**	402	**526**	105
TOTAL	**$ 106,136**	$ 112,299	**$ 49,324**	$ 31,980

The Company is a participating transmission owner in ISO New England, which is a third party responsible for administering and collecting RNS transmission revenue from local distribution utilities, generators and municipalities, which include affiliate companies MECO and NECO. For purposes of these financial statements, the outstanding balances associated to those revenue activities are reflected in accounts receivable from affiliates as of March 31, 2022. The Company recognized $62.7 million and $68.2 million of affiliate RNS receivables on the accompanying balance sheets as of March 31, 2022 and 2021, respectively.

Advance from Affiliate

In December 2008, the Company entered into an agreement with NGUSA whereby the Company can borrow up to $400 million from time to time for working capital needs. The advance is non-interest bearing. At March 31, 2022 and 2021, the Company had no outstanding advances from NGUSA.

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 $52.9 million $243.9 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.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at cost without a markup. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, and total transmission and distribution expenditures. Lastly, all other costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment, and operations and maintenance expense.

Charges from the service companies of NGUSA to the Company are mostly related to traditional administrative support functions. For the years ended March 31, 2022, 2021, and 2020, costs allocated to the Company using the second and third tiers noted above were $ 132.6 million $134.6 million, and $120.6 million respectively.