Boston Gas Company
d/b/a National Grid

Financial Statements

For the years ended March 31, 2023, 2022 and 2021

BOSTON GAS COMPANY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Boston Gas Company

Opinion

We have audited the financial statements of Boston Gas Company (the "Company"), which comprise the balance sheets as of March 31, 2023 and 2022, and the related statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended March 31, 2023, 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, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2023 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

June 29, 2023

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

	Years Ended March 31,		
	2023	2022	2021
Operating revenues	**$ 2,183,684**	$ 1,845,479	$ 1,544,108
Operating expenses:			
Purchased gas	**874,865**	682,551	497,750
Operations and maintenance	**672,061**	584,513	512,940
Depreciation and amortization	**229,353**	217,946	209,926
Impairment loss	**-**	77,082	-
Amortization of acquisition premium	**8,200**	8,200	8,200
Other taxes	**105,068**	98,796	90,071
Total operating expenses	**1,889,547**	1,669,088	1,318,887
Operating income	**294,137**	176,391	225,221
Other income and (deductions):			
Interest on long-term debt	**(86,069)**	(71,738)	(72,294)
Other interest, including affiliate interest, net	**13,665**	16,058	19,612
Other income (deductions), net	**19,483**	(1,635)	(5,043)
Total other deductions, net	**(52,921)**	(57,315)	(57,725)
Income before income taxes	**241,216**	119,076	167,496
Income tax expense	**57,191**	25,972	39,694
Net income	**$ 184,025**	$ 93,104	$ 127,802

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

BOSTON GAS COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2023	2022	2021
Operating activities:			
Net loss	**$ 184,025**	$ 93,104	$ 127,802
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	**229,353**	217,946	209,926
Impairment loss	**-**	77,082	-
Accrued interest on tax reserves	**898**	(143)	(13,850)
Amortization of acquisition premium	**8,200**	8,200	8,200
Deferred income tax expense	**144,519**	52,428	104,766
Bad debt expense	**40,073**	26,923	28,170
Allowance for equity funds used during construction	**(12,106)**	(6,406)	(6,450)
Pension and postretirement expenses (benefits)	**3,280**	4,538	(7,580)
Other non-cash items	**1,104**	975	1,004
Pension and postretirement benefits contributions	**(15,265)**	(7,138)	(8,344)
Environmental remediation payments	**(1,328)**	(922)	(1,304)
Changes in operating assets and liabilities:			
Accounts receivable and other receivables, net, and unbilled revenues	**(29,122)**	(129,015)	(85,971)
Accounts receivable from/payable to affiliates, net	**(18,207)**	31,715	39,810
Inventory	**(55,472)**	(10,528)	13,093
Regulatory assets and liabilities - current, net	**(83,200)**	(13,197)	(62,231)
Regulatory assets and liabilities – non-current, net	**(11,112)**	4,933	(1,018)
Derivative instruments	**98,568**	(58,827)	(10,113)
Prepaid and accrued taxes, net	**(97,705)**	5,462	8,433
Accounts payable and other liabilities	**53,193**	30,255	(25,524)
Other, net	**1,841**	204	(9)
Net cash provided by operating activities	**441,537**	327,589	318,810
Investing activities:			
Capital expenditures	**(811,124)**	(677,122)	(600,699)
Cost of removal	**(30,428)**	(19,892)	(43,141)
Intercompany money pool	**140,992**	86,312	253,189
Net cash used in investing activities	**(700,560)**	(610,702)	(390,651)
Financing activities:			
Common stock dividends to Parent	**-**	-	(43,000)
Payments on long-term debt	**(35,000)**	(40,000)	(5,000)
Issuance from long-term debt	**200,000**	400,000	-
Payment of debt issuance costs	**(449)**	(1,825)	-
Intercompany money pool	**-**	(318,386)	120,438
Equity infusion from Parent	**90,000**	250,000	-
Net cash provided by financing activities	**254,551**	289,789	72,438
Net (decrease) increase in cash and cash equivalents	**(4,472)**	6,676	597
Cash and cash equivalents, beginning of year	**14,759**	8,083	7,486
Cash and cash equivalents, end of year	**$ 10,287**	$ 14,759	$ 8,083
Supplemental disclosures:			
Interest paid:	**$ (85,163)**	$ (70,963)	$ (71,199)
Income taxes refunded	**30,960**	40,428	48,678
Significant non-cash items:			
Capital-related accruals included in accounts payable	**13,960**	38,647	26,971
Parent tax income allocation	**-**	-	(122)

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

BOSTON GAS COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2023	March 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 10,287**	$ 14,759
Accounts receivable	**445,513**	467,698
Allowance for doubtful accounts	**(99,238)**	(98,121)
Accounts receivable from affiliates	**16,351**	19,140
Intercompany moneypool asset	**32,128**	173,120
Unbilled revenues	**114,428**	98,225
Inventory	**127,522**	72,050
Regulatory assets	**219,365**	180,630
Derivative instruments	**1,078**	52,574
Accrued tax benefit	**119,311**	26,477
Other	**811**	1,191
Total current assets	**987,556**	1,007,743
Property, plant and equipment, net	**6,759,517**	6,089,186
Non-current assets:		
Regulatory assets	**263,058**	258,332
Goodwill	**450,395**	450,395
Postretirement benefits asset	**100,989**	123,095
Other	**771**	2,192
Total non-current assets	**815,213**	834,014
Total assets	**$ 8,562,286**	$ 7,930,943

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

BOSTON GAS COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2023	March 31, 2022
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	$ 110,871	$ 123,016
Accounts payable to affiliates	108,843	129,839
Current portion of long-term debt	16,000	35,000
Interest accrued	14,353	14,633
Regulatory liabilities	50,688	98,964
Derivative instruments	41,640	1,197
Payroll and benefits accruals	23,578	22,282
Other	43,861	39,942
Total current liabilities	409,834	464,873
Non-current liabilities:		
Regulatory liabilities	1,353,568	1,329,581
Asset retirement obligations	23,845	21,768
Deferred income tax liabilities, net	827,100	665,226
Postretirement benefits	69,766	76,615
Environmental remediation costs	54,610	49,636
Operating lease liabilities	64,739	63,892
Other	99,039	58,752
Total non-current liabilities	2,492,667	2,265,470
Commitments and contingencies (Note 13)		
Capitalization:		
Shareholders' equity	3,313,074	3,038,545
Long-term debt	2,346,711	2,162,055
Total capitalization	5,659,785	5,200,600
Total liabilities and capitalization	$ 8,562,286	$ 7,930,943

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

BOSTON GAS COMPANY
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

	Common Stock	Additional Paid-in Capital	Pension and Other Postretirement Benefits	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2020	**$ 51,418**	**$ 2,074,028**	**$ -**	**$ -**	**$ 486,381**	**$ 2,611,827**
Net income	-	-	-	-	127,802	127,802
Benefit of parent tax allocation	-	(122)	-	-	-	(122)
Common stock dividends to Parent	-	-	-	-	(43,000)	(43,000)
Balance as of March 31, 2021	**$ 51,418**	**$ 2,073,906**	**$ -**	**$ -**	**$ 571,183**	**$ 2,696,507**
Net income	-	-	-	-	93,104	93,104
Other comprehensive income:						
Change in pension and other postretirement obligations, net of $401 tax benefit	-	-	(1,066)	(1,066)	-	(1,066)
Total comprehensive income						92,038
Equity infusion from Parent	-	250,000				250,000
Balance as of March 31, 2022	**$ 51,418**	**$ 2,323,906**	**$ (1,066)**	**$ (1,066)**	**$ 664,287**	**$ 3,038,545**
Net income	-	-	-	-	184,025	184,025
Other comprehensive income:						
Change in pension and other postretirement obligations, net of $189 tax expense	-	-	504	504	-	504
Total comprehensive income						184,529
Equity infusion from Parent	-	90,000	-	-	-	90,000
Balance as of March 31, 2023	**$ 51,418**	**$ 2,413,906**	**$ (562)**	**$ (562)**	**$ 848,312**	**$ 3,313.074**

The Company had 514,184 shares of common stock authorized, issued, and outstanding, with a par value of $100 per share, as of March 31, 2023 and 2022.

BOSTON GAS COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Boston Gas Company d/b/a National Grid ("the Company") is a gas distribution company engaged in the transportation and sale of natural gas to approximately 953,000 residential, commercial, and industrial customers in the City of Boston, Essex County, and other communities in eastern and central Massachusetts.

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.

On May 31, 2019, the Company and Colonial Gas Company ("Colonial Gas"), an affiliated gas distribution company, filed a joint petition with the Massachusetts Department of Public Utilities ("DPU") for authorization for legal consolidation. The companies requested that the DPU confirm that the Company, as the surviving corporation of the consolidation, will continue to have all the franchise rights and obligations that were previously held by the Company and Colonial Gas. On December 16, 2019, the legal consolidation of the Company and Colonial Gas was approved by the DPU in Docket D.P.U. 19-69, which became effective March 15, 2020, with the Company as the sole surviving entity. On September 30, 2021, the new rate case was approved by the DPU in Docket D.P.U. 20-120, with instructions to consolidate all regulatory mechanisms except GSEP and service quality penalties, which became effective October 1, 2021. Effective October 1, 2021, the Company and Colonial Gas are considered as one entity for regulatory mechanism purposes.

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 June 29, 2023, the date of issuance of these financial statements, and concluded that there were no other events or transactions that require adjustment to, or disclosure in, the financial statements for the year ended March 31, 2023, with the exception of items otherwise disclosed in these financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Regulatory Accounting

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

In accordance with ASC 980, amounts capitalized for an allowance on shareholders' investment for ratemaking purposes have been derecognized for financial reporting. The equity return was capitalized and derecognized on the capital tracker and local distribution adjustment clause (LDAC) which is calculated using a weighted average cost of capital rate containing an element of an equity return. The amount derecognized on the capital tracker was $13.9 million and $9.4 million and LDAC was $21.1 million and $18.0 million as of March 31, 2023 and 2022, respectively.

Revenue Recognition

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

Other Taxes

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

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

Income Taxes

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

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

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

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors, including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience, and management's assessment of collectability from individual customers, as appropriate. The collectability of receivables is continuously assessed, and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated, and the balances are deemed to be uncollectible. The Company recorded bad debt expense of $40.1 million, $26.9 million, and $28.2 million for the years ended March 31, 2023, 2022, and 2021, respectively, within operations and maintenance expenses in the accompanying statements of income.

Inventory

Inventory is comprised of materials and supplies, as well as gas in storage. Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized as used. There were no significant writeoffs of obsolete inventory for the years ended March 31, 2023, 2022, or 2021.

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

The Company had materials and supplies of $19.1 million and $19.3 million and gas in storage of $108.5 million and $52.8 million as of March 31, 2023 and 2022, respectively.

Derivative Instruments

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

The Company's accounting policy is to not offset fair value amounts recognized for derivative instruments and related cash collateral receivable or payable with the same counterparty under a master netting agreement, but rather to record and present the fair value of the derivative instruments on a gross basis, with related cash collateral recorded within restricted cash and special deposits on the balance sheet. There was $0.9 million of cash collateral posted as of March 31, 2023 and zero collateral as of March 31, 2022.

Fair Value Measurements

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

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

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

Property, Plant, and Equipment

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

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the DPU. The average composite rates for the years ended March 31, 2023, 2022, and 2021 are as follows:

	2023	2022	2021
Composite rates	**3.0%**	3.3%	3.6%

Depreciation expense includes a component for the estimated cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant, and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company recognized a regulatory liability for the amount that was in excess of costs incurred of $1,017.5 million and $957.8 million as of March 31, 2023 and 2022, respectively.

Allowance for Funds Used During Construction

The Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant, and equipment. The equity component of AFUDC is reported in the accompanying statements of income as noncash income in other income (deductions), net. The debt component of AFUDC is reported as a non-cash offset to other interest, including affiliate interest, net. After construction is completed, the Company is permitted to recover these costs through their inclusion in rates. The Company recorded AFUDC related to equity of $12.1 million, $6.4 million, and $6.5 million, and AFUDC related to debt of $6.1 million, $2.4 million, and $2.6 million, for the years ended March 31, 2023, 2022, and 2021, respectively. The average AFUDC rates for the years ended March 31, 2023, 2022, and 2021 were 6.2%, 5.5%, and 6.7%, respectively.

Impairment of Long-Lived Assets

The Company tests the impairment of long-lived assets when events or changes in circumstances indicate that the carrying amount of the asset (or asset group) may not be recoverable. If identified, the recoverability of an asset is determined by comparing its carrying value to the estimated undiscounted cash flows that the asset is expected to generate. If the comparison indicates that the carrying value is not recoverable, an impairment loss is recognized for the excess of the carrying value over the estimated fair value. For the year ended March 31, 2023, there were no impairment losses recognized for the long lived assets. For the year ended March 31, 2022, there were impairment losses recognized for long lived assets due to the mid-cape impairment (See Note 5,"Rate Matters" for additional details). For the year ended March 31, 2021, there were no impairment losses recognized for the long lived assets.

Goodwill

The Company tests goodwill for impairment annually, 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 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.

Prior to the latest annual goodwill impairment test, the Company utilized an annual impairment test date of January 1. For the year ended March 31, 2023, the Company changed the date of the annual impairment test from January 1 to October 1. Management has determined that the use of October 1 as its annual goodwill impairment test date is preferable as it aligns better with the long-range planning and forecasting process, and it also facilitates a timelier evaluation in advance of the Company's reporting period. The movement of the date has not resulted in any change in the timing of recording any potential impairment, nor does it represent a material change to a method of applying accounting principle, and thus, prospective treatment is appropriate.

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, 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, 2023, the Company applied a 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 performed its latest annual goodwill impairment test as of October 1, 2022, at which time the Company's estimated fair value exceeded the carrying value. The Company did not recognize any goodwill impairment during the years ended March 31, 2023, 2022 and 2021.

Employee Benefits

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

Leases

The Company has various operating leases, primarily related to buildings and land. Right-of-use ("ROU") assets consist of the lease liability together with any payments made to the lessor prior to commencement of the lease (less any lease incentives) and any initial direct costs. ROU assets are amortized over the lease term. Lease liabilities are recognized based on the present value of the lease payments over the lease term at the commencement date. For any leases that do not provide an implicit rate, the Company uses an estimate of its collateralized incremental borrowing rate based on the information available at the commencement date to determine the present value of future payments. In measuring lease liabilities, the Company excludes variable lease payments, other than those that depend on an index or a rate, or are in substance fixed payments, and includes lease payments made at or before the commencement date. Variable lease payments were not material for the years ended March 31, 2023, 2022 and 2021. The Company does not reflect short-term leases and low value leases on the balance sheet. Expenses related to short-term leases and low value leases were not material for the years ended March 31, 2023, 2022 and 2021.

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

New and Recent Accounting Guidance

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, "F*inancial 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 this new guidance on April 1, 2023. The adoption of this new guidance will not have a material impact on the Company's financial position, results of operations, or cash flows as of April 1, 2023.

Reclassifications

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

3. REVENUE

The following table presents, for the years ended March 31, 2023, 2022, and 2021 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		
	2023	2022	2021
		(in thousands of dollars)	
Revenue from contracts with customers:			
Gas distribution	**$ 1,996,743**	$ 1,706,464	$ 1,470,736
Off-system sales	**187,977**	155,774	67,720
Total revenue from contracts with customers	**2,184,720**	1,862,238	1,538,456
Revenue from regulatory mechanisms	**(1,036)**	(16,759)	5,652
Total operating revenues	**$ 2,183,684**	$ 1,845,479	$ 1,544,108

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

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

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

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

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

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

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, 2023	March 31, 2022
	(in thousands of dollars)	
Regulatory assets		
Current:		
Derivative instruments	**$ 46,225**	$ -
Gas costs adjustment	**92,255**	141,919
Revenue decoupling mechanism	**79,923**	32,294
Other	**962**	6,417
Total	**219,365**	180,630
Non-current:		
Asset retirement obligation	**16,253**	16,222
Capital tracker	**15,804**	7,990
Environmental response costs	**65,944**	52,114
Postretirement benefits	**-**	624
Rate adjustment mechanisms	**21,660**	22,101
Recovery of acquisition premium	**134,617**	142,817
Other	**8,780**	16,464
Total	**263,058**	258,332
Regulatory liabilities		
Current:		
Derivative instruments	**-**	52,344
Profit sharing	**50,532**	44,896
Other	**156**	1,724
Total	**50,688**	98,964
Non-current:		
Cost of removal	**1,017,538**	957,790
Postretirement benefits	**29,128**	47,724
Regulatory tax liability, net	**306,902**	324,067
Total	**$ 1,353,568**	$ 1,329,581

As of March 31, 2023 and 2022, other than $68.0 million ($65.9 million of Environmental response costs and $2.1 million of Other costs) and $55.0 million ($52.1 million of Environmental response costs, $0.2 million of Postretirement benefits and $2.7 million of Other costs), respectively, of the regulatory assets summarized above, all regulatory assets earn a rate of return.

As of March 31, 2023, and 2022, $35.0 million and $27.4 million, respectively, of allowances for earnings on shareholders' investment were capitalized for rate-making purposes but not for U.S. GAAP.

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

Capital tracker: The Company has in place a Gas System Enhancement Plan ("GSEP"), which was approved by the DPU on April 30, 2015 and is designed to provide concurrent recovery of the revenue requirement associated with the Company's capital costs for the replacement of eligible leak-prone pipe and ancillary equipment pursuant to the 2014 Gas Leaks Act passed in Massachusetts.

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

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

Environmental response costs: The regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at former manufactured gas plant ("MGP") sites and related facilities. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates. The regulatory liability represents the excess of amounts received in rates over the Company's actual site investigation and remediation ("SIR") costs.

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

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

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

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

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

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

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

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

5. RATE MATTERS

General Rate Case

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

On September 30, 2021, the DPU issued an Order in the Company's rate case. The Order allowed an increase in base revenues of $144.9 million. On October 20, 2021, the Attorney General filed a motion for recalculation. On October 22, 2021, the Company filed a motion for recalculation and reconsideration. On November 17, 2021, the DPU issued its Order on those motions which reduced annual base distribution revenues to $142.0 million effective December 1, 2021. DPU authorized an ROE of 9.70%, raised from the previous ROE of 9.50%. The Order also authorized a capital structure of 53.44% equity and 46.56% debt. The DPU approved a five-year PBR Plan for the Company which is applicable to both core capital expenditures and operational expenditures, and which allows the Company to adjust revenues each year for inflation, adjusted by a productivity factor and consumer dividend. As part of the PBR Plan, the DPU approved cost recovery for certain exogenous events where an individual event's cost change is over $2.0 million annually, and also approved an Earnings Sharing Mechanism, pursuant to which the Company will share 75% of excess earnings with customers set to begin at 200 basis points over the allowed ROE of 9.70%. The DPU allowed for recovery of the costs of 133 new employees hired after the end of the test year in the case and approves an adjustment to base distribution rates to reflect the recovery of capital additions after the test year through December 31, 2020. The Order also permits the Company to make a request for a one-time adjustment to its allowance in rates for the recovery of LNG investments, at a point in the 5-year PBR term chosen by the Company. The Company did not elect to use its one-time adjustment of LNG investments this year.

As per this rate order, the Company is not allowed to earn a return on investment on the Mid-Cape Main Replacement Project. This event qualifies as an indirect disallowance under ASC 980-360, the impairment loss in the amount of $77.0 million resulting from this indirect disallowance that has been recorded in the statement of income for the year ended March 31, 2022 and balance sheet as of March 31, 2022. On June 17, 2022, the Company filed a late Motion for Clarification regarding the Mid-Cape disallowance: (1) whether the Department's decision in D.P.U. 20-120 applies to Project costs that were not presented for recovery in the case, but that relate to the Project; and (2) whether the disallowed return on Project costs that were reviewed by the Department carries beyond the term of the PBR Plan and would preclude the presentation of new evidence in the Company's next base distribution rate proceeding following the conclusion of the PBR Plan. On August 17, 2022, the DPU denied the Company's Motion for Clarification. The Department held that the denial of a return applies to all costs of the Mid-Cape Main Replacement Project, including post-test year costs, and that the Company can make arguments in its next rate case regarding costs beyond the term of the PBR Plan, but there is no guarantee that the DPU will consider those arguments.

On July 16, 2021, in response to allegations that five former New York-based National Grid employees accepted bribes and kickbacks from contractors, the Massachusetts Department of Public Utilities indicated that it would open an investigation into this matter, after the conclusion of the NY PSC's investigation (see Note 13," Commitments and Contingencies," for further detail).

PBR Plan Filing

On June 17, 2022, Boston Gas Company filed the first annual PBR Plan filing for rates effective October 1, 2022. The Company requested approval of a base distribution rate adjustment effective October 1, 2022 of approximately $64.0 million based on a PBR Percentage of 4.80 percent and a one-time adjustment for certain investment during the period April 2020 through December 2020. The PBR Percentage is the result of implementing the Company's proposed one-time Customer Impact Mitigation Plan, which the Company proposed due to the extreme economic circumstances currently impacting customers at this time. In the absence of the Customer Impact Mitigation Plan, the Company would be proposing a base distribution rate adjustment of $76.7 million based on a PBR Percentage of 6.35 percent and the capital investment adjustment noted above, in accordance with the PBR Tariff. On September 26, 2022, the DPU approved the Company's proposed base distribution rate adjustment and Customer Impact Mitigation Plan.

The Company made its annual PBR filing on June 15, 2023. The filing requests a PBR Adjustment for effect October 1, 2023 of approximately $57.4 million. It includes a voluntary Customer Impact Mitigation Plan by the Company in light of continuing high inflation; the mitigation plan reduces what the Company would have otherwise requested under its PBR formula by $14.0 million, from $71.4 million to $57.4 million. The filing also includes a request to approve the recovery method for increased local property taxes due to a change in the assessment methodology, which the DPU previously determined was an "exogenous event" under the PBR tariff, and to recover the ongoing yearly impacts of this change ($4.2 million for the year ended March 31, 2021; $4.2 million for the year ended March 31, 2022; and $0.2 million for the year ended March 31, 2023).

COVID-19 Moratorium on Utility Shut Offs

Between March 24, 2020 and February 26, 2021, the Chairman of the DPU declared a moratorium prohibiting all residential utility collection activities due to the COVID-19 pandemic until July 1, 2021. Effective July 1, 2021, the Company recommenced normal collections activities, which includes issuing notices of amounts in arrears and alerting customers that their service is subject to disconnection for non-payment. Transitional extended deferred payment arrangements were, however, in place through May 2022 and more flexible terms for the arrearage management program are still in effect (e.g., increase in arrearage forgiven from $4,000 to $12,000). The commercial and industrial ("C&I") moratorium was lifted effective September 1, 2020.

On December 31, 2020, the DPU approved the following implementation items related to the ratemaking treatment of the COVID-19 customer assistance programs on which the companies and the Massachusetts Attorney General's office ("AGO") had reached consensus: (1) the distribution companies should be allowed to record, defer, and track their bad debt and other COVID-related expenses; (2) cost recovery should be limited to the incremental costs incurred; and (3) certain costs must be extraordinary to qualify for recovery.

The DPU decided that the contested issues, including the extent to which the distribution companies will be allowed to recover their COVID-19 costs, should be fully adjudicated in a new docket, D.P.U. 20-91. The AGO opposes recovery by companies with PBR plans (including National Grid) of incremental COVID related O&M expenses. The AGO also opposes using the pre-tax overall weighted cost of capital for calculation of carrying charges on carrying higher accounts receivables, arguing that the short-term debt rate or, in the alternative, an interest rate contemporaneous to two-year US Treasury notes, is the correct rate. The AGO also takes the position that the Department should consider the significance of the companies' net incremental O&M costs due to COVID-19 to determine whether they result in substantial harm to the companies' financial position. Briefing has concluded and the Department's Order is pending.

Gas System Enhancement Plan (GSEP)

On April 30, 2022, the DPU approved recovery of approximately $82.0 million in revenue requirements, related to approximately $403.0 million of anticipated investments in 2022 under an accelerated pipe replacement program, through GSEP. The rates are effective from May 2022 to April 2023. The DPU approved the Company's plan for replacing of leak-prone infrastructure in 2022, finding that the Company's GSEP accomplishes the continued accelerated replacement of leak-prone infrastructure consistent with the requirements of state law.

On October 31, 2022, the Company filed with the DPU its proposed GSEP plan for calendar year 2023. The plan proposes to invest approximately $427.0 million in the replacement of leak-prone pipe in that timeframe. On April 28, 2023, the DPU issued an order approving in part the proposed CY2023 GSEP. The DPU approved the Company's proposal to replace or abandon 116 miles of leak-prone pipe (LPP) in the legacy Boston Gas service territory, and 14 miles of LPP in the former Colonial Gas service territory; and to line 4 miles of cast iron pipe and repair 870 cast iron joints with joint-sealing technology, as well as to spend $2.0 million to repair Grade 3 Significant Environmental Impact leaks. This allows the Company to recover $126.7 million in revenue requirements for its CY2023 GSEP, starting May 1, 2023. The DPU denied the Company's proposal to combine the GSEP plans for legacy Boston Gas and former Colonial Gas, and to combine their revenue requirements and cost recovery factors. The DPU also denied the Company's request to extend the end of the replacement schedules for legacy Boston Gas from 2039 to 2044, and for former Colonial Gas from 2034 to 2044.

MA Petition for Waiver of Jurisdiction regarding the RI Sale

On May 3, 2021, PPL Energy Holdings, LLC assigned its right to acquire The Narragansett Electric Company ("NECO") to its wholly owned subsidiary, PPL Rhode Island Holdings, LLC ("PPL Rhode Island"), such that, upon closing, PPL Rhode Island owned 100 percent of the outstanding shares of common stock in NECO. The Department approved NGUSA's request for a waiver of G.L. c. 164, § 96(c), regarding the sale of NECO in July 2021. Following that approval there was an appeal process which concluded in May 2022 with a settlement agreement with the Attorney General and on May 25, 2022, NECO was sold to PPL Rhode Island.

On June 24, 2022, the Company submitted its compliance filing per directives in the Department's July 16, 2021, order as well as commitments in the AGO Settlement to issue a one-time bill credit to customers. On July 26, 2022, the Department approved the Company's bill credit proposal and compliance filing.

As a result of NGUSA's settlement with the AGO and the sale of NECO to PPL Rhode Island, the Company incurred the following costs:

- The Company forgave $1.0 million in arrearages for low-income gas distribution customers with arrears above $500 and over 90 days.

- $0.4 million contribution from the Company to the AGO's residential energy assistance grant program.

- One-time credit of $3.7 million to gas distribution customers through the RDM for the period November 2022 to April 2023.

- Costs related to the AGO hiring a CPA to verify the IASC costs for 2021 submitted to their office on July 15, 2022.

Geothermal District Energy Demonstration Program

On December 15, 2021, the DPU approved the Company's petition for a five-year, $15.6 million geothermal district energy demonstration program. The costs for the demonstration program are recovered through a factor in the Local Distribution Adjustment Factor (LDAF). The program allows the Company to install, own, and operate up to four geothermal shared-loops sites that evaluate one or more of the following: (1) assessing the thermal performance and economics of shared loops serving a larger number of customers with more diverse load profiles than the project completed by the Company's affiliate KeySpan Gas East Corporation on Long Island, New York; (2) switching gas customers to geothermal energy as an alternative to leak-prone pipe replacements; (3) installing shared loops to manage local gas system constraints and peaks; and (4) installing shared loops to lower operating costs and greenhouse gas emissions for low-income customers and environmental justice communities. On May 16, 2022, the Company filed its geothermal energy demonstration program implementation plan for DPU review and approval. On September 13, 2022, the DPU approved the Company's implementation plan. The Company selected the first site project in Lowell, Massachusetts and has been conducting outreach to enroll gas customers in the program.

Investigation into the Future of Natural Gas

On October 29, 2020, the DPU opened an investigation into the role of local gas distribution companies ("LDCs") in achieving the Commonwealth's 2050 climate goals. The investigation will explore strategies to meet the Commonwealth's greenhouse gas emissions reductions targets while ensuring safe, reliable, and cost-effective natural gas service, and potentially recasting the role of gas companies in the Commonwealth. On or before March 18, 2022, each company was required to submit a proposal to the MADPU that includes its recommendations and plans for helping Massachusetts achieve its 2050 climate goals, supported by an independent consultants' report, that incorporates feedback and advice obtained through a stakeholder process. Supported by the consultants' analysis, the Company's proposal envisions meeting the state's 2050 climate goals by utilizing a decarbonized and integrated gas and electric system that: (1) increases investment and adoption of energy efficiency measures, including the prioritization of building envelope; (2) eliminates fossil fuels from our gas supply by pursuing delivery of fossil-free gas such as renewable natural gas and renewable hydrogen through our network to all our customers; (3) enables customer use of hybrid heating by supporting customer adoption of heating technologies best suited to their needs; and (4) utilizes targeted electrification, including new solutions such as networked geothermal where safe and cost-effective. Initial comments on the consultants' report, LDC plans, and any alternative proposals may be submitted to the DPU until May 6, 2022, and the discovery period ended June 7, 2022. At the direction of the DPU, the LDCs submitted joint comments responding to stakeholder comments on the consultants' report and LDC proposals on July 29, 2022. Several stakeholders submitted additional comments by the October 14, 2022 deadline. The Company is now awaiting the DPU's Order in the proceeding and cannot predict the outcome of this proceeding.

Municipal Fiscal Year 2022 Property Tax Exogenous Event Request

The Massachusetts Department of Revenue (DOR) has required municipalities to change the way they calculate property taxes, resulting in property tax increases to the Company. On October 18, 2022, the Company filed to be able to recover the costs of this change as an "exogenous event" under its PBR plan, along with Massachusetts Electric Company and Nantucket Electric Company. On May 17, 2023, the DPU approved the Company's request to recover incremental fiscal year 2022 property tax expenses due to certain municipalities changing their assessment methodology after DOR changed its certification standards. The approval is $4.2 million for the Company. The Company was directed to propose a recovery method for the approved amounts in the next PBR filing due on June 15, 2023. After a favorable ruling in a separate case allowing Eversource to recover these type of incremental property taxes, the Company added a request to recover fiscal year 2021 incremental property taxes in the proceeding, but the DPU did not allow this request because it was not part of the initial filing and notice in the proceeding. The Company requested recovery of these fiscal year 2021 amounts and fiscal year 2023 incremental costs in its PBR filing made June 15, 2023.

6. PROPERTY, PLANT, AND EQUIPMENT

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

	March 31,	
	2023	2022
	(in thousands of dollars)	
Plant and machinery	**$ 7,553,979**	$ 6,901,662
Land and buildings	**277,440**	234,303
Assets in construction	**427,648**	356,155
Software and other intangibles	**85,977**	85,977
Operating leases ROU assets	**74,413**	71,156
Total property, plant, and equipment	**8,419,457**	7,649,253
Accumulated depreciation and amortization	**(1,652,484)**	(1,554,888)
Accumulated amortization - Operating lease ROU assets	**(7,456)**	(5,179)
Property, plant, and equipment, net	**$ 6,759,517**	$ 6,089,186

7. DERIVATIVE INSTRUMENTS

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

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

The volume of outstanding gas derivative instruments at March 31, 2023 and March 31, 2022 was 37.4 million dekatherms and 40.9 million dekatherms, respectively.

The following tables reflect the gross and net amounts of the Company's derivative assets and liabilities at March 31, 2023 and March 31, 2022:

March 31, 2023
(in thousands of dollars)

	Gross amounts of recognized assets (liabilities)	Gross amounts offset in the Balance Sheets	Net amounts of assets (liabilities) presented in the Balance Sheets	Gross amounts not offset in the Balance Sheets	Net amount
ASSETS:	*A*	*B*	*C=A+B*	*D*	*E=C-D*
Other current assets					
Gas contracts	$ 1,078	$ -	$ 1,078	$ 83	$ 995
Other non-current assets					
Gas contracts	-	-	-	-	-
Total	$ 1,078	$ -	$ 1,078	$ 83	$ 995
LIABILITIES:					
Current liabilities					
Gas contracts	$ 41,640	$ -	$ 41,640	$ 83	$ 41,557
Other non-current liabilities					
Gas contracts	5,663	-	5,663	-	5,663
Total	$ 47,303	$ -	$ 47,303	$ 83	$ 47,220
Net liabilities	$ 46,225	$ -	$ 46,225	$ -	$ 46,225

March 31, 2022
(in thousands of dollars)

	Gross amounts of recognized assets (liabilities)	Gross amounts offset in the Balance Sheets	Net amounts of assets (liabilities) presented in the Balance Sheets	Gross amounts not offset in the Balance Sheets	Net amount
ASSETS:	*A*	*B*	*C=A+B*	*D*	*E=C-D*
Other current assets					
Gas contracts	$ 52,574	$ -	$ 52,574	$ -	$ 52,574
Other non-current assets					
Gas contracts	1,434	-	1,434	120	1,314
Total	$ 54,008	$ -	$ 54,008	$ 120	$ 53,888
LIABILITIES:					
Current liabilities					
Gas contracts	$ 1,197	$ -	$ 1,197	$ -	$ 1,197
Other non-current liabilities					
Gas contracts	468	-	468	120	348
Total	$ 1,665	$ -	$ 1,665	$ 120	$ 1,545
Net assets	$ 52,343	$ -	$ 52,343	$ -	$ 52,343

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

The changes in fair value of the Company's rate-recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying statements of income. All of the Company's derivative instruments are subject to rate recovery as of March 31, 2023 and March 31, 2022.

Credit and Collateral

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

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

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

The Company's credit exposure for all commodity derivative instruments and applicable payables and receivables, net of collateral, and instruments that are subject to master netting agreements, was a net liability of $46.2 million and a net asset of $52.3 million as of March 31, 2023 and March 31, 2022, respectively.

The aggregate fair value of the Company's commodity derivative instruments with credit-risk-related contingent features that were in a liability position at March 31, 2023 and March 31, 2022 was $31.2 million and $0.3 million, respectively. The Company had collateral posted for these instruments as of March 31, 2023 for $0.9 million and zero collateral posted as of March 31, 2022.

If the Company's credit rating were to be downgraded by three levels, it would be required to post $30.4 million and $0.4 million additional collateral to its counterparties at March 31, 2023 and March 31, 2022, respectively. If the Company credit rating were to be downgraded two levels, it would be required to post $14.7 million and $0.3 million additional collateral and if the Company's credit rating were to be downgraded by one level it would be required to post zero collateral at March 31, 2023 and March 31, 2022, respectively.

8. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value on the balance sheet on a recurring basis and their level within the fair value hierarchy as of March 31, 2023 and March 31, 2022:

	March 31, 2023			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative instruments				
Gas contracts	$ -	$ 1,078	$ -	$ 1,078
Total	-	1,078	-	1,078
Liabilities:				
Derivative instruments				
Gas contracts	-	45,358	1,945	47,303
Total	-	45,358	1,945	47,303
Net liabilities	$ -	$ 44,280	$ 1,945	$ 46,225

	March 31, 2022			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative instruments				
Gas contracts	$ -	$ 54,008	$ -	$ 54,008
Total	-	54,008	-	54,008
Liabilities:				
Derivative instruments				
Gas contracts	-	1,658	7	1,665
Total	-	1,658	7	1,665
Net assets (liabilities)	$ -	$ 52,350	$ (7)	$ 52,343

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

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

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

9. EMPLOYEE BENEFITS

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

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

Pension Plans

The Qualified Pension Plans are defined benefit plans which provides union employees, as well as non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. During the years ended March 31, 2023, 2022, and 2021, the Company made contributions of $11.4 million, $7.0 million, and $4.6 million, respectively, to the Qualified Pension Plans. The Company expects to contribute approximately $6.6 million to the Qualified Pension Plans during the year ending March 31, 2024.

Benefit payments to pension plan participants for the years ended March 31, 2023, 2022, and 2021 were approximately $36.8 million, $21.5 million, and $22.7 million, respectively. Benefit payments for the year ended March 31, 2023 included payments for an annuity contract purchase.

PBOP Plans

The Company's PBOP Plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements, and, in most cases, retirees must contribute to the cost of their health coverage. During the years ended March 31, 2023, 2022, and 2021, the Company made contributions of $4.1 million, $0.5 million, and $1.3 million, respectively, to the PBOP Plans. The Company expects to contribute $2.9 million to the PBOP Plans during the year ending March 31, 2024.

Benefit payments to PBOP plan participants for the years ended March 31, 2023, 2022, and 2021 were approximately $8.2 million, $10.0 million, and $8.6 million, respectively.

Net Periodic Benefit Costs

The Company's total pension costs for the years ended March 31, 2023, 2022, and 2021 were $6.3 million, $8.0 million, and $16.8 million, respectively.

The Company's total PBOP costs for the years ended March 31, 2023, 2022, and 2021 were $3.3 million, $3.1 million, and $4.7 million, respectively.

Amounts Recognized in Accumulated Other Comprehensive Income and Regulatory Assets/Liabilities

The following tables summarize the Company's pre-tax changes in actuarial gains/losses and prior service costs recognized in accumulated other comprehensive income ("AOCI") and regulatory assets/liabilities for the years ended March 31, 2023, 2022, and 2021:

	Pension Plans		
	Years Ended March 31,		
	2023	2022	2021
		(in thousands of dollars)	
Net actuarial loss (gain)	**$ 32,037**	$ (36,425)	$ (51,284)
Amortization of net actuarial loss	**(1,091)**	(5,640)	(11,528)
Amortization of prior service cost, net	**(2,647)**	(2,526)	(2,963)
Total	**$ 28,299**	$ (44,591)	$ (65,775)
Included in regulatory assets (liabilities)	**$ 28,992**	$ (46,057)	$ (65,775)
Included in AOCI	**(693)**	1,466	-
Total	**$ 28,299**	$ (44,591)	$ (65,775)

	PBOP Plans		
	Years Ended March 31,		
	2023	2022	2021
		(in thousands of dollars)	
Net actuarial gain	**$ (1,700)**	$ (16,215)	$ (26,138)
Amortization of net actuarial gain (loss)	**237**	244	(797)
Amortization of prior service cost, net	**1**	1	1
Total	**$ (1,462)**	$ (15,970)	$ (26,934)
Included in regulatory assets (liabilities)	**$ (1,462)**	$ (15,970)	$ (26,934)
Total	**$ (1,462)**	$ (15,970)	$ (26,934)

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

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

The following tables summarize the Company's amounts recognized in AOCI and regulatory assets/liabilities on the balance sheet that have not yet been recognized as components of net actuarial gain/loss as of March 31, 2023, 2022, and 2021:

	Pension Plans		
	March 31,		
	2023	2022	2021
	(in thousands of dollars)		
Net actuarial loss (gain)	**$ 5,639**	$ (25,307)	$ 16,758
Prior service cost	**(2,111)**	536	3,062
Total	**$ 3,528**	$ (24,771)	$ 19,820
Included in regulatory assets (liabilities)	**$ 2,755**	$ (26,237)	$ 19,820
Included in AOCI	**773**	1,466	-
Total	**$ 3,528**	$ (24,771)	$ 19,820

	PBOP Plans		
	March 31,		
	2023	2022	2021
	(in thousands of dollars)		
Net actuarial (gain) loss	**$ (17,149)**	$ (15,686)	$ 285
Prior service credit	**(5)**	(6)	(7)
Total	**$ (17,154)**	$ (15,692)	$ 279
Included in regulatory assets (liabilities)	**$ (17,154)**	$ (15,692)	$ 279
Total	**$ (17,154)**	$ (15,692)	$ 279

Reconciliation of Funded Status to Amounts Recognized

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2023	2022	**2023**	2022
	(in thousands of dollars)			
Projected benefit obligation	**$ (463,929)**	$ (539,754)	**$ (109,361)**	$ (126,846)
Allocated fair value of assets	**552,168**	644,853	**52,345**	68,227
Funded status	**$ 88,239**	$ 105,099	**$ (57,016)**	$ (58,619)
Non-current assets	**$ 100,989**	$ 123,095	**$ -**	$ -
Non-current liabilities	**(12,750)**	(17,996)	**(57,016)**	(58,619)
Total	**$ 88,239**	$ 105,099	**$ (57,016)**	$ (58,619)

For the year ended March 31, 2023, the net actuarial loss for Pension was largely driven by asset losses due to returns that were less than expected as well as the increase in the cash balance interest crediting rate, partially offset by the increase in discount rate and slight changes to the withdrawal assumption resulting from the recent experience study. The net actuarial gains for the PBOP Plans were driven by the increase in discount rate and savings resulting from a new Medicare Advantage contract for PBOP, offset by asset losses and the slight withdrawal assumption changes. For the year ended 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 ended March 31, 2021, the net actuarial gain or (loss) for pension and PBOP was largely the result of asset performance and lower contract pricing negotiated on certain prescription benefit costs within the PBOP Plans, partially offset by liability losses generated from the discount rate decrease.

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2023:

(in thousands of dollars) **Years Ended March 31,**	**Pension Plans**	**PBOP Plans**
2024	$ 21,926	$ 7,411
2025	21,647	7,618
2026	21,273	7,821
2027	20,757	8,026
2028	20,122	8,167
2029-2033	89,836	42,099
Total	$ 195,561	$ 81,142

Assumptions Used for Employee Benefits Accounting

	Pension Plans		
	Years Ended March 31,		
	2023	2022	2021
Benefit Obligations:			
Discount rate	**4.85%**	3.65%	3.25%
Rate of compensation increase (nonunion)	**4.30%**	4.30%	4.10%
Rate of compensation increase (union)	**5.20%**	5.20%	5.00%
Weighted average cash balance interest crediting rate	**4.40%**	3.75%	3.75%
Net Periodic Benefit Costs:			
Discount rate	**3.65%**	3.25%	3.65%
Rate of compensation increase (nonunion)	**4.30%**	4.10%	3.50%
Rate of compensation increase (union)	**5.20%**	5.00%	3.50%
Expected return on plan assets	**5.00%**	5.50%	6.00%
Weighted average cash balance interest crediting rate	**3.75%**	3.75%	3.75%

	PBOP Plans		
	Years Ended March 31,		
	2023	2022	2021
Benefit obligations:			
Discount rate	**4.85%**	3.65%	3.25%
Net periodic benefit costs:			
Discount rate	**3.65%**	3.25%	3.65%
Expected return on plan assets	**5.00%-5.50%**	5.00%-5.50%	6.50%-7.00%

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

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

Assumed Health Cost Trend Rate

	Years Ended March 31,	
	2023	2022
Health care cost trend rate assumed for next year		
Pre-65	**6.40%**	6.60%
Post-65	**5.20%**	5.00%
Prescription	**7.10%**	7.40%
Rate to which the cost trend is assumed to decline (ultimate)	**4.50%**	4.50%
Year that rate reaches ultimate trend		
Pre-65	**2031+**	2031+
Post-65	**2031+**	2031+
Prescription	**2031+**	2031+

Plan Assets

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

The Company manages the benefit plan investments for the exclusive purpose of providing retirement benefits to participants and beneficiaries and paying plan expenses. The benefit plans' named fiduciary is The Retirement Plans Committee ("RPC"). The RPC seeks to minimize the long-term cost of operating the Plans, with a reasonable level of risk. The investment objectives of the plans are to maintain a level and form of assets adequate to meet benefit obligations to participants, to achieve the expected long-term total return on the plans' assets within a prudent level of risk and maintain a level of volatility that is not expected to have a material impact on the Company's expected 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 plan by diversifying its funds across asset classes, investment styles and fund managers. An asset/liability analysis typically is conducted periodically to determine whether the current strategic asset allocation continues to represent the appropriate balance of expected risk and reward for the plan to meet expected liabilities. Each study considers the investment risk of the asset allocation and determines the optimal mix of assets for the plan. The target asset allocation for fiscal year-ended 2023 reflects the results of such a pension asset/liability analysis conducted and implemented fiscal year 2023. As a result of that asset liability analysis, the asset mix for the National Grid Pension Plan and Niagara Mohawk Pension Plan were changed to further reduce investment risk given increased funded status of the plans and to better hedge the respective plan liabilities. The Union PBOP Plan asset liability study was conducted in 2023. As a result of that study, the RPC approved changes to the Union PBOP asset allocation effective in fiscal year 2023. The Non-Union PBOP Plan asset/liability study is expected to be run within the next 6-12 months.

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

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

The target asset allocations for the benefit plans as of March 31, 2023 and 2022 are as follows:

	Pension Plans		**Union PBOP Plans**		**Non-Union PBOP Plans**	
	March 31,		**March 31,**		**March 31,**	
	2023	2022	**2023**	2022	**2023**	2022
Equity	24%	24%	15%	39%	70%	70%
Diversified alternatives	7%	7%	5%	11%	0%	0%
Fixed income securities	60%	60%	80%	50%	30%	30%
Private equity	4%	4%	0%	0%	0%	0%
Real estate	3%	3%	0%	0%	0%	0%
Infrastructure	2%	2%	0%	0%	0%	0%
	100%	100%	**100%**	100%	**100%**	100%

Fair Value Measurements

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

	March 31, 2023			
	Level 1	Level 2	Not categorized	Total
	(in thousands of dollars)			
Pension assets:				
Equity	$ 131,388	$ -	$ 594,806	$ 726,194
Diversified alternatives	71,059	-	206,311	277,370
Corporate bonds	-	1,598,998	368,071	1,967,069
Government securities	5,098	390,055	439,850	835,003
Infrastructure	-	-	187,713	187,713
Private equity	-	-	420,274	420,274
Real estate	-	-	213,449	213,449
Total assets	**$ 207,545**	**$ 1,989,053**	**$ 2,430,474**	**$ 4,627,072**
Pending transactions				(82,364)
Total net assets				**$ 4,544,708**
PBOP assets:				
Equity	$ 5,905	$ -	$ 185,250	$ 191,155
Diversified alternatives	49,138	-	4,711	53,849
Corporate bonds	-	690,632	-	690,632
Government securities	33,578	127,733	-	161,311
Private equity	-	-	279	279
Insurance contracts	-	-	142,459	142,459
Total assets	**$ 88,621**	**$ 818,365**	**$ 332,699**	**$ 1,239,685**
Pending transactions				11,112
Total net assets				**$ 1,250,797**

	March 31, 2022			
	Level 1	Level 2	Not categorized	Total
	(in thousands of dollars)			
Pension assets:				
Equity	$ 207,651	$ -	$ 986,093	$ 1,193,744
Diversified alternatives	106,374	-	266,382	372,756
Corporate bonds	-	1,804,318	436,274	2,240,592
Government securities	(1,838)	398,478	578,664	975,304
Infrastructure	-	-	131,525	131,525
Private equity	-	-	476,733	476,733
Real estate	-	-	223,612	223,612
Total assets	$ 312,187	$ 2,202,796	$ 3,099,283	$ 5,614,266
Pending transactions				(112,585)
Total net assets				$ 5,501,681
PBOP assets:				
Equity	$ 53,707	$ -	$ 457,718	$ 511,425
Diversified alternatives	79,482	-	64,902	144,384
Corporate bonds	-	398,688	-	398,688
Government securities	145,558	72,281	-	217,839
Private equity	-	-	331	331
Insurance contracts	-	-	202,025	202,025
Total assets	$ 278,747	$ 470,969	$ 724,976	$ 1,474,692
Pending transactions				346
Total net assets				$ 1,475,038

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

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

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

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

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

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

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

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

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

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

Defined Contribution Plans

NGUSA has defined contribution retirement plans that cover substantially all employees. For the years ended March 31, 2023, 2022, and 2021, the Company recognized an expense in the accompanying statements of income of $3.4 million, $3.1 million, and $2.7 million, respectively, for matching contributions.

10. CAPITALIZATION

Total capitalization for the Company at March 31, 2023 and 2022 is as follows:

	Interest Rate	Maturity Date	March 31, 2023	March 31, 2022
			(in thousands of dollars)	
Total shareholder's equity			**$ 3,313,074**	$ 3,038,545
Long-term debt:	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Note	3.15%	August 1, 2027	**500,000**	500,000
Senior Note	3.13%	October 5, 2027	**150,000**	150,000
Senior Note	3.00%	August 1, 2029	**500,000**	500,000
Senior Note	3.76%	March 16, 2032	**400,000**	400,000
Senior Note	4.49%	February 15, 2042	**500,000**	500,000
Senior Note	4.63%	March 15, 2042	**25,000**	25,000
			2,075,000	2,075,000
Term Loans:				
Bank Term Loan	Variable	December 31, 2024	**200,000**	-
Medium-Term Notes ("MTNs"):				
MTN Series 1992 A	8.33%	July 5, 2022	**-**	10,000
MTN Series 1995 C	6.95%	December 1, 2023	**10,000**	10,000
MTN Series 1994 B	6.98%	January 15, 2024	**6,000**	6,000
MTN Series 1995 C	6.95%	December 1, 2024	**5,000**	5,000
MTN Series 1995 C	7.25%	October 1, 2025	**20,000**	20,000
MTN Series 1995 C	7.25%	October 1, 2025	**5,000**	5,000
			46,000	56,000
First Mortgage Bonds ("FMBs"):				
FMB Series CH	8.80%	July 1, 2022	**-**	25,000
FMB Series A-1	7.38%	October 14, 2025	**10,000**	10,000
FMB Series A-2	6.90%	December 15, 2025	**10,000**	10,000
FMB Series A-3	6.94%	February 5, 2026	**10,000**	10,000
FMB Series B-1	7.12%	April 7, 2028	**20,000**	20,000
			50,000	75,000
Total debt			**2,371,000**	2,206,000
Unamortized debt discount			**(204)**	(251)
Unamortized debt issuance costs			**(8,085)**	(8,694)
Total debt less unamortized costs			**2,362,711**	2,197,055
Current portion of long-term debt			**16,000**	35,000
Total long-term debt			**2,346,711**	2,162,055
Total capitalization			**$ 5,659,785**	$ 5,200,600

The aggregate maturities of long-term debt for the years subsequent to March 31, 2023 are as follows:

(in thousands of dollars) **March 31,**	**Maturities of Long-Term Debt**
2024	$ 16,000
2025	205,000
2026	55,000
2027	-
2028	650,000
Thereafter	1,445,000
Total	$ 2,371,000

The Company's debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity, and financial covenants such as restrictions on the level of indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the Company's debt and may restrict the Company's ability to draw upon its facilities or access the capital markets. As of March 31, 2023, 2022, and 2021, the Company was in compliance with all such covenants.

At the time of the merger of the Company and Colonial Gas, an affiliated gas distribution company, Colonial Gas had issued and outstanding first mortgage bonds ("the FMBs") under a mortgage indenture dated June 15, 1992, as amended (the "Indenture"). As such, Colonial Gas's assets were pledged as collateral under the terms of the Indenture to secure the repayment of the FMBs. The pledged assets remain subject to a blanket lien created under the Indenture. After the merger the Colonial Gas assets that were transferred and vested in Boston by operation of law remain subject to the blanket lien of the indenture until such time as all the FMBs are fully repaid. Prior to the merger, Colonial Gas successfully completed a consent solicitation with its FMBs holders that amended its Indenture to limit the assets covered by the blanket lien of the Indenture to the legacy assets of Colonial Gas only and any repairs renewals or replacements to such assets.

Debt Authorizations

In October 2022, the Company received an equity infusion of $90.0 million from NGUSA.

In December 2022, the Company entered into a $200.0 million term loan at a variable interest rate with a maturity date of December 1, 2023 with an extension option of up to additional 13 months.

11. INCOME TAXES

Components of Income Tax Expense (Benefit)

	Years Ended March 31,		
	2023	2022	2021
		(in thousands of dollars)	
Current tax benefit:			
Federal	**$ (70,921)**	$ (9,130)	$ (41,165)
State	**(16,407)**	(17,326)	(23,907)
Total current tax benefit	**(87,328)**	(26,456)	(65,072)
Deferred tax expense:			
Federal	**107,693**	24,149	66,061
State	**36,826**	28,279	38,705
Total deferred tax expense	**144,519**	52,428	104,766
Total income tax expense	**$ 57,191**	$ 25,972	$ 39,694

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2023, 2022, and 2021 are 23.7%, 21.8%, and 23.7%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 21.0% to the actual tax expense:

	Years Ended March 31,		
	2023	2022	2021
	(in thousands of dollars)		
Computed tax	**$ 50,656**	$ 25,006	$ 35,174
Change in computed taxes resulting from:			
State income tax, net of federal benefit	**16,131**	8,654	11,690
Amortization of regulatory tax liability, net	**(12,518)**	(9,751)	(8,179)
Penalties and fines	**2,790**	3,249	1,052
Other items, net	**132**	(1,186)	(43)
Total changes	**6,535**	966	4,520
Total income tax expense	**$ 57,191**	$ 25,972	$ 39,694

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.

Inflation Reduction Act

On August 16, 2022, President Biden signed into law the Inflation Reduction Act ("IRA"), which may impact how the U.S. taxes certain large corporations. The IRA imposes a 15.0% corporate alternative minimum tax ("CAMT") on the "adjusted financial statement income" of certain large corporations for tax years beginning after December 31, 2022. The Company expects to be subject to the new CAMT on its federal income tax return for the tax year ending March 31, 2024. While under Accounting Standard Codification ("ASC") 740, "Income Taxes", changes in income tax rates and law are accounted for in the period of enactment, the accounting implications of the CAMT provision in the IRA are only expected to impact its financial statements prospectively.

Since the enactment of the IRA, the U.S. Treasury issued various Notices that provide interim guidance on several provisions of the IRA, including the CAMT. The Notices state that the U.S. Treasury anticipates issuing additional guidance including proposed and final regulations. Many aspects of the IRA remain unclear and in need of further guidance; therefore, the impact the IRA will have on the Company's financial statements is subject to continued evaluation.

Deferred Tax Components

	March 31,	
	2023	2022
	(in thousands of dollars)	
Deferred tax assets:		
Allowance for doubtful accounts	**$ 27,112**	$ 26,807
Environmental remediation costs	**16,631**	14,231
Net operating losses	**-**	58,338
Postretirement benefits	**19,107**	21,003
Regulatory liabilities	**106,206**	128,612
Reserves not currently deducted	**24,233**	20,024
Other items - net	**25,391**	13,598
Total deferred tax assets	**218,680**	282,613
Deferred tax liabilities:		
Property-related differences	**885,486**	779,578
Regulatory assets	**131,798**	119,924
Other items	**28,496**	48,337
Total deferred tax liabilities	**1,045,780**	947,839
Deferred income tax liabilities, net	**$ 827,100**	$ 665,226

Net Operating Losses

The amounts and expiration dates of the Company's net operating losses carryforward as of March 31, 2023 are as follows:

Jurisdiction	Carryforward Amount	Expiration Period
	(in thousands of dollars)	
Federal	$ 3,765	2038
Federal – No Expiration	34,148	Indefinite

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 net operating losses carryforward reflected on the income tax returns.

Status of Income Tax Examinations

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

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

In May 2022, the Company reached an audit settlement agreement with the 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, 2023 and 2022, the Company has accrued for interest related to unrecognized tax benefits of $2.8 million and $2.0 million, respectively. During the years ended March 31, 2023, 2022 and 2021, the Company recorded interest expense of $0.9 million, interest income of $0.1 million and $13.8 million, respectively. No tax penalties were recognized during the years ended March 31, 2023, 2022 and 2021.

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 other additional increases or decreases would be material to its results of operations, financial position, or cash flows.

12. ENVIRONMENTAL MATTERS

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

Within the Commonwealth of Massachusetts, the Company is aware of numerous former MGP sites and related facilities within the existing or former service territories of the Company. Investigation and remediation expenditures incurred for the years ended March 31, 2023, 2022, and 2021 were $1.3 million, $0.9 million, and $1.3 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $60.9 million and $52.1 million as of March 31, 2023 and March 31, 2022, respectively. These costs are expected to be incurred over approximately 46 years, and these undiscounted amounts have been recorded as estimated liabilities on the balance sheet. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders, the DPU has provided for the recovery of site investigation and remediation costs. Accordingly, as of March 31, 2023 and March 31, 2022, the Company has recorded environmental regulatory assets of $66.2 million (including $0.3 million related to LDAC) and $52.1 million (including $6.5 million related to LDAC), respectively.

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

13. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has entered into various contracts for gas delivery, storage, and supply services. Certain of these contracts require payment of annual demand charges, which are recoverable from customers. The Company is liable for these payments regardless of the level of service required from third parties. In addition, the Company has various capital commitments related to the construction of property, plant, and equipment.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2023 are summarized in the table below:

(in thousands of dollars) March 31,	Energy Purchases	Capital Expenditures
2024	$ 340,436	$ 12,074
2025	285,955	-
2026	205,190	-
2027	197,175	-
2028	187,316	-
Thereafter	1,062,110	-
Total	$ 2,278,182	$ 12,074

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. NGUSA was deemed a victim of the crimes. 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. However, the Company does not expect this matter will have a material adverse effect on its results of operations, financial position, or cash flows.

Internal and Federal Investigations into Energy Efficiency Programs

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

14. LEASES

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

Operating lease ROU assets are included in property, plant and equipment, net, and operating lease liabilities are included in other current liabilities and other noncurrent liabilities on the balance sheet. As of March 31, 2023, the Company does not have any finance leases.

Expense related to operating leases was $4.3 million, $3.9 million and $3.7 million for the years ended March 31, 2023, 2022 and 2021 respectively.

As of March 31, 2023, the Company does not have material rights or obligations under operating leases that have not yet commenced.

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

	Year ended March 31, 2023	2022	2021
		(in thousands of dollars)	
Cash paid for amounts included in lease liabilities			
Operating cash flows from operating leases	**$ 4,403**	$ 4,275	$ 3,966
ROU assets obtained in exchange for new operating lease liabilities	**3,257**	8,260	5,281
Weighted-average remaining lease term – operating leases	**18 years**	19 years	20 years
Weighted-average discount rate – operating leases	**3.3%**	3.2%	3.4%

The following table contains the Company's maturity analysis of its operating lease liabilities as of March 31, 2023, showing the undiscounted cash flows on an annual basis reconciled to the discounted operating lease liabilities recognized in the comparative balance sheet:

Year Ending March 31,	**Operating Leases** *(in thousands of dollars)*
2024	**$ 4,098**
2025	**4,768**
2026	**4,880**
2027	**5,412**
2028	**5,837**
Thereafter	**65,505**
Total future minimum lease payments	**90,500**
Less: imputed interest	**23,996**
Total	**$ 66,504**
Reported as of March 31, 2023:	
Current lease liability	**$ 1,765**
Non-current lease liability	**64,739**
Total	**$ 66,504**

There are certain leases in which the Company is the lessor. Revenue under such leases was immaterial for the year ended March 31, 2023, 2022 and 2021.

15. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31, 2023	March 31, 2022	**March 31, 2023**	March 31, 2022
	(in thousands of dollars)			
NGUSA	**$ 784**	$ 9,222	**$ 81,900**	$ 104,964
NGUSA Service Company	**8,913**	7,118	**21,367**	23,544
The Brooklyn Union Gas Company	**5,249**	2,406	**4,997**	847
Massachusetts Electric Company	**1,264**	90	**311**	191
Other Affiliates	**141**	304	**268**	293
Total	**$ 16,351**	$ 19,140	**$ 108,843**	$ 129,839

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 $32.1 million and $173.1 million as of March 31, 2023 and 2022, respectively. The average interest rates for the intercompany money pool were 2.9%, 0.4%, and 0.7% for the years ended March 31, 2023, 2022, and 2021, respectively.

Service Company Charges

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

Charges from the service companies of NGUSA to the Company are mostly related to traditional administrative support functions, which for the years ended March 31, 2023, 2022, and 2021 were $325.6 million, $297.6 million, and $288.5 million respectively.