

**Central Maine Power Company
and Subsidiaries
Consolidated Financial Statements
For the Years Ended December 31, 2015 and 2014**

**Central Maine Power Company
and Subsidiaries**

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Report of Independent Auditors

To the Shareholders and Board of Directors
Central Maine Power Company

We have audited the accompanying consolidated financial statements of Central Maine Power Company and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Central Maine Power Company and subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 19, 2016

Central Maine Power Company and Subsidiaries
Consolidated Statements of Income

Year Ended December 31, (Thousands)	2015	2014
Operating Revenues		
Sales and services	\$819,716	\$737,339
Operating Expenses		
Electricity purchased	57,165	61,921
Operations and maintenance	377,423	318,762
Depreciation and amortization	98,654	80,220
Other taxes	47,482	34,967
Total Operating Expenses	580,724	495,870
Operating Income	238,992	241,469
Other (Income)	(7,629)	(3,560)
Other Deductions	391	959
Interest Charges, Net	54,751	52,328
Income Before Income Tax	191,479	191,742
Income Tax Expense	77,038	79,634
Net Income	114,441	112,108
Less: Net Income Attributable to Other Noncontrolling Interest	353	483
Net Income Attributable to CMP	114,088	111,625
Preferred Stock Dividends	34	34
Net Income Available for CMP Common Stock	\$114,054	\$111,591

The accompanying notes are an integral part of our consolidated financial statements.

Central Maine Power Company and Subsidiaries
Consolidated Statements of Comprehensive Income

Year ended December 31, (Thousands)	2015	2014
Net Income	\$ 114,441	\$112,108
Other Comprehensive Income (Loss), Net of Tax		
Amortization of pension cost for nonqualified plans	163	(233)
Unrealized (loss) gain on derivatives qualified as hedges:		
Unrealized (loss) during period on derivatives qualified as hedges	(562)	(682)
Reclassification adjustment for loss included in net income	623	197
Reclassification adjustment for loss on settled cash flow treasury hedges	1,315	1,315
Net unrealized gain on derivatives qualified as hedges	1,376	830
Other Comprehensive Income, Net of Tax	1,539	597
Comprehensive Income	115,980	112,705
Less:		
Comprehensive Income Attributable to Other Noncontrolling Interests	353	483
Comprehensive Income Attributable to CMP	\$115,627	\$112,222

The accompanying notes are an integral part of our consolidated financial statements.

Central Maine Power Company and Subsidiaries
Consolidated Balance Sheets

December 31, (Thousands)	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	\$5,360	\$5,023
Accounts receivable and unbilled revenues, net	149,281	149,967
Accounts receivable from affiliates	1,762	942
Notes receivable from affiliates	23,437	690
Materials and supplies	15,828	27,476
Prepayments and other current assets	121,095	66,277
Regulatory assets	22,032	27,470
Total Current Assets	338,795	277,845
Utility Plant, at Original Cost	3,675,772	3,189,010
Less accumulated depreciation	826,309	738,470
Net Utility Plant in Service	2,849,463	2,450,540
Construction work in progress	152,707	394,546
Total Utility Plant	3,002,170	2,845,086
Other Property and Investments	1,506	8,275
Regulatory and Other Assets		
Regulatory assets	521,482	552,972
Goodwill	324,938	324,938
Other	5,304	14,617
Total Regulatory and Other Assets	851,724	892,527
Total Assets	\$4,194,195	\$4,023,733

The accompanying notes are an integral part of our consolidated financial statements.

Central Maine Power Company and Subsidiaries
Consolidated Balance Sheets

December 31, (Thousands)	2015	2014
Liabilities		
Current Liabilities		
Current portion of long-term debt	\$41,312	\$2,031
Notes payable to affiliates	-	118,192
Accounts payable and accrued liabilities	123,070	114,674
Accounts payable to affiliates	32,893	11,237
Interest accrued	18,671	16,303
Taxes accrued	7,454	1,069
Other current liabilities	59,781	89,874
Regulatory liabilities	44,799	79,054
Total Current Liabilities	327,980	432,434
Regulatory and Other Liabilities		
Regulatory liabilities	100,228	103,182
Deferred income taxes regulatory	165,119	163,857
Other Non-current liabilities		
Deferred income taxes	626,868	565,590
Pension and other postretirement benefits	226,560	244,326
Other	54,678	48,457
Total Regulatory and Other Liabilities	1,173,453	1,125,412
Long-term debt	1,043,512	934,747
Total Liabilities	2,544,945	2,492,593
Commitments and Contingencies		
Preferred Stock		
Preferred stock	571	571
CMP Common Stock Equity		
Common stock (\$5 par value, 80,000 shares authorized and 31,211 shares outstanding at December 31, 2015 and 2014)	156,057	156,057
Capital in excess of par value	713,893	713,893
Retained earnings	777,406	663,352
Accumulated other comprehensive (loss)	(8,514)	(10,053)
Total CMP Common Stock Equity	1,638,842	1,523,249
Other Noncontrolling Interest	9,837	7,320
Total Equity	1,648,679	1,530,569
Total Liabilities and Equity	\$ 4,194,195	\$4,023,733

The accompanying notes are an integral part of our consolidated financial statements.

Central Maine Power Company and Subsidiaries
Consolidated Statements of Cash Flows

Year Ended December 31, (Thousands)	2015	2014
Cash Flow from Operating Activities		
Net income	\$114,441	\$112,108
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	98,654	80,220
Amortization of regulatory and other assets and liabilities	(14,835)	(12,954)
Carrying cost of regulatory assets and liabilities	1,195	7,483
Deferred income taxes and investment tax credits, net	70,198	73,056
Pension expense	26,274	13,145
Changes in current operating assets and liabilities		
Accounts receivable and unbilled revenues, net	(134)	(487)
Materials and supplies	11,648	(10,325)
Accounts payable and accrued liabilities	30,052	20,143
Other current liabilities	(52,276)	(25,335)
Changes in other assets		
Changes in regulatory assets and liabilities	19,775	53,435
Other assets	(50,201)	(19,918)
Net Cash Provided by Operating Activities	254,791	290,571
Cash Flow from Investing Activities		
Utility plant additions,	(280,224)	(415,404)
Contribution in aid of construction	16,565	11,687
Grants received from governmental entities	-	1,660
(Issuance of) proceeds from notes receivable with affiliates	(22,747)	15,060
Changes in other investments	166	(38)
Net Cash (Used in) Investing Activities	(286,240)	(387,035)
Cash Flow from Financing Activities		
Costs associated with borrowings	-	(120)
Repayment of debts and capital leases	(2,152)	(24,018)
Long-term note issuance	150,000	-
(Repayments of) proceeds from notes payable with affiliates	(118,192)	118,192
Dividends paid on preferred stock	(34)	(34)
Capital contribution from noncontrolling interests	2,164	4,291
Net Cash Provided by Financing Activities	31,786	98,311
Net Increase in Cash and Cash Equivalents	337	1,847
Cash and Cash Equivalents, Beginning of Year	5,023	3,176
Cash and Cash Equivalents, End of Year	\$5,360	\$5,023

The accompanying notes are an integral part of our consolidated financial statements.

Central Maine Power Company and Subsidiaries
Consolidated Statements of Changes in Equity

CMP Stockholder

(Thousands, except per share amounts)	Shares	Common Stock Outstanding \$5 Par Value Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total Common Stock Equity	Other Noncon- trolling Interest	Total
Balance, January 1, 2014	31,211	\$156,057	\$713,893	\$551,761	\$(10,650)	\$1,411,061	\$3,028	\$1,414,089
Net income				111,625		111,625	483	112,108
Other comprehensive income, net of tax					597	597		597
Comprehensive income								112,705
Capital contribution from noncontrolling interests							3,809	3,809
Dividends paid, preferred stock				(34)		(34)		(34)
Balance, December 31, 2014	31,211	156,057	713,893	663,352	(10,053)	1,523,249	7,320	1,530,569
Net income				114,088		114,088	353	114,441
Other comprehensive income, net of tax					1,539	1,539		1,539
Comprehensive income								115,980
Capital contribution from noncontrolling interests							2,164	2,164
Dividends paid, preferred stock				(34)		(34)		(34)
Balance, December 31, 2015	31,211	\$156,057	\$713,893	\$777,406	\$(8,514)	\$1,638,842	\$9,837	\$1,648,679

The accompanying notes are an integral part of our consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies

Background: Central Maine Power Company and subsidiaries (CMP, the company, we, our, us) conduct regulated electricity transmission and distribution operations in Maine serving approximately 615,000 customers in a service territory of approximately 11,000 square miles with a population of approximately one million people. The service territory is located in the southern and central areas of Maine and contains most of Maine's industrial and commercial centers, including the city of Portland and the Lewiston-Auburn, Augusta-Waterville, Saco-Biddeford and Bath-Brunswick areas.

CMP is the principal operating utility of CMP Group, Inc. (CMP Group), a wholly-owned subsidiary of Avangrid Networks, Inc. (Networks), which is a wholly-owned subsidiary of AVANGRID, Inc. (AGR), formerly Iberdrola USA, which is a 81.5% owned subsidiary of Iberdrola, S.A. (Iberdrola), a corporation, organized under the law of the Kingdom of Spain.

Networks was formed on November 20, 2013, when AGR was reorganized to become the parent company of Networks. Networks' wholly-owned subsidiaries, and their principal operating companies, include: CMP Group, Inc. - Central Maine Power Company (CMP), and RGS Energy Group, Inc. - New York State Electric & Gas Corporation (NYSEG) and Rochester Gas and Electric Corporation (RGE). We operate under the authority of the Maine Public Utility Commission (MPUC) in Maine and are also subject to regulation by the Federal Energy Regulatory Commission (FERC).

Accounts receivable: Accounts receivable at December 31 include unbilled revenues of \$23 million for 2015 and \$21 million for 2014, and are shown net of an allowance for doubtful accounts at December 31 of \$3 million for 2015 and \$4 million for 2014. Accounts receivable do not bear interest, although late fees may be assessed. Bad debt expense was \$3 million in 2015 and \$4 million in 2014.

Unbilled revenues represent estimates of receivables for energy provided but not yet billed. The estimates are determined based on various assumptions, such as current month energy load requirements, billing rates by customer class and delivery loss factors. Changes in those assumptions could significantly affect the estimated amounts of unbilled revenues.

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable, determined based on experience. Each month we review our allowance for doubtful accounts and past due accounts by age. When we believe that a receivable will not be recovered, we charge off the account balance against the allowance. Changes in assumptions about input factors and customer receivables, which are inherently uncertain and susceptible to change from period to period, could significantly affect the allowance for doubtful accounts estimates.

Our accounts receivable include amounts due under deferred payment arrangements (DPAs). When a residential customer becomes delinquent in making payments, the MPUC requires us to allow the customer to enter into a DPA to settle the account balance. A DPA allows the account balance to be paid in installments over an extended time by negotiating mutually acceptable payment terms. Generally, we must continue to serve a customer who cannot pay an account balance in full if the customer: pays a reasonable portion of the balance; agrees to pay the balance in installments; and agrees to pay future bills within 30 days until the DPA is paid in full or is otherwise considered to be delinquent. We establish provisions for uncollectible accounts by using both historical average loss percentages to project future losses and by establishing specific provisions for known credit issues. Amounts are written off when reasonable collection efforts have been exhausted. The allowance for doubtful accounts for DPAs at December 31 was

Notes to Consolidated Financial Statements

\$2 million for 2015 and 2014. DPA receivable balances at December 31 were \$10 million for 2015 and \$12 million for 2014.

Asset retirement obligations: We record the fair value of the liability for an asset retirement obligation (ARO) and a conditional ARO in the period in which it is incurred and capitalize the cost by increasing the carrying amount of the related long-lived asset. We adjust the liability periodically to reflect revisions to either the timing or the amount of the original estimated undiscounted cash flows, and depreciate the capitalized cost over the useful life of the related asset. Upon settlement we will either settle the obligation at its recorded amount or incur a gain or a loss. We defer any timing differences between rate recovery and depreciation expense and accretion as either a regulatory asset or a regulatory liability.

The term conditional ARO refers to an entity's legal obligation to perform an asset retirement activity in which the timing or method of settlement are conditional on a future event that may or may not be within the control of the entity. If an entity has sufficient information to reasonably estimate the fair value of the liability for a conditional ARO, it must recognize that liability at the time the liability is incurred.

Our ARO at December 31, including our conditional ARO, was less than \$1 million for 2015 and 2014. The ARO is associated with our long-lived assets and primarily consists of obligations related to removal or retirement of asbestos and PCB-contaminated equipment.

We have AROs for which we have not recognized a liability because the fair value cannot be reasonably estimated due to indeterminate settlement dates, including the removal of property upon termination of an easement, right-of-way or franchise.

Accrued removal obligations: We meet the requirements concerning accounting for regulated operations, and recognize a regulatory liability, for the difference between removal costs collected in rates and actual costs incurred. We classify those amounts as accrued removal obligations.

Consolidated statements of cash flows: We consider all highly liquid investments with a maturity date of three months or less when acquired to be cash equivalents and those investments are included in cash and cash equivalents.

Supplemental Disclosure of Cash Flows Information	2015	2014
(Thousands)		
Cash paid during the year ended December 31:		
Interest, net of amounts capitalized	\$48,889	\$46,729
Income taxes paid, net	\$46,696	\$10,341

Interest capitalized was \$2.1 million 2015 and \$0.6 million in 2014.

Depreciation and amortization: We determine depreciation expense using the straight-line method, based on the average service lives of groups of depreciable property, which include estimated cost of removal. Our depreciation accruals were equivalent to 2.5% of average depreciable property for 2015 and 2.7% in 2014. We amortize our capitalized software cost which is included in other plant, using the straight line method, based on useful lives of 5 to 10 years. Capitalized software costs of approximately \$87 million as of December 31, 2015 and \$61 million as of December 31, 2014. Depreciation expense was \$91 million in 2015 and \$76 million in 2014. Amortization of capitalized software was \$8 million in 2015 and \$4 million in 2014.

We charge repairs and minor replacements to operations and maintenance expense, and capitalize renewals and betterments, including certain indirect costs. We charge the original cost of utility plant retired or otherwise disposed of to accumulated depreciation.

Notes to Consolidated Financial Statements

Our balances of major classes of assets and the associated useful lives are shown below.

Plant	Estimated useful life (years)	2015	2014
(thousands)			
Electric			
Transmission	47.2	\$2,136,532	\$1,696,193
Distribution	47.0	1,316,746	1,213,264
Vehicles	7	52,168	48,599
Other	34.8	170,326	230,954
Total Electric Plant		\$3,675,772	\$3,189,010

Electric plant includes capital leases of \$40 million for 2015 and 2014. Accumulated depreciation related to these leases was \$37 million for 2015 and 2014.

Environmental remediation liability: In recording our liabilities for environmental remediation costs the amount of liability for a site is the best estimate, when determinable; otherwise it is based on the minimum liability or the lower end of the range when there is a range of estimated losses. Our environmental liabilities are recorded on an undiscounted basis. Our environmental liability accruals are expected to be paid through the year 2053.

Goodwill: Goodwill represents future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred the fair value of any noncontrolling interest and the acquisition date fair value of any previously held equity interest in the acquiree over the fair value of the net identifiable assets acquired and liabilities assumed.

Goodwill is not amortized, but is subject to an assessment for impairment at least annually or more frequently if events occur or circumstances change that will more likely than not reduce the fair value of the reporting unit to which goodwill is assigned below its carrying amount. A reporting unit is an operating segment or one level below an operating segment and is the level at which goodwill is tested for impairment. In assessing goodwill for impairment we have the option of first performing a qualitative assessment to determine whether a quantitative assessment is necessary (step zero). If it is determined, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not greater than the carrying amount, no further testing is required. If we bypass step zero or perform the qualitative assessment, but determine that it is more likely than not that its fair value is less than its carrying amount, a quantitative two step fair value based test is performed. Step one compares the fair value of the reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, step two is performed. Step two requires an allocation of fair value to the individual assets and liabilities using business combination accounting guidance to determine the implied fair value of goodwill. If the implied fair value of goodwill is less than its carrying amount, an impairment loss is recorded as a reduction to goodwill and a charge to operating expense.

Inventory: Inventory comprises materials and supplies that are used for construction of new facilities and repairs of existing facilities. These inventories are carried and withdrawn at cost and reported on the balance sheet within "Materials and supplies".

Government grants: We account for government grants related to depreciable assets in the same way as we account for contributions in aid of construction (CIAC), that is, the grant amount is credited to the cost of the related property, plant and equipment. In accounting for government grants related to operating and maintenance costs, we recognize amounts receivable as compensation for expenses already incurred in the statements of income in the period in which the expenses are incurred.

Notes to Consolidated Financial Statements

New accounting standards adopted: We have adopted new accounting standards issued by the Financial Accounting Standards Board (FASB) as explained below. Although we are not a public business entity, our parent company became a registrant in December 2015, and in the future we will adopt new accounting standards based on the effective date for public entities.

Discontinued operations and disposals of components of an entity: The FASB issued an amendment in April 2014 that changed the requirements for the reporting of discontinued operations. The new definition of discontinued operations limits reporting to disposals of components that represent strategic shifts that have, or will have, a major effect on an entity's operations and financial results. The amendments are effective for public business entities for annual periods beginning on or after December 15, 2014, and interim periods within those years. The adoption of the amendment did not materially affect our results of operations, financial position or cash flows.

Presentation of an Unrecognized Tax Benefit: In July 2013 the FASB issued guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, is to be presented as a reduction to a deferred tax asset for an NOL carryforward, a similar tax loss, or a tax credit carryforward, with certain exceptions. The unrecognized tax benefit is to be presented as a liability and should not be combined with deferred tax assets to the extent that an NOL carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose. We adopted the amendments effective January 1, 2015. Our adoption of the amendments did not materially affect our results of operation, financial position or cash flows.

Simplifying the Presentation of Debt Issuance Costs: The FASB issued an amendment in April 2015 that is intended to simplify the presentation of debt issuance costs. Instead of presenting debt issuance costs as a deferred charge (that is, as an asset), the amendments require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the presentation for debt discounts. The amendment is effective for public entities for financial statements issued for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. As permitted, we have early adopted the amendment as of the beginning of the fourth quarter of 2015 and have applied it retrospectively to all periods presented. Accordingly, we reclassified the debt issuance costs from other noncurrent assets to noncurrent debt on our December 31, 2014 consolidated balance sheet, which decreased total assets, noncurrent debt and total liabilities by \$5 million.

Application of the Normal Purchases and Normal Sales Scope Exception: The FASB issued amendments in August 2015 to specify that the use of locational marginal pricing by an independent system operator (ISO) does not constitute net settlement of a contract for the purchase or sale of electricity on a forward basis that necessitates transmission through, or delivery to a location within, a nodal energy market, even when legal title to the associated electricity is conveyed to the ISO during transmission. As a result, the use of locational marginal pricing by the ISO does not cause that contract to fail to meet the physical delivery criterion of the normal purchases and normal sales (NPNS) scope exception. If the physical delivery criterion is met, along with all of the other criteria of the NPNS scope exception, an entity may elect to designate that contract as a normal purchase or normal sale. The amendments were effective upon issuance of the accounting standards update, which was August 10, 2015, and require prospective application. Our adoption of the amendments did not materially affect our results of operation, financial position or cash flows.

Notes to Consolidated Financial Statements

Balance Sheet Classification of Deferred Taxes: The FASB issued an amendment in November 2015 that is intended to simplify the presentation of deferred income taxes by requiring entities that present a classified statement of financial position to classify deferred tax liabilities and assets as noncurrent in their balance sheet. This aligns the presentation of deferred income tax liabilities and assets with International Financial Reporting Standards. The amendments do not affect the current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount. The amendments are effective for public entities for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. As permitted, we have early adopted the amendments as of the beginning of the fourth quarter of 2015, and have elected retrospective application to all periods presented in order to simplify the presentation in our balance sheet. Accordingly, we reclassified the current deferred taxes to noncurrent on our December 31, 2014 consolidated balance sheet, which decreased noncurrent deferred taxes by \$21 million due to right of offset.

New accounting standards issued but not yet adopted: New accounting standards issued by the FASB that we have not yet adopted in these financial statements are as explained below.

Revenue from Contracts with Customers: In May 2014 the FASB issued an amendment related to the recognition of revenue from contracts with customers and required disclosures. The core principle is for an entity to recognize revenue to represent the transfer of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is effective for public entities for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. In August 2015 the FASB issued an accounting standards update that defers by one year the effective date of the standard for all entities. Thus, the standard is now effective for annual reporting periods beginning after December 15, 2017, and interim periods therein, with early adoption as of the original effective date permitted. In March 2016 the FASB issued an accounting standards update that amends and clarifies the implementation guidance on principal versus agent considerations for reporting revenue gross rather than net, with the same deferred effective date. We are currently evaluating how our adoption of the amendment will affect our results of operation, financial position, and cash flows.

Simplifying the Measurement of Inventory: In July 2015 the FASB issued amendments that require entities to measure inventory at the lower of cost and net realizable value, rather than the lower of cost or market. The amendments do not apply to inventory measured using last-in, first-out or the retail inventory method but apply to all other inventory, including inventory measured using first-in, first-out or average cost. Prior to this update market value could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin, and thus many stakeholders considered that the guidance was unnecessarily complex. Net realizable value is the “estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.” The amendments do not change the methods of estimating the cost of inventory under U.S. GAAP. The amendments are effective for public entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments require prospective application and permit earlier application. We do not expect our adoption of the amendments to affect our results of operation, financial position or cash flows.

Classifying and Measuring Financial Instruments: In January 2016 the FASB issued final guidance on the classification and measurement of financial instruments. The new guidance requires that all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) to be measured at fair value through earnings. There will no longer be an available-for-sale classification (changes in fair value reported in other comprehensive income) for equity securities with readily determinable fair values. For equity

Notes to Consolidated Financial Statements

investments without readily determinable fair values, the cost method is also eliminated. However, entities (other than those following “specialized” accounting models, such as investment companies and broker-dealers) are able to elect to record equity investments without readily determinable fair values at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. Changes in the basis of those equity investments will be reported in current earnings. That election only applies to equity investments that do not qualify for the NAV practical expedient. When the fair value option has been elected for financial liabilities, changes in fair value due to instrument-specific credit risk will be recognized separately in other comprehensive income. The accumulated gains and losses due to those changes will be reclassified from accumulated other comprehensive income to earnings if the financial liability is settled before maturity. Public entities are required to use the exit price notion when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. In addition, the new guidance requires financial assets and financial liabilities to be presented separately in the notes to the financial statements, grouped by measurement category (e.g., fair value, amortized cost, lower of cost or market) and form of financial asset (e.g., loans, securities).

The classification and measurement guidance is effective for public entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. An entity will record a cumulative-effect adjustment to beginning retained earnings as of the beginning of the first reporting period in which the guidance is adopted, with two exceptions. The amendments related to equity investments without readily determinable fair values (including disclosure requirements) will be effective prospectively. The requirement to use the exit price notion to measure the fair value of financial instruments for disclosure purposes will also be applied prospectively. The new guidance can be early adopted for financial statements of annual or interim periods that have not yet been issued or made available for issuance. We do not expect our adoption of the guidance to materially affect our results of operation, financial position or cash flows.

Leases: In February 2016 the FASB issued new guidance that affects all companies and organizations that lease assets, and requires them to record on their balance sheet assets and liabilities for the rights and obligations created by those leases. A lease is an arrangement that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Concerning lease expense recognition, after extensive consultation, the FASB has ultimately concluded that the economics of leases can vary for a lessee, and those economics should be reflected in the financial statements. As a result, the amendments retain a distinction between finance leases and operating leases, while requiring both types of leases to be recognized on the balance sheet. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the criteria for distinguishing between capital leases and operating leases in current GAAP. By retaining a distinction between finance leases and operating leases, the effect of leases on the statement of comprehensive income and the statement of cash flows is largely unchanged from current GAAP. Lessor accounting will remain substantially the same as current GAAP, but with some targeted improvements intended to align lessor accounting with the lessee accounting model and with the revised revenue recognition guidance issued in 2014. The updated guidance is effective for public entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early application is permitted. We expect our adoption of the new guidance will materially affect our results of operation and financial position.

Derivative contract novations: The FASB issued amendments in March 2016 concerning the effect of derivative contract novations on existing hedge accounting relationships. As it relates to derivative instruments, novation refers to replacing one of the parties to a derivative instrument with a new party, which may occur for a variety of reasons such as: financial institution mergers, intercompany transactions, an entity exiting a particular derivatives business or relationship, or because of laws or regulatory requirements. The amendments clarify that a change in the

Notes to Consolidated Financial Statements

counterparty to a derivative instrument that has been designated as the hedging instrument under the guidance for Derivatives and Hedging (Topic 815) does not, in and of itself, require dedesignation of that hedge accounting relationship provided that all other hedge accounting criteria continue to be met. The amendments are effective for public entities for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The amendments may be applied on either a prospective basis or a modified retrospective basis and early application is permitted. We do not expect our adoption will materially affect our results of operation, financial position, and cash flows.

Other (Income) and Other Deductions:

Year Ended December 31, (Thousands)	2015	2014
Gain on Sale of Property	\$(160)	-
Interest and dividend income	(953)	\$(906)
Allowance for funds used during construction	(5,763)	(1,467)
Earnings from equity investments	-	(45)
Carrying costs on regulatory assets	(581)	(1,044)
Miscellaneous	(172)	(98)
Total other (income)	\$(7,629)	\$(3,560)
Miscellaneous	\$391	\$959
Total other deductions	\$391	\$959

Principles of consolidation: These financial statements consolidate our majority-owned subsidiaries after eliminating intercompany transactions.

Regulatory assets and liabilities: We currently meet the requirements concerning accounting for regulated operations for our electric operations in Maine; however, we cannot predict what effect the competitive market or future actions of regulatory entities would have on our ability to continue to do so. If we were to no longer meet the requirements concerning accounting for regulated operations for all or a separable part of our operations, we may have to record certain regulatory assets and regulatory liabilities as an expense or as revenue, or include them in accumulated other comprehensive income.

Pursuant to the requirements concerning accounting for regulated operations we capitalize, as regulatory assets, incurred and accrued costs that are probable of recovery in future electric rates. Substantially all regulatory assets for which funds have been expended are either included in rate base or are accruing carrying costs. The primary regulatory assets and liabilities that have not yet been included in rates, and are therefore accruing carrying costs until included in rates, are deferred storm costs and various deferrals, both assets and liabilities, that result from reconciliation mechanisms designed to allow recovery of actual costs. We also record, as regulatory liabilities, obligations to refund previously collected revenue or to spend revenue collected from customers on future costs (See Note 3).

Related party transactions: Certain Networks subsidiaries, including CMP borrow from AGR, the parent of Networks, through intercompany revolving credit agreements. For CMP, the intercompany revolving credit agreements provide access to supplemental liquidity. See Note 7 for further detail on the credit facility with AGR.

Avangrid Service Company provides administrative and management services to Networks operating utilities, including CMP, pursuant to service agreements. The cost of those services is allocated in accordance with methodologies set forth in the service agreements. The cost allocation methodologies vary depending on the type of service provided. Management believes such allocations are reasonable. The charge for services provided to CMP by Avangrid Service Company was \$32 million for 2015 and \$42 million for 2014 and charge for services provided by

Notes to Consolidated Financial Statements

CMP to AGR and its subsidiaries were approximately \$4 million for 2015 and \$3 million for 2014. All charges for services are at cost. Balance in accounts payable to affiliates of \$32 million at December 31, 2015 and \$11 million at December 31, 2014 is associated to Avangrid Service Company.

Revenue recognition: We recognize revenues upon delivery of energy and energy-related products and services to our customers.

Pursuant to a Maine state law, CMP earns revenue for the delivery of energy to its retail customers, but is prohibited from selling power to them. CMP generally does not enter into purchase or sales arrangements for power with ISO New England Inc. (ISO-NE), the New England Power Pool, or any other independent system operator or similar entity. CMP generally sells all of its power entitlements under its nonutility generator (NUG) and other purchase power contracts to unrelated third parties under bilateral contracts. If the Maine Public Utilities Commission (MPUC) does not approve the terms of bilateral contracts, it can direct CMP to sell power entitlements that it receives from those contracts on the spot market through ISO-NE.

CMP's electric rates each contain a revenue decoupling mechanism under which their actual energy delivery revenues are compared on a periodic basis with the authorized delivery revenues and the difference accrued, with interest, for refund to or recovery from customers, as applicable (See Note 2).

In addition we accrue revenue pursuant to the various regulatory provisions to record regulatory assets for revenues that will be collected in the future.

Taxes: AGR files consolidated federal and state income tax returns including all of the activities of its subsidiaries. Each subsidiary company is treated as a member of the consolidated group and determines its current and deferred taxes based on the separate return with benefits for loss method. As a member, CMP settles its current tax liability or benefit each year directly with AGR pursuant to a tax allocation agreement between AGR and its members.

The aggregate amount of the intercompany income tax receivable balance due from AGR is \$92.5 million and \$53.4 million at December 31, 2015 and December 31, 2014, respectively.

We use the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities reflect the expected future tax consequences, based on enacted tax laws, of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts. In accordance with generally accepted accounting principles for regulated industries, our regulated subsidiaries have established a regulatory asset for the net revenue requirements to be recovered from customers for the related future tax expense associated with certain of these temporary differences. The investment tax credits are deferred when used and amortized over the estimated lives of the related assets.

Deferred tax assets and liabilities are measured at the expected tax rate for the period in which the asset or liability will be realized or settled, based on legislation enacted as of the balance sheet date. Changes in deferred income tax assets and liabilities that are associated with components of OCI are charged or credited directly to OCI. Significant judgment is required in determining income tax provisions and evaluating tax positions. Our tax positions are evaluated under a more-likely-than-not recognition threshold before they are recognized for financial reporting purposes. Valuation allowances are recorded to reduce deferred tax assets when it is not more-likely-than-not that all or a portion of a tax benefit will be realized.

Notes to Consolidated Financial Statements

The excess of state franchise tax computed as the higher of a tax based on income or a tax based on capital is recorded in other taxes and taxes accrued in the accompanying consolidated financial statements.

Positions taken or expected to be taken on tax returns, including the decision to exclude certain income or transactions from a return, are recognized in the financial statements when it is more likely than not the tax position can be sustained based solely on the technical merits of the position. The amount of a tax return position that is not recognized in the financial statements is disclosed as an unrecognized tax benefit. Changes in assumptions on tax benefits may also impact interest expense or interest income and may result in the recognition of tax penalties. Interest and penalties related to unrecognized tax benefits are recorded within "Interest charges, net" and "Other (income)" of the consolidated statements of income. Uncertain tax positions have been classified as non-current unless expected to be paid within one year.

Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management's best assessment of estimated current and future taxes to be paid. Significant judgments and estimates are required in determining the consolidated income tax components of the financial statements.

We account for sales tax collected from customers and remitted to taxing authorities on a net basis.

Use of estimates and assumptions: The preparation of our consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but not limited to: (1) allowance for doubtful accounts and unbilled revenues; (2) asset impairments, including goodwill; (3) depreciable lives of assets; (4) income tax valuation allowances; (5) uncertain tax positions; (6) reserves for professional, workers' compensation, and comprehensive general insurance liability risks; (7) contingency and litigation reserves; (8) environmental remediation liability; (9) pension and Other Postretirement Employee Benefit (OPEB); (10) fair value measurements and (11) AROs. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained, and as our operating environment changes. We evaluate and update our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations, as considered necessary. Actual results could differ from those estimates.

Union bargain agreements: The company has approximately 68% of the company's employees are covered by a collective bargaining agreement. CMP has no agreements which will expire within the coming year.

Reclassifications: Certain amounts have been reclassified in our consolidated statements of cash flows to conform to the 2015 presentation which have not affected the operating, investing, and financing activity sections. Additionally, certain amounts have been reclassified in the consolidated statement of income and consolidated balance sheet to conform to the 2015 presentation as follows:

- Maintenance and Other operating expenses have been combined into Operations and maintenance in the consolidated statement of income for the year ended December 31, 2014.
- Non-current regulatory assets and liabilities items have been combined into Regulatory assets and Regulatory liabilities, respectively, in the consolidated balance sheet as of December 31, 2014.

Notes to Consolidated Financial Statements

- Accounts payable for electricity purchased have been combined into Accounts payable and accrued liabilities in the consolidated balance sheet as of December 31, 2014.
- Current and non-current liabilities pertaining to the Rate refund – FERC ROE proceeding of \$12 million and \$23 million, respectively, have been reclassified to current and non-current Regulatory liabilities in the consolidated balance sheet as of December 31, 2014.
- Accounts payable for construction purchases have been moved to Other current liabilities in the consolidated balance sheet as of December 31, 2014.

Note 2. Industry Regulation

Our revenues are regulated, being based on tariffs established in accordance with administrative procedures set by the various regulatory bodies. Distribution rates are established by the Maine Public Utilities Commission (MPUC) and transmission rates are established by the Federal energy Regulatory Commission (FERC). The tariffs applied based on the cost of providing service and are set to be sufficient to cover all its operating costs, including energy costs, finance costs, and the costs of equity, the last of which reflect our capital ratio and a reasonable return on equity (ROE).

CMP Distribution Rate Stipulation and New Renewable Source Generation

On May 1, 2013, CMP submitted its required distribution rate request with the MPUC. On July 3, 2014, after a fourteen month review process, CMP filed a rate stipulation agreement on the majority of the financial matters with the MPUC. The stipulation agreement was approved by the MPUC on August 25, 2014. The stipulation agreement also noted that certain rate design matters would be litigated, which the MPUC ruled on October 14, 2014.

The rate stipulation agreement provided for an annual CMP distribution tariff increase of 10.7% or \$24.3 million. The rate increase was based on a 9.45% ROE and 50% equity ratio. CMP was authorized to implement a Rate Decoupling Mechanism (RDM) which protects CMP from variations in sales due to energy efficiency and weather. CMP also adjusted its storm costs recovery mechanism whereby it is allowed to collect in rates a storm allowance and to defer actual storm costs when such storm event costs exceed \$3.5 million. CMP and customers share storm costs that exceed a certain balance on a fifty-fifty basis, with CMP's exposure limited to \$3.0 million annually.

CMP has made a separate regulatory filing for a new customer billing system replacement. In accordance with the stipulation agreement, a new billing system is needed and CMP made its filing on February 27, 2015 to request a separate rate recovery mechanism. On October 20, 2015, the MPUC issued an order approving a stipulation agreement authorizing CMP to proceed with the customer billing system investment. The approved stipulation allows CMP to recover the system costs effective with its implementation, currently expected in mid-2017.

The rate stipulation does not have a predetermined rate term. CMP has the option to file for new distribution rates at its own discretion. The rate stipulation does not contain service quality targets or penalties. The rate stipulation also does not contain any earning sharing requirements.

Under Maine law 35-A M.R.S.A §§ 3210-C, 3210-D, the MPUC is authorized to conduct periodic requests for proposals seeking long-term supplies of energy, capacity or Renewable Energy Certificates, or RECs, from qualifying resources. The MPUC is further authorized to order Maine Transmission and Distribution Utilities to enter into contracts with sellers selected from the MPUC's competitive solicitation process. Pursuant to a MPUC Order dated October 8, 2009, CMP entered into a 20-year agreement with Evergreen Wind Power III, LLC, on March 31, 2010, to purchase capacity and energy from Evergreen's 60 MW Rollins wind farm in Penobscot County, Maine. CMP's purchase obligations under the Rollins contract are approximately \$7 million per

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year. In accordance with subsequent MPUC orders, CMP periodically auctions the purchased Rollins energy to wholesale buyers in the New England regional market. Under applicable law, CMP is assured recovery of any differences between power purchase costs and achieved market revenues through a reconcilable component of its retail distribution rates. Although the MPUC has conducted multiple requests for proposals under M.R.S.A §3210-C and has tentatively accepted long-term proposals from other sellers, these selections have not yet resulted in additional currently effective contracts with CMP.

Transmission - FERC ROE Proceeding

CMP's transmission rates are determined by a tariff regulated by the FERC and administered by ISO New England, Inc. (ISO-NE). Transmission rates are set annually pursuant to a FERC authorized formula that allows for recovery of direct and allocated transmission operating and maintenance expenses, and for a return of and on investment in assets. The FERC currently provides a base ROE of 10.57% and additional ROE incentive adders applicable to assets based upon vintage, voltage and other factors.

On December 28, 2015, the FERC issued an order instituting section 206 proceedings and establishing hearing and settlement judge procedures. Pursuant to section 206 of the Federal Power Act (FPA), the FERC finds that ISO-NE Transmission, Markets, and Services Tariff is unjust, unreasonable, and unduly discriminatory or preferential. The FERC stated that ISO-NE's Tariff lacks adequate transparency and challenge procedures with regard to the formula rates for ISO-NE Participating Transmission Owners. The FERC also found that the current Regional Network Service (RNS) and Local Network Service (LNS) formula rates appear to be unjust, unreasonable, unduly discriminatory or preferential or otherwise unlawful as the formula rates appear to lack sufficient detail in order to determine how certain costs are derived and recovered in the formula rates. A settlement judge has been appointed and a settlement conference has convened. We are unable to predict the outcome of this proceeding at this time.

See Note 9 - Commitments and Contingent Liabilities - for a further discussion.

Note 3. Regulatory Assets and Liabilities

Pursuant to the requirements concerning accounting for regulated operations we capitalize, as regulatory assets, incurred and accrued costs that are probable of recovery in future electric rates. We base our assessment of whether recovery is probable on the existence of regulatory orders that allow for recovery of certain costs over a specific period, or allow for reconciliation or deferral of certain costs. When costs are not treated in a specific order we use regulatory precedent to determine if recovery is probable. We also record, as regulatory liabilities, obligations to refund previously collected revenue or to spend revenue collected from customers on future costs. Of the total regulatory assets net of regulatory liabilities, approximately \$488 million represents the offset of accrued liabilities for which funds have not been expended. The remainder is either included in rate base or accruing carrying costs.

Details of other regulatory assets and other regulatory liabilities are shown in the tables below. They result from various regulatory orders that allow for the deferral and/or reconciliation of specific costs. Regulatory assets and regulatory liabilities are classified as current when recovery or refund in the coming year is allowed or required through a specific order or when the rates related to a specific regulatory asset or regulatory liability are subject to automatic annual adjustment.

Notes to Consolidated Financial Statements

Current and long-term regulatory assets at December 31, 2015 and 2014 consisted of:

December 31, (Thousands)	2015	2014
Current		
Storm costs	\$7,544	\$14,198
Transmission revenue reconciliation mechanism	4,136	2,854
Deferred meter replacement costs	2,216	2,216
Legacy meter retirement deferral	-	2,861
Merger related	1,666	1,666
Stranded costs	2,808	466
Environmental remediation costs	2,616	1,606
Other	1,046	1,603
Total current regulatory assets	\$22,032	\$27,470
Long-term		
Federal tax depreciation normalization adjustment	\$10,349	\$10,279
Merger related	1,000	2,716
Storm costs	4,393	18,008
Unamortized losses on reacquired debt	1,021	1,333
Pension and other postretirement benefits	243,458	263,587
Unfunded future income taxes	225,166	218,944
Deferred meter replacement costs	34,077	35,960
Other	2,018	2,145
Total long-term regulatory assets	\$521,482	\$552,972

Environmental remediation costs include spending that has occurred and is eligible for future recovery in customer rates. The amortization period will be established in future proceedings and will depend upon the timing of spending for the remediation costs.

Pension and other postretirement benefits represent the actuarial losses on the pension and other postretirement plans that will be reflected in customer rates when they are amortized and recognized in future pension expenses. Because no funds have yet been expended for this regulatory asset, it does not accrue carrying costs and is not included within the rate base.

Storm costs are allowed in rates based on an estimate of the routine costs of service restoration. CMP is also allowed to defer unusually high levels of service restoration costs resulting from major storms when they meet certain criteria for severity and duration. CMP's deferred service restoration costs, primarily as a result of an ice storm in late December 2014, reflecting over (under) spending of actual costs compared with amounts allowed in rates, was \$(6) million and \$15 million for the years ended December 31, 2015 and 2014, respectively. CMP's total deferral, including carrying costs was \$12 million at December 31, 2015 and \$32 million at December 31, 2014.

Deferred meter replacement costs represent the deferral of the book value of retired meters which were replaced by advanced metering infrastructure meters. This amount is being amortized at the related existing depreciation amounts.

Unamortized losses on reacquired debt represent deferred losses on debt reacquisitions that will be recovered over the remaining original amortization period of the reacquired debt.

Unfunded future income taxes represent unrecovered federal and state income taxes primarily resulting from regulatory flow through accounting treatment. The income tax benefits or charges for certain plant related timing differences, such as removal costs, are immediately flowed through to, or collected from, customers. This amount is being amortized as the amounts related to temporary differences that give rise to the deferrals are recovered in rates.

Notes to Consolidated Financial Statements

Current and long-term regulatory liabilities at December 31, 2015 and 2014 consisted of:

December 31, (Thousands)	2015	2014
Current		
Accrued removal obligations	\$2,251	\$2,251
Transmission revenue reconciliation mechanism	5,490	6,795
Yankee DOE refund	5,234	23,475
Stranded cost	7,004	16,110
Unfunded future income taxes	10,104	16,423
Rate refund-FERC ROE proceeding	3,092	12,322
Revenue decoupling mechanism	10,143	-
Other	1,481	1,678
Total current regulatory liabilities	\$44,799	\$79,054
Other long-term		
Environmental remediation costs	\$4,934	\$5,895
Rate refund-FERC ROE proceeding	21,039	23,259
Accrued removal obligations	71,188	74,028
Other	3,067	-
Total non-current regulatory liabilities	100,228	103,182
Deferred income taxes regulatory	165,119	163,857
Total long-term regulatory liabilities	\$265,347	\$267,039

Accrued removal obligations represent the differences between asset removal costs incurred and amounts collected in rates for those costs. The amortization period is dependent upon the asset removal costs of underlying assets and the life of the utility plant.

Other includes the cost of removal being amortized through rates and various items subject to reconciliation including variable rate debt, Medicare subsidy benefits and stray voltage collections.

Note 4. Goodwill

We do not amortize goodwill, but perform a goodwill impairment assessment at least annually as described in Note 1. Our step one impairment testing includes various assumptions, primarily the discount rate, which is based on an estimate of our marginal, weighted-average cost of capital, and forecasted cash flows. We test the reasonableness of the conclusions of our step one impairment testing using a range of discount rates and a range of assumptions for long-term cash flows. Our step zero qualitative assessment involves evaluating key events and circumstances that could affect the fair value of our reporting units, as well as other factors. Events and circumstances evaluated include: macroeconomic conditions, industry, regulatory and market considerations, cost factors and their effect on earnings and cash flows, overall financial performance as compared with projected results and actual results of relevant prior periods, other relevant entity-specific events, and events affecting a reporting unit.

We had no impairment of goodwill in 2015 or in 2014 as a result of our annual impairment assessment, which we performed as of October 1. For 2015 as a result of our zero step qualitative analysis and for 2014, as a result of our step one testing, no impairment was indicated within any of the ranges of assumptions analyzed. There were no events or circumstances subsequent to our annual impairment assessment for 2015 or for 2014 that required us to update the assessment.

The carrying amount of goodwill was \$325 million at December 31, 2015 and 2014 with no accumulated impairment losses and no changes during 2015 and 2014.

Notes to Consolidated Financial Statements

Note 5. Income Taxes

Current and deferred taxes charged to expense for the years ended December 31, 2015 and 2014 consisted of:

Years Ended December 31, (Thousands)	2015	2014
Current		
Federal	\$(15,058)	\$(14,371)
State	21,898	6,700
Current taxes charged to expense (benefit)	6,840	(7,671)
Deferred		
Federal	75,273	86,167
State	(5,075)	1,637
Deferred taxes charged to expense	70,198	87,804
Investment tax credit adjustments	-	(499)
Total Income Tax Expense	\$77,038	\$79,634

The differences between tax expense per the statements of income and tax expense at the 35% statutory federal tax rate for the years ended December 31, 2015 and 2014 consisted of:

Years Ended December 31, (Thousands)	2015	2014
Tax expense at federal statutory rate	\$67,018	\$67,110
Depreciation and amortization not normalized	(178)	7,863
Investment tax credit amortization	-	(499)
Tax return and audit adjustments	(34)	(681)
State taxes, net of federal benefit	10,935	5,419
Other, net	(703)	422
Total Income Tax Expense	\$77,038	\$79,634

Income tax expense for the year ended December 31, 2015 was \$10 million higher than it would have been at the statutory federal income tax rate of 35% due predominately to state taxes, (net of federal benefit). This resulted in an effective tax rate of 40.2%. Income tax expense for the year ended December 31, 2014 was \$12.5 million higher than it would have been at the statutory federal income tax rate of 35% due predominately to state taxes, (net of federal benefit), and depreciation and amortization not normalized. This resulted in an effective tax rate of 41.5%.

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Deferred tax assets and liabilities as of December 31, 2015 and 2014 consisted of:

December 31, (Thousands)	2015	2014
Noncurrent Deferred Income Tax Liabilities (Assets)		
Property related	\$685,724	\$662,736
Unfunded future income taxes	91,541	89,339
Employee benefits	14,957	9,648
Derivative assets	(4,567)	(5,044)
Other	(4,656)	(36,531)
Noncurrent Deferred Income Tax Liabilities	782,999	720,148
Add: Valuation allowance	8,988	9,299
Total Noncurrent Deferred Income Tax Liabilities	791,987	729,447
Less amounts classified as regulatory liabilities		
Noncurrent deferred income taxes	165,119	163,857
Noncurrent Deferred Income Tax Liabilities	\$626,868	\$565,590
Deferred tax assets	\$9,224	\$41,575
Deferred tax liabilities	801,211	771,022
Net Accumulated Deferred Income Tax Liabilities	\$791,987	\$729,447

CMP has \$11.7 million of federal and state research and development credits offset by \$8.9 million of valuation allowance.

The reconciliation of unrecognized income tax benefits for the years ended December 31, 2015, and 2014 consisted of:

Years Ended December 31, (Thousands)	2015	2014
Balance as of January 1	\$20,760	\$16,148
Increases for tax positions related to prior years	-	10,422
Reduction for tax positions related to settlements with taxing authorities	(683)	(5,810)
Balance as of December 31	\$20,077	\$20,760

Unrecognized income tax benefits represent income tax positions taken on income tax returns but not yet recognized in the consolidated financial statements. The accounting guidance for uncertainty in income taxes provides that the financial effects of a tax position shall initially be recognized in the financial statements when it is more likely than not based on the technical merits that the position will be sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information.

There were no additional accruals for interest and penalties on tax reserves as of December 31, 2015 and there was an accrual of less than \$0.1 million as of December 31, 2014. If recognized, \$3 million of the total gross unrecognized tax benefits would affect the effective tax rate. Gross unrecognized tax benefits decreased \$0.7 million in 2015 due to settlements with taxing authorities.

On December 29, 2014, the Joint Committee on Taxation approved the examination of AGR and its subsidiaries, which includes members of the Central Maine Power Group, for the tax years 1998 through 2009. The results of these audits, net of reserves already provided, were immaterial. Maine state returns are closed through 2011.

Notes to Consolidated Financial Statements

Note 6. Long-term Debt

At December 31, 2015 and 2014, our consolidated long-term debt was:

As of December 31, (Thousands)		2015		2014	
	Maturity Dates	Balances	Interest Rates	Balances	Interest Rates
First mortgage bonds ⁽¹⁾	2019-2045	\$900,000	3.07%-5.70%	\$750,000	3.07%-5.70%
Senior unsecured debt	2016-2037	180,000	5.27-6.40%	180,000	5.27%-6.40%
Chester: Promissory and Senior Notes ⁽²⁾	2020	5,725	7.05%-10.48%	6,908	7.05%-10.48%
Total Debt		\$1,085,725		\$ 936,908	
Obligations under capital leases	2016-2020	4,187		5,033	
Unamortized debt (costs) premium, net		(5,088)		(5,163)	
Less: debt due within one year, included in current liabilities		41,312		2,031	
Total Non-Current Debt		\$1,043,512		\$ 934,747	

⁽¹⁾The first mortgage bonds are secured by a first mortgage lien on substantially all of our net utility plant in service.

⁽²⁾Chester SVC Partnership notes are secured by the assets of this partnership.

In January 2015, CMP issued \$150 million of first mortgage bonds in three tranches: \$65 million maturing in 2025 bearing a coupon of 3.15%, \$20 million maturing in 2030 bearing a coupon of 3.37%, and \$65 million maturing in 2045 bearing a coupon of 4.07%.

At December 31, 2015, long-term debt, including sinking fund obligations and capital lease payments (in thousands) that will become due during the next five years are:

2016	2017	2018	2019	2020
\$41,312	\$2,069	\$2,069	\$152,069	\$1,878

We have no debt covenant requirements related to the maintenance of financial ratios in our long term debt agreements at December 31, 2015 and 2014.

Note 7. Bank Loans and Other Borrowings

CMP relies on bank provided revolving credit facilities and on inter-company revolving credit facilities with AGR, the parent of Networks, to fund short-term liquidity needs. We had no short-term debt outstanding at December 31, 2015 and \$118 million outstanding at December 31, 2014.

In July 2011, CMP jointly entered into a bank provided revolving credit facility (the "Joint Facility") with NYSEG and RGE that allows maximum borrowings of up to \$600 million in aggregate and expires in 2018. We currently have a \$200 million sublimit under the agreement and pay a facility fee of 15 basis points annually. CMP has a commercial paper program backstopped by the Joint Facility.

We also have an intercompany credit facility under a demand note agreement with AGR that provides financing of up to \$250 million. Under the terms of that agreement, which expires in 2019, we borrow at the market A2/P2 commercial paper rate. Under this agreement, we had no Notes payable to affiliates outstanding at December 31, 2015 and \$118 million at December 31, 2014.

Notes to Consolidated Financial Statements

In April 2013 CMP entered into an agreement with NYSEG and RGE under which each company may lend to the other, under certain circumstances, excess cash on hand. At December 31, 2015, we had a note receivable from RGE of \$23 million which has been subsequently received.

In our Joint Facility we covenant not to permit, without the consent of the lender, our ratio of total indebtedness to total capitalization to exceed 0.65 to 1.00 at any time. For purposes of calculating the maximum ratio of consolidated indebtedness to total capitalization, the facility excludes from consolidated net worth the balance of Accumulated other comprehensive (loss) as it appears on the consolidated balance sheet. The facility contains various other covenants, including a restriction on the amount of secured indebtedness we may maintain. Continued un-remedied failure to comply with those covenants for five business days after written notice of such failure from the lender constitutes an event of default and would result in acceleration of maturity. Our ratio of indebtedness to total capitalization pursuant to the revolving credit facility was 0.40 to 1.00 at December 31, 2015. We are not in default as of December 31, 2015.

Note 8. Redeemable Preferred Stock

We have redeemable preferred stock that contains a feature allowing the holders to elect a majority of the CMP's Board of Directors if preferred stock dividends are in default in an amount equivalent to four full quarterly dividends. Such a potential redemption-triggering event is not solely within our control.

At December 31, 2015 and 2014, our redeemable preferred stock was:

Series	Par Value per Share	Redempti on Price per Share	Shares Authorized and Outstanding⁽¹⁾	Amount (Thousands)	
				2015	2014
CMP, 6% Noncallable	\$100	-	5,713	\$571	\$571
Total				\$571	\$571

⁽¹⁾ At December 31, 2015 CMP had 2,300,000 shares of \$100 par value preferred stock authorized but unissued.

CMP Group owns 3,792 shares of the 5,713 shares outstanding,

Note 9. Commitments and Contingencies

CMP Transmission - ROE Complaint

On September 30, 2011, the Massachusetts Attorney General, Massachusetts Department of Public Utilities, Connecticut Public Utilities Regulatory Authority, New Hampshire Public Utilities Commission, Rhode Island Division of Public Utilities and Carriers, Vermont Department of Public Service, numerous New England consumer advocate agencies and transmission tariff customers collectively filed a complaint (Complaint I) with the FERC pursuant to sections 206 and 306 of the Federal Power Act. The filing parties seek an order from the FERC reducing the 11.14% base return on equity used in calculating formula rates for transmission service under the ISO-New England Open Access Transmission Tariff (OATT) to a just and reasonable level of 9.2%. CMP is one of the New England Transmission Owners (NETOs) with assets and service rates that are governed by the OATT and will thereby be affected by any FERC order resulting from the filed complaint.

On June 19, 2014, the FERC issued its initial decision in the first complaint, establishing a methodology and setting the issues for a paper hearing. On October 16, 2014, FERC issued its final decision in the first complaint (Complaint I) setting the base ROE at 10.57% and a maximum total ROE of 11.74% for the October 2011 – December 2012 period and ordered the NETOs to file a refund report. On November 17, 2014 the NETOs filed a refund report.

Notes to Consolidated Financial Statements

On March 3, 2015, the FERC issued an order on requests for rehearing of its October 16, 2014 decision. The March order upheld the FERC's initial decision and further clarified that the 11.74% ROE cap will be applied on a project specific basis and not on a transmission owner's total average return. In June 2015 the NETOs filed an appeal in the U.S. Court of Appeals for the District of Columbia of the FERC's final order. We cannot predict the outcome of this appeal.

On December 26, 2012, a second, related, complaint (Complaint II) for a subsequent rate period was filed requesting the ROE be reduced to 8.7%. On June 19, 2014, FERC accepted the second complaint, established a refund effective date of December 27, 2012, and set the matter for hearing using the methodology established in the first complaint.

On July 31, 2014, the Complainants filed a third, related, complaint (Complaint III) for a subsequent rate period requesting the ROE be reduced to 8.84%. On November 24, 2014, FERC accepted the third complaint, established a refund effective date of July 31, 2014, and set for consolidated hearing with Complaint II in June 2015. Hearings were held in June 2015 on the Complaints II and III before a FERC Administrative Law Judge, relating to the refund periods and going forward. On July 29, 2015, post-hearing briefs were filed by parties and on August 26, 2015 reply briefs were filed by parties. On July 13, 2015, the New England transmission owners filed a petition for review of FERC's orders establishing hearing and consolidation procedures for the Complaints II and III with the U.S. Court of Appeals. The Administrative Law Judge issued an Initial Decision on March 22, 2016. The Initial Decision determined that, 1) for the 15 month refund period in Complaint II, the base ROE should be 9.59% and that the ROE Cap (base ROE plus incentive ROEs) should be 10.42% and 2) for the 15 month refund period in Complaint III and prospectively, the base ROE should be 10.90% and that the ROE Cap should be 12.19%. The Initial Decision is the Administrative Law Judge's recommendation to the FERC Commissioners. The FERC is expected to make its final decision in late 2016 or early 2017.

CMP reserved for refunds for Complaints I, II and III consistent with the FERC's March 3, 2015 final Complaint I decision. The CMP total reserve associated with Complaints I, II and III is \$23.9 million as of December 31, 2015. If adopted as final, the impact of the initial decision would be an additional reserve for Complaints II and III of \$7.7 million, net of tax, which is based upon currently available information for these proceedings. We cannot predict the outcome of Complaint II and III proceedings.

Yankee Nuclear Spent Fuel Disposal Claim

CMP has an ownership interest in Maine Yankee, Connecticut Yankee, and Yankee Atomic, (the Yankee Companies), three New England single-unit decommissioned nuclear reactor sites. Every six years, pursuant to the statute of limitations, the Yankee companies need to file a lawsuit to recover damages from the Department of Energy (DOE or Government) for breach of the Nuclear Spent Fuel Disposal Contract to remove Spent Nuclear Fuel (SNF) and Greater than Class C Waste (GTCC) as required by contract and the Nuclear Waste Policy Act beginning in 1998. The damages are the incremental costs for the government's failure to take the spent nuclear fuel.

In 2012, the U.S. Court of Appeals issued a favorable decision in the Yankee Companies' claim for the first six year period (Phase I). Total damages awarded to the Yankee companies were nearly \$160 million. The Yankee Companies won on all appellate points in the U.S. Court of Appeals for the Federal Circuit's unanimous decision. The Federal Appeals Court affirmed the September 2010 U.S. Court of Federal Claims award of \$40.3 million to Connecticut Yankee Atomic Power Company; affirmed the Court of Federal Claims award of \$65 million to Maine Yankee Atomic Power Company; and increased Yankee Atomic Electric Company's damages award from \$21.4 million to \$37.8 million. The Phase I damage award became final on December 4, 2012. The Yankee Companies received payment from DOE in January 2013. CMP's share of the award was approximately \$36.5 million which was credited back to customers.

In November 2013 the U.S. Court of Claims issued its decision in the Phase II case (the second 6 year period). The Trial Court decision awards the Yankee companies a combined \$235.4 million

Notes to Consolidated Financial Statements

(Connecticut Yankee \$126.3 million, Maine Yankee \$37.7 million, and Yankee Atomic \$73.3 million). The Phase II period covers January 1, 2002 through December 31, 2008 for Connecticut Yankee and Yankee Atomic, and January 1, 2003 through December 31, 2008 for Maine Yankee. Maine Yankee's damage award was lower because it recovered a larger amount in the Phase I case (\$82 million) and its decommissioning was both less expensive and completed sooner than the other Yankee companies. The damage awards flow through the Yankees to shareholders to reduce retail customer charges. In January 2014 the government informed the Yankee Companies it would not appeal the Trial Court decision, as a result the Yankee Companies received full payment in April 2014. CMP's share of the award was approximately \$28.2 million which was credited back to customers.

In August 2013, the Yankees filed a third round of claims against the government seeking damages for the years 2009-2014 (Phase III). The Phase III trial was completed in July 2015 and the Court issued its decision on March 25, 2016 awarding the Yankee companies a combined \$76.8 million (Connecticut Yankee \$32.6 million, Maine Yankee \$24.6 million and Yankee Atomic \$19.6 million). CMP will receive its proportionate share of the awards based on percentage ownership. The damage awards will potentially flow through the Yankee Companies to shareholders, including CMP upon FERC approval, and will reduce retail customer charges or otherwise as specified by law. CMP will receive its proportionate share of the awards based on percentage ownership. We cannot predict the timing or amount of damage awards that may ultimately flow through to shareholders.

Power purchase contracts including nonutility generator

We recognized expense of approximately \$57 million for NUG power in 2015 and \$55 million in 2014. We estimate that our power purchases will total \$63 million in 2016 and \$11 million in 2017 and 2018, 12 million 2019, \$12 million in 2020 and \$154 million thereafter.

Note 10. Environmental Liability

From time to time environmental laws, regulations and compliance programs may require changes in our operations and facilities and may increase the cost of electric service.

The United States Environmental Protection Agency and various state environmental agencies, as appropriate, have notified us that we are among the potentially responsible parties that may be liable for costs incurred to remediate certain hazardous substances at seven waste sites. The seven sites do not include sites where gas was manufactured in the past, which are discussed below. With respect to the seven sites, five sites are included in Maine's Uncontrolled Sites Program, one is included on the Massachusetts Non-Priority Confirmed Disposal Site list and two sites are also included on the National Priorities list. Any liability may be joint and several for certain of those sites. We have recorded an estimated liability of \$1.5 million related to the seven sites at December 31, 2015.

We have recorded an estimated liability of \$2.2 million at December 31, 2015, related to three additional sites where we believe it is probable that we will incur remediation costs and/or monitoring costs, although we have not been notified that we are among the potentially responsible parties or are regulated under State Resource Conservation and Recovery Act (RCRA) program. It is reasonably possible the ultimate cost to remediate the sites may be significantly more than the accrued amount. Factors affecting the estimated remediation amount include the remedial action plan selected, the extent of site contamination and the portion attributed to us.

Notes to Consolidated Financial Statements

We have a program to investigate and perform necessary remediation at our three sites where gas was manufactured in the past. All three sites are part of Maine's Voluntary Response Action Program and two are on the Maine's Uncontrolled Sites Program.

Our estimate for all costs related to investigation and remediation of the three sites range from \$2.1 million to \$2.3 million at December 31, 2015. The estimate could change materially based on facts and circumstances derived from site investigations, changes in required remedial action, changes in technology relating to remedial alternatives and changes to current laws and regulations.

The liability to investigate and perform remediation, as necessary, at the known inactive gas manufacturing sites was \$2.1 million at December 31, 2015, and \$1.2, million at December 31, 2014. We recorded a corresponding regulatory asset, net of insurance recoveries, because we expect to recover the net costs in rates.

Our environmental liabilities are recorded on an undiscounted basis. We have received insurance settlements during the last two years, which we accounted for as reductions in our related regulatory asset.

Note 11. Accounting for Derivative Instruments and Hedging Activities

We are exposed to certain risks relating to our ongoing business operations. The primary risk we manage by using derivative instruments is commodity price risk. In accordance with the accounting requirements concerning derivative instruments and hedging activities, we recognize all derivative instruments as either assets or liabilities at fair value on our balance sheet. For financial statement presentation, we offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

The financial instruments we hold or issue are not for trading or speculative purposes.

Cash flow hedging: Our fleet fuel hedges are designated as cash flow hedging instruments. We record changes in the fair value of the cash flow hedging instruments in other comprehensive income (OCI), to the extent they are considered effective, and reclassify those gains or losses into earnings in the same period or periods during which the hedged transactions affect earnings.

Our derivatives designated as hedging instruments, which are other commodity contracts (fleet fuel), had a fair value of \$(0.9) million as of December 31, 2015, and \$(1.0) million as of December 31, 2014, and are included in current liabilities.

Notes to Consolidated Financial Statements

The effect of hedging instruments on OCI and income was:

Year Ended December 31,	Gain (Loss) Recognized in OCI on Derivatives	Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Gain(Loss) Reclassified from Accumulated OCI into Income
Derivatives in Cash Flow Hedging Relationships (Thousands)	Effective Portion	Effective Portion	
2015			
Interest rate contracts	-	Interest expense	\$(2,222)
Commodity contracts:			
Fleet Fuel	\$(950)	Other operating expenses	(1,053)
Total	\$(950)		\$(3,275)
2014			
Interest rate contracts	-	Interest expense	\$(2,222)
Commodity contracts:			
Fleet Fuel	\$(1,153)	Other operating expenses	(332)
Total	\$(1,153)		\$(2,554)

The amount in OCI related to previously settled interest rate hedging contracts, after tax and accumulated amortization, at December 31 is a net loss of \$10.1 million for 2015 and a net loss of \$12.4 million for 2014. For the year ended December 31, 2015, we recorded \$2.2 million in net derivative losses related to discontinue cash flow hedges. We will amortize approximately \$2.2 million of discontinued cash flow hedges in 2016.

At December 31, 2015, \$0.9 million in losses are reported in OCI because the forecasted transaction is considered to be probable. We expect that those losses in OCI will be reclassified into earnings within the next 24 months, the maximum length of time over which we are hedging our exposure to the variability in future cash flows for forecasted energy transactions. There was no ineffective portion of the hedge recognized during the year ended December 31, 2015.

Note 12. Fair Value of Financial Instruments and Fair Value Measurements

The estimated fair value of debt amounted to \$1,171 million and \$1,060 million as of December 31, 2015 and 2014, respectively. The estimated fair value was determined, in most cases, by discounting the future cash flows at market interest rates. The interest rate curve used to make these calculations takes into account the risks associated with the electricity industry and the credit ratings of the borrowers in each case. The fair value hierarchy for the fair value of debt is considered as Level 2.

Notes to Consolidated Financial Statements

Assets and liabilities measured at fair value on a recurring basis

Description	Total	Fair Value Measurements at December 31, Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Thousands)				
2015				
Assets				
Noncurrent investments available for sale	\$415	\$415	-	-
Total	\$415	\$415	-	-
Liabilities				
Derivatives	\$935	-	-	\$935
Total	\$935	-	-	\$935
2014				
Assets				
Noncurrent investments available for sale	\$322	\$322	-	-
Total	\$322	\$322	-	-
Liabilities				
Derivatives	\$1,038	-	-	\$1,038
Total	\$1,038	-	-	\$1,038

We had no transfers to or from Level 1 and 2 during the years ended December 31, 2015 and 2014. Our policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that causes a transfer, if any.

Valuation techniques: We measure the fair value of our noncurrent investments available for sale using quoted market prices in active markets for identical assets and include the measurements in Level 1. The investments primarily consist of money market funds.

We enter into fuel derivative contracts to hedge our unleaded and diesel fuel requirements for our fleet vehicles. Exchange based forward market prices are used but because a basis adjustment is added to the forward prices, we include the fair value measurement for these contracts in level 3.

Notes to Consolidated Financial Statements

Instruments measured at fair value on a recurring basis using significant unobservable inputs

Year ended December 31, (Thousands)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Derivatives, Net	
	2015	2014
Beginning balance	\$1,038	\$217
Total gain or loss for the period		
Included in earnings	(1,053)	(332)
Included in other comprehensive income	950	1,153
Ending balance	\$935	\$1,038

The amounts of realized and unrealized gain and loss included in earnings for the period (above), which are reported in Other operating expense are:

(Thousands)	
Total gain (loss) included in earnings for year ended December 31,	
2015	\$(1,053)
2014	\$(332)

Note 13. Accumulated Other Comprehensive (Loss) Income

	Balance January 1, 2014	2014 Change	Balance December 31, 2014	2015 Change	Balance December 31, 2015
(Thousands)					
Amortization of pension cost for nonqualified plans, net of income tax (benefit) of \$(161) for 2014 and \$112 for 2015	(1,889)	\$(233)	\$(2,122)	\$163	\$(1,959)
Unrealized (loss) gain on derivatives qualified as hedges:					
Unrealized (loss) during period on derivatives qualified as hedges, net of income tax benefit of \$471 for 2014 and \$388 for 2015		(682)		(562)	
Reclassification adjustment for loss included in net income, net of income tax (benefit) of \$(136) for 2014 and \$(430) for 2015		197		623	
Reclassification adjustment for loss on settled cash flow treasury hedges, net of income tax (benefit) of \$(907) for 2014 and 2015		1,315		1,315	
Net unrealized (loss) gain on derivatives qualified as hedges	\$(8,761)	\$830	\$(7,931)	\$1,376	\$(6,555)
Accumulated Other Comprehensive (Loss) Income	\$(10,650)	\$597	\$(10,053)	\$1,539	\$(8,514)

No Accumulated Other Comprehensive (Loss) Income is attributable to the noncontrolling interest for the above periods.

Notes to Consolidated Financial Statements

Note 14. Retirement Benefits

We have funded noncontributory defined benefit pension plans that cover substantially all of our employees. For most employees, generally those hired before 2002, the plans provide defined benefits based on years of service and final average salary. Employees hired in 2002 or later are covered under a cash balance plan or formula where their benefit accumulates based on a percentage of annual salary and credited interest. During 2013 the company announced that we would freeze the benefits for all non-union employees covered under the cash balance plans effective December 31, 2013. CMP union employees covered under the cash balance plans ceased accruals as of December 31, 2014. Their earned balances would continue to accrue interest, but would no longer be increased by a percentage of earnings. In place of the pension benefit for these employees, they will receive a minimum contribution to their account under their respective company's defined contribution plan. There was no change to the defined benefit plans for employees covered under the plans that provide defined benefits based on years of service and final average salary.

The company maintains a 401(k) Savings and Retirement Plan (the Plan) for all eligible employees as defined in the Plan agreement. Participants in the Plan may contribute a percentage of their compensation and the company may match a predetermined percentage of the participant contributions. Expenses under the Plan for the Company totaled approximately \$3 million for 2015 and \$2 million for 2014.

We also have other postretirement health care benefit plans covering substantially all of our employees. The health care plans are contributory with participants' contributions adjusted annually.

Obligations and funded status:

	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
(Thousands)				
Change in benefit obligation				
Benefit obligation at January 1	\$419,710	\$343,966	\$117,567	\$93,816
Service cost	7,711	7,119	835	681
Interest cost	15,620	16,430	4,331	4,414
Plan participants' contributions	-	-	399	603
Actuarial loss (gain)	(20,756)	91,445	(3,320)	26,795
Special termination benefits	824	-	-	-
Benefits paid	(17,828)	(39,250)	(5,950)	(8,742)
Benefit obligation at December 31	\$405,281	\$419,710	\$113,862	\$117,567
Change in plan assets				
Fair value of plan assets at January 1	\$254,164	\$245,149	\$38,787	\$41,279
Actual return on plan assets	(4,070)	16,958	(929)	1,579
Employer contributions	24,682	31,307	5,551	8,139
Withdrawal from VEBA	-	-	(2,223)	(4,071)
Employer and plan participants' contributions	-	-	399	603
Benefits paid	(17,828)	(39,250)	(5,950)	(8,742)
Fair value of plan assets at December 31	\$256,948	\$254,164	\$35,635	\$38,787
Funded status at December 31	(148,333)	\$(165,546)	\$(78,227)	\$(78,780)
Amounts recognized in the balance sheet				
December 31,	Pension Benefits		Postretirement Benefits	
(Thousands)	2015	2014	2015	2014
Noncurrent liabilities	(148,333)	\$(165,546)	\$(78,227)	\$(78,780)

Notes to Consolidated Financial Statements

During 2014, we offered retired employees who are currently receiving benefits an option to receive their future pension benefit as a lump sum. Approximately \$16.4 million of payments were made in 2014 as a result of employees exercising that option. The lump sums paid did not trigger any settlement accounting.

We have determined that we are allowed to defer as regulatory assets or regulatory liabilities items that would otherwise be recorded in accumulated other comprehensive income pursuant to the accounting requirements concerning defined benefit pension and other postretirement plans.

Amounts recognized as regulatory assets or regulatory liabilities, consist of:

December 31,	Pension Benefits		Postretirement Benefits	
(Thousands)	2015	2014	2015	2014
Net loss	\$205,258	\$223,946	\$50,898	\$54,270
Prior service cost (credit)	\$16	\$133	\$(12,713)	\$(14,762)

Our accumulated benefit obligation for all defined benefit pension plans at December 31 was \$363 million for 2015 and \$371 million for 2014.

Our postretirement benefits were partially funded at December 31, 2015 and 2014.

The projected benefit obligation and accumulated benefit obligation exceeded the fair value of pension plan assets for our plans as of December 31, 2015 and 2014. The following table shows the aggregate projected and accumulated benefit obligations and the fair value of plan assets for the relevant periods.

December 31,	2015	2014
(Thousands)		
Projected benefit obligation	\$405,281	\$419,710
Accumulated benefit obligation	\$362,643	\$371,156
Fair value of plan assets	\$256,948	\$254,164

Notes to Consolidated Financial Statements

Components of net periodic benefit cost and other amounts recognized in regulatory assets and regulatory liabilities:

Years ended December 31,	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
(Thousands)				
Net periodic benefit cost				
Service cost	\$7,710	\$7,119	\$835	\$681
Interest cost	15,621	16,430	4,331	4,414
Expected return on plan assets	(18,742)	(18,541)	(2,674)	(2,848)
Amortization of prior service cost (benefit)	117	179	(2,049)	(3,875)
Special termination benefit charge	824	-	-	-
Amortization of net loss	20,744	10,492	3,656	1,502
Net periodic benefit cost	\$26,274	\$15,679	\$4,099	\$(126)
Other changes in plan assets and benefit obligations recognized in regulatory assets and regulatory liabilities				
Net loss/(gain)	\$2,056	\$93,028	\$283	\$28,065
Amortization of net (loss)	(20,744)	(10,492)	(3,656)	(1,502)
Amortization of prior service (cost) credit	(117)	(179)	2,049	3,875
Total recognized in regulatory assets and regulatory liabilities	(18,805)	\$82,357	(1,324)	30,438
Total recognized in net periodic benefit cost and regulatory assets and regulatory liabilities	\$7,469	\$98,036	\$2,775	\$30,312

We include the net periodic benefit cost in other operating expenses. The net periodic benefit cost for postretirement benefits represents the amount expensed for providing health care benefits to retirees and their eligible dependents.

Amounts expected to be amortized from regulatory assets or regulatory liabilities into net periodic benefit cost for the fiscal year ending

December 31, 2016	Pension Benefits	Postretirement Benefits
(Thousands)		
Estimated net loss	18,274	\$3,579
Estimated prior service cost (credit)	\$9,275	\$(2,013)

We expect that no pension benefit or postretirement benefit plan assets will be returned to us during the fiscal year ended December 31, 2016.

Weighted-average assumptions used to determine benefit obligations at December 31,	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Discount rate	4.10%	3.80%	4.10%	3.80%
Rate of compensation increase	4.10%	4.20%	NA	NA

The discount rate is the rate at which the benefit obligations could presently be effectively settled. We determined the discount rate by developing a yield curve derived from a portfolio of high grade non-callable bonds with above median yields that closely matches the duration of the expected cash flows of our benefit obligations.

Notes to Consolidated Financial Statements

Weighted-average assumptions used to determine net periodic benefit cost for Years ended December 31,

	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Discount rate	3.80%	4.90%	3.80%	4.90%
Expected long-term return on plan assets	7.50%	7.50%	-	-
Expected long-term return on plan assets - nontaxable trust	-	-	7.50%	7.50%
Expected long-term return on plan assets - taxable trust	-	-	5.00%	5.00%
Rate of compensation increase	4.30%	4.40%	N/A	N/A

We developed our expected long-term rate of return on plan assets assumption based on a review of long-term historical returns for the major asset classes, the target asset allocations and the effect of rebalancing of plan assets discussed below. That analysis considered current capital market conditions and projected conditions. Our policy is to calculate the expected return on plan assets using the market related value of assets. We amortize unrecognized actuarial gains and losses using the standard amortization methodology, under which amounts in excess of 10% of the greater of the projected benefit obligation or market-related value are amortized over the plan participants' average remaining service to retirement.

Assumed health care cost trend rates to determine benefit obligations at December 31,

	2015	2014
Health care cost trend rate (pre 65/post 65)	7.0%/9.0%	7.5%/7.0%
Rate to which cost trend rate is assumed to decline (the ultimate trend rate)	4.5%	4.5%
Year that the rate reaches the ultimate trend rate	2026	2027

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
(Thousands)		
Effect on total of service and interest cost	\$263	\$(219)
Effect on postretirement benefit obligation	\$6,434	\$(5,349)

Cash Flows

Contributions: In accordance with our funding policy we make annual contributions of not less than the minimum required by applicable regulations. We expect to contribute \$20.7 million to our pension benefit plans in 2016.

Estimated future benefit payments: Our expected benefit payments and expected Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act) subsidy receipts, which reflect expected future service, as appropriate, are:

	Pension Benefits	Postretirement Benefits	Medicare Act Subsidy Receipts
(Thousands)			
2016	\$17,232	\$7,297	\$133
2017	\$18,036	\$7,282	\$153
2018	\$18,660	\$7,247	\$171
2019	\$19,432	\$7,280	\$189
2020	\$20,226	\$7,290	\$208
2021 - 2025	\$114,713	\$36,189	\$1,344

Notes to Consolidated Financial Statements

Plan assets: Our pension benefits plan assets are held in a master trust providing for a single trustee/custodian, a uniform investment manager lineup, and an efficient, cost-effective means of allocating expenses and investment performance to each plan under the master trust. Our primary investment objective is to ensure that current and future benefit obligations are adequately funded and with volatility commensurate with our tolerance for risk. Preservation of capital and achievement of sufficient total return to fund accrued and future benefits obligations are of highest concern. Our primary means for achieving capital preservation is through diversification of the trust's investments while avoiding significant concentrations of risk in any one area of the securities markets. Within each asset group, further diversification is achieved through utilizing multiple asset managers and systematic allocation to various asset classes; providing broad exposure to different segments of the equity, fixed-income and alternative investment markets.

Our asset allocation policy is the most important consideration in achieving our objective of superior investment returns while minimizing risk. We have established a target asset allocation policy within allowable ranges for our pension benefits plan assets within broad categories of asset classes made up of Return-Seeking and Liability-Hedging investments. Within the Return-Seeking category we have targets of 35% in equity securities and 20% in equity alternative investments. The Liability-Hedging asset class has a target allocation percentage of 45%. Return-Seeking investments generally consist of domestic, international, global and emerging market equities, invested in companies across all market capitalizations. Return-Seeking assets also include investments in strategies such as real estate, absolute return and strategic markets. Liability-Hedging investments generally consist of long term corporate bonds, annuity contracts, long-term treasury STRIPS, and opportunistic fixed income. Systematic rebalancing within the target ranges, should any asset categories drift outside their specified ranges, increases the probability that the annualized return on the investments will be enhanced, while realizing lower overall risk.

The fair values of Networks' pension benefits plan assets at December 31, 2015 and 2014, by asset category are shown in the following table. CMP's share of the total consolidated assets is approximately 13% for 2015 and 12% for 2014.

Asset Category (Thousands)	Total	Fair Value Measurements at December 31, Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2015				
Cash and cash equivalents	\$57,526	\$3,290	\$54,236	-
U.S. government securities	171,024	171,024	-	-
Common stocks	313,911	313,911	-	-
Registered investment companies	81,308	81,308	-	-
Corporate bonds	323,900	-	323,900	-
Preferred stocks	4,926	295	4,631	-
Common/collective trusts	511,504	-	21,476	\$490,028
Partnership/joint venture interests	78,519	-	-	78,519
Real estate investments	88,865	-	-	88,865
Other investments, principally annuity and fixed income	318,247	(21)	-	318,268
Total	\$1,949,730	\$569,807	\$404,243	\$975,680

Notes to Consolidated Financial Statements**2014**

Cash and cash equivalents	\$47,941	\$3,795	\$44,146	-
U.S. government securities	177,379	177,379	-	-
Common stocks	430,900	343,757	87,143	-
Registered investment companies	115,930	115,930	-	-
Corporate bonds	344,216	-	344,216	-
Preferred stocks	4,050	281	3,769	-
Common/collective trusts	476,581	-	26,440	\$450,141
Partnership/joint venture interests	79,489	-	-	79,489
Real estate investments	74,871	-	-	74,871
Other investments, principally annuity and fixed income	345,885	-	4,200	341,685
Total	\$2,097,242	\$641,142	\$509,914	\$946,186

Valuation techniques: We value our pension benefits plan assets as follows:

- Cash and cash equivalents – Level 1: at cost, plus accrued interest, which approximates fair value. Level 2: proprietary cash associated with other investments, based on yields currently available on comparable securities of issuers with similar credit ratings.
- U.S. government securities, Common stocks and registered investment companies - at the closing price reported in the active market in which the security is traded.
- Corporate bonds – based on yields currently available on comparable securities of issuers with similar credit ratings.
- Preferred stocks – at the closing price reported in the active market in which the individual investment is traded.
- Common/collective trusts and Partnership/joint ventures – using the Net Asset Value (NAV) provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is classified as Level 2 if the plan has the ability to redeem the investment with the investee at NAV per share at the measurement date. Redemption restrictions or adjustments to NAV based on unobservable inputs result in the fair value measurement being classified as Level 3 if those inputs are significant to the overall fair value measurement.
- Real estate investments – based on a discounted cash flow approach that includes the projected future rental receipts, expenses and residual values because the highest and best use of the real estate from a market participant view is as rental property.
- Other investments, principally annuity and fixed income - Level 1: at the closing price reported in the active market in which the individual investment is traded. Level 2: based on yields currently available on comparable securities of issuers with similar credit ratings. Level 3: when quoted prices are not available for identical or similar instruments, under a discounted cash flows approach that maximizes observable inputs such as current yields of similar instruments but includes adjustments for certain risks that may not be observable such as credit and liquidity risks.

Notes to Consolidated Financial Statements

**Fair Value Measurements Using Significant
Unobservable Inputs (Level 3)**

(Thousands)	Common/ Collective Trusts	Partner- ship/ Joint Venture Interests	Real Estate Invest- ments	Other Invest- ments	Total
Balance, December 31, 2013	\$458,313	\$56,880	\$67,266	\$336,595	\$919,054
Actual return on plan assets:					
Relating to assets still held at the reporting date	60,324	-	-	(834)	59,490
Relating to assets sold during the year	(48,286)	2,609	4,670	6,251	(34,756)
Purchases, sales and settlements	(20,210)	20,000	2,935	(327)	2,398
Balance, December 31, 2014	\$450,141	\$79,489	\$74,871	\$341,685	\$946,186
Actual return on plan assets:					
Relating to assets still held at the reporting date	(5,873)	18,518	10,235	(20,169)	2,711
Relating to assets sold during the year	(3,115)	(19,488)	-	904	(21,699)
Purchases, sales and settlements	48,875	-	3,759	(4,152)	48,482
Balance, December 31, 2015	\$490,028	\$78,519	\$88,865	\$318,268	\$975,680

Our postretirement benefits plan assets are held with a trustee in multiple voluntary employees' beneficiary association (VEBA) and 401(h) arrangements and are invested among and within various asset classes in order to achieve sufficient diversification in accordance with our risk tolerance. This is achieved for our postretirement benefits plan assets through the utilization of multiple institutional mutual and money market funds, providing exposure to different segments of the fixed income, equity and short-term cash markets. Approximately 100% of the postretirement benefits plan assets are invested in VEBA and 401(h) arrangements that are not subject to income taxes. The remainder is invested in arrangements subject to income taxes.

We have established a target asset allocation policy within allowable ranges for our postretirement benefits plan assets of 47% equity securities, 38% fixed income and 15% for all other types of investments. The target allocations within allowable ranges are further diversified into 20% large cap domestic equities, 12% medium and small cap domestic equities, 10% international developed market and 5% emerging market equity securities. Fixed income investment targets and ranges are segregated into core fixed income at 38%. Other, alternative investment targets are 5% for real estate, 5% absolute return and 5% tangible assets. Systematic rebalancing within target ranges, should any asset categories drift outside their specified ranges, increases the probability that the annualized return on the investments will be enhanced, while realizing lower overall risk.

Notes to Consolidated Financial Statements

The fair values of Networks' other postretirement benefits plan assets at December 31, 2015 and 2014, by asset category are shown in the following table. CMP's share of the total consolidated assets is approximately 30% for 2015 and 30% for 2014:

Asset Category (Thousands)	Total	Fair Value Measurements at December 31, Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2015				
Money market funds	\$4,163	\$4,163	-	-
Mutual funds, fixed	35,438	35,438	-	-
Government & corporate bonds	1,703	-	\$1,703	-
Mutual funds, equity	45,679	45,679	-	-
Common stocks	22,939	22,793	-	\$146
Mutual funds, other	11,519	11,519	-	-
Total assets measured at fair value	\$121,441	\$119,592	\$1,703	\$146
2014				
Money market funds	\$4,478	\$4,478	-	-
Mutual funds, fixed	35,914	35,914	-	-
Government & corporate bonds	2,126	-	\$2,126	-
Mutual funds, equity	44,877	44,877	-	-
Common stocks	28,459	28,459	-	-
Mutual funds, other	12,011	12,011	-	-
Total assets measured at fair value	\$127,865	\$125,739	\$2,126	-

Valuation techniques: We value our postretirement benefits plan assets as follows:

- Money market funds and Mutual funds – based upon quoted market prices in active markets, which represent the NAV of the shares held.
- Government bonds, and Common stocks - at the closing price reported in the active market in which the security is traded.
- Corporate bonds – based on yields currently available on comparable securities of issuers with similar credit ratings.

Diversified equity securities did not include any Iberdrola common stock at December 31, 2015.

Note 15. Subsequent events

The company has performed a review of subsequent events through April 19, 2016, which is the date these financial statements were available to be issued, and the financial statements reflect events occurring from January 1, 2016 through such date.

On February 4, 2016, AVANGRID subsidiary, CMP, declared a dividend of \$100 million payable to AGR which was paid on March 16, 2016.

See also Note 9 relating to ROE Complaint proceeding update on March 22, 2016 and the Yankee Nuclear Spent Fuel Disposal Claim update on March 25, 2016.

Notes to Consolidated Financial Statements

On April 5, 2016, AGR, NYSEG, RGE, CMP, The United Illuminating Company (“UI”), Connecticut Natural Gas Corporation (“CNG”), The Southern Connecticut Gas Company (“SCG”) and The Berkshire Gas Company (“BGC”) entered into a revolving credit facility with a syndicate of banks (the “Credit Facility”), that provides for maximum borrowings of up to \$1.5 billion in the aggregate. Under the terms of the Credit Facility, each joint borrower has a maximum borrowing entitlement, or sublimit, which can be periodically adjusted to address specific short-term capital funding needs, subject to the maximum limit established by the banks. AGR’s maximum sublimit is \$1 billion, NYSEG, RGE, CMP and UI have maximum sublimits of \$250 million, CNG, and SCG have maximum sublimits of \$150 million and BGC has a maximum sublimit of \$25 million. Under the Credit Facility, each of the borrowers will pay an annual facility fee that is dependent on their credit rating. The initial facility fees will range from 12.5 to 17.5 basis points. The maturity date for the Credit Facility is April 5, 2021.

As a condition of closing on the new Credit Facility, the Joint Facility was terminated and all amounts outstanding, accrued or payable under the Joint Facility were repaid in full.