nationalgrid

# The Brooklyn Union Gas Company

Consolidated Financial Statements

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

**THE BROOKLYN UNION GAS COMPANY**

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

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Brooklyn Union Gas Company

### Opinion

We have audited the consolidated financial statements of The Brooklyn Union Gas Company (the "Company"), which comprise the consolidated balance sheets as of March 31, 2023 and 2022, and the related consolidated statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended March 31, 2023, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2023 in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditor's Responsibilities for the Audit of the Financial Statements

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

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

In performing an audit in accordance with GAAS, we:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

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

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

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

Deloitte + Touche LLP

June 28, 2023

**THE BROOKLYN UNION GAS COMPANY**
**CONSOLIDATED STATEMENTS OF INCOME**
*(in thousands of dollars)*

| | Years Ended March 31, | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| **Operating revenues** | **$ 2,367,577** | $ 2,086,000 | $ 1,734,459 |
| **Operating expenses:** | | | |
| Purchased gas | **918,908** | 733,024 | 443,695 |
| Operations and maintenance | **524,771** | 619,746 | 643,416 |
| Depreciation | **152,543** | 141,401 | 134,134 |
| Other taxes | **315,435** | 291,131 | 246,425 |
| Total operating expenses | **1,911,657** | 1,785,302 | 1,467,670 |
| **Operating income** | **455,920** | 300,698 | 266,789 |
| **Other income and (deductions):** | | | |
| Interest on long-term debt | **(137,924)** | (111,869) | (110,373) |
| Other interest, including affiliate interest, net | **(618)** | (1,614) | (7,471) |
| Other income (deductions), net | **57,401** | 30,669 | (26,388) |
| Total other deductions, net | **(81,141)** | (82,814) | (144,232) |
| **Income before income taxes** | **374,779** | 217,884 | 122,557 |
| **Income tax expense** | **73,725** | 1,681 | 36,101 |
| **Net income** | **$ 301,054** | $ 216,203 | $ 86,456 |

## THE BROOKLYN UNION GAS COMPANY
## CONSOLIDATED STATEMENTS OF CASH FLOWS
*(in thousands of dollars)*

| | Years Ended March 31, | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| **Operating activities:** | | | |
| Net income | **$ 301,054** | $ 216,203 | $ 86,456 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | **152,543** | 141,401 | 134,134 |
| Amortization of right-of-use asset | **16,825** | 5,617 | 4,122 |
| Accrued interest on tax reserves | **751** | 1,477 | (11,969) |
| Regulatory amortizations | **(40,872)** | 18,521 | 18,522 |
| Deferred income tax expense | **344,152** | 32,430 | 117,199 |
| Bad debt expense | **(37,091)** | 42,211 | 88,863 |
| Allowance for equity funds used during construction | **(20,623)** | (18,828) | (7,802) |
| Amortization of debt discount and issuance costs | **1,628** | 1,460 | 1,594 |
| Pension and postretirement benefits (income) expenses, net | **(3,094)** | (13,561) | 19,649 |
| Pension and postretirement benefits contributions | **(9,924)** | (5,324) | (10,475) |
| Environmental remediation payments | **(72,755)** | (76,150) | (134,725) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable and other receivables, net, and unbilled revenues | **(20,600)** | (191,628) | (113,836) |
| Accounts receivable from/payable to affiliates, net | **(5,829)** | 22,251 | 17,757 |
| Inventory | **(100,664)** | 14,638 | 23,958 |
| Regulatory assets and liabilities, (current), net | **(73,137)** | 64,693 | (15,158) |
| Regulatory assets and liabilities, (non-current), net | **47,647** | 99,570 | 55,612 |
| Derivative instruments | **35,260** | (20,369) | 416 |
| Prepaid and accrued taxes, net | **(225,426)** | 40,094 | (4,625) |
| Prepaid demand capacity contracts | **(14,404)** | (36,073) | - |
| Accounts payable and other liabilities | **20,241** | 17,796 | 14,785 |
| Lease liabilities | **(26,469)** | (8,608) | (6,960) |
| Other, net | **(9,953)** | (11,603) | (9,428) |
| Net cash provided by operating activities | **259,260** | 336,218 | 268,089 |
| **Investing activities:** | | | |
| Capital expenditures | **(719,878)** | (740,996) | (648,989) |
| Cost of removal | **(20,036)** | (13,897) | (51,307) |
| Intercompany money pool | **92,863** | 26,451 | (117,258) |
| Other, net | **(1,948)** | 181 | 5,123 |
| Net cash used in investing activities | **(648,999)** | (728,261) | (812,431) |
| **Financing activities:** | | | |
| Issuance of long-term debt | **800,000** | 400,000 | - |
| Payment of debt issuance cost | **(2,866)** | (224) | - |
| Repayment of term loan | **(400,000)** | - | - |
| Intercompany money pool | **21,045** | - | - |
| Capital contributions from parent | **-** | - | 550,000 |
| Net cash provided by financing activities | **418,179** | 399,776 | 550,000 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | **28,440** | 7,733 | 5,658 |
| Cash, cash equivalents and restricted cash, beginning of year | **21,511** | 13,778 | 8,120 |
| Cash, cash equivalents and restricted cash, end of year | **$ 49,951** | $ 21,511 | $ 13,778 |
| **Supplemental disclosures:** | | | |
| Interest paid | **$ (130,001)** | $ (110,386) | $ (108,763) |
| Income taxes refunded | **44,966** | 93,153 | 57,264 |
| **Significant non-cash items:** | | | |
| Capital-related accruals included in accounts payable | **56,945** | 51,883 | 30,522 |
| Operating leases – ROU assets | **56,588** | - | - |
| Parent tax loss (income) allocation | **17** | 114 | (876) |

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

**THE BROOKLYN UNION GAS COMPANY**
**CONSOLIDATED BALANCE SHEETS**
*(in thousands of dollars)*

| | March 31, | |
|---|---|---|
| | **2023** | 2022 |
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | **$ 15,406** | $ 17,090 |
| Restricted cash and special deposits | **34,545** | 4,421 |
| Accounts receivable | **596,653** | 693,908 |
| Allowance for doubtful accounts | **(89,016)** | (170,115) |
| Accounts receivable from affiliates | **21,343** | 15,115 |
| Intercompany money pool | **279,206** | 372,069 |
| Unbilled revenues | **107,840** | 97,064 |
| Inventory | **153,663** | 52,999 |
| Regulatory assets | **43,200** | 9,608 |
| Accrued tax benefits | **239,406** | 21,138 |
| Other | **96,329** | 154,466 |
| Total current assets | **1,498,575** | 1,267,763 |
| **Property, plant and equipment, net** | **7,822,442** | 7,159,668 |
| **Non-current assets:** | | |
| Regulatory assets | **2,578,108** | 2,259,958 |
| Goodwill | **1,451,141** | 1,451,141 |
| Postretirement benefits | **103,209** | 174,386 |
| Other | **84,189** | 60,528 |
| Total non-current assets | **4,216,647** | 3,946,013 |
| **Total assets** | **$ 13,537,664** | $ 12,373,444 |

**THE BROOKLYN UNION GAS COMPANY**
**CONSOLIDATED BALANCE SHEETS**
*(in thousands of dollars)*

| | March 31, 2023 | March 31, 2022 |
|---|---|---|
| **LIABILITIES AND CAPITALIZATION** | | |
| **Current liabilities:** | | |
| Accounts payable | **$ 206,377** | $ 202,065 |
| Accounts payable to affiliates | **114,924** | 114,525 |
| Current portion of long-term debt | **-** | 400,000 |
| Intercompany money pool | **21,045** | - |
| Regulatory liabilities | **135,622** | 166,608 |
| Environmental remediation costs | **112,388** | 120,947 |
| Other | **109,258** | 82,513 |
| Total current liabilities | **699,614** | 1,086,658 |
| **Non-current liabilities:** | | |
| Regulatory liabilities | **744,464** | 850,478 |
| Deferred income tax liabilities, net | **1,330,430** | 951,008 |
| Environmental remediation costs | **1,745,079** | 1,612,915 |
| Other | **196,661** | 150,311 |
| Total non-current liabilities | **4,016,634** | 3,564,712 |
| **Commitments and contingencies (Note 11)** | | |
| **Capitalization:** | | |
| Shareholders’ equity | **5,386,977** | 5,085,906 |
| Long-term debt | **3,434,439** | 2,636,168 |
| **Total capitalization** | **8,821,416** | 7,722,074 |
| **Total liabilities and capitalization** | **$ 13,537,664** | $ 12,373,444 |

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

## THE BROOKLYN UNION GAS COMPANY
## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
*(in thousands of dollars)*

| | Common Stock | Cumulative Preferred Stock | Additional Paid-in Capital | Retained Earnings | Total |
|---|---|---|---|---|---|
| **Balance as of March 31, 2020** | $ - | $ - | $ **3,521,672** | $ **712,337** | $ **4,234,009** |
| Net income | - | - | - | 86,456 | 86,456 |
| Capital contributions from parent | - | - | 550,000 | - | 550,000 |
| Parent tax income allocation | - | - | (876) | - | (876) |
| **Balance as of March 31, 2021** | $ - | $ - | $ **4,070,796** | $ **798,793** | $ **4,869,589** |
| Net income | - | - | - | 216,203 | 216,203 |
| Parent tax loss allocation | - | - | 114 | - | 114 |
| **Balance as of March 31, 2022** | $ - | $ - | $ **4,070,910** | $ **1,014,996** | $ **5,085,906** |
| Net income | - | - | - | 301,054 | 301,054 |
| Parent tax loss allocation | - | - | 17 | - | 17 |
| **Balance as of March 31, 2023** | $ **-** | $ **-** | $ **4,070,927** | $ **1,316,050** | $ **5,386,977** |

The Company had 100 shares of common stock authorized, issued and outstanding, with a par value of $0.01 per share and 1 share of preferred stock, authorized, issued and outstanding, with a par value of $1 per share as of March 31, 2023 and 2022.

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

**THE BROOKLYN UNION GAS COMPANY**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

## 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The Brooklyn Union Gas Company ("the Company") is a gas distribution company engaged in the transportation and sale of natural gas to approximately 1.3 million customers in the boroughs of Brooklyn and Staten Island and two-thirds of the borough of Queens, all in New York City.

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

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), including the accounting principles for rate-regulated entities. The consolidated financial statements reflect the ratemaking practices of the applicable regulatory authorities. All intercompany balances and transactions have been eliminated in consolidation.

The Company has evaluated subsequent events and transactions through June 28, 2023, the date of issuance of these consolidated financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the consolidated financial statements as of and for the year ended March 31, 2023, except as otherwise disclosed in Note 5, "Rate Matters".

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Use of Estimates

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

### Regulatory Accounting

The New York Public Service Commission ("NYPSC") regulates the rates the Company charges its customers. In certain cases, the rate actions of the NYPSC can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. In accordance with Accounting Standards Codification ("ASC") 980, "Regulated Operations," regulatory assets and liabilities are reflected on the balance sheet consistent with the treatment of the related costs in the ratemaking process. In accordance with ASC 980, amounts capitalized for an allowance on shareholders' investment for ratemaking purposes have been derecognized for financial reporting. Equity return was capitalized and derecognized for carrying charges on regulatory assets and capital trackers, which are calculated using a weighted average cost of capital rate containing an element of equity return. The amount derecognized as of March 31, 2023 and 2022 was $110.6 million and $103.5 million, respectively.

### Revenue Recognition

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

**Income Taxes**

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

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

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

**Other Taxes**

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and expected to be paid for the years ended March 31, 2023, 2022, and 2021 were $75.3 million, $70.3 million, and $63.3 million, respectively.

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

**Cash and Cash Equivalents**

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

**Restricted Cash**

The Company has approximately $34.5 million held in restricted cash as of March 31, 2023. This restricted cash consists of margin calls to the New York Mercantile Exchange ("NYMEX") and collateral paid to the Company's counterparties for outstanding commodity and financial derivative instruments, as well as cash held in an environmental remediation trust the Company consolidates. The restricted cash held by the trust can only be used by the trust to pay for environmental remediation expenses. See Note 10, "Environmental Matters" for further details.

**Accounts Receivable and Allowance for Doubtful Accounts**

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience, and management's assessment of collectability from individual customers, as appropriate. The collectability of receivables is continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated, and the balances are deemed to be uncollectible. The Company recorded bad debt expense of $(47.2) million, inclusive of ($10.1) million of New York State funding for Phase 1 Arrears Reduction Program, $42.2 million, and $88.9 million for the years ended March 31, 2023, 2022, and 2021, respectively, within operation and maintenance expenses in the accompanying consolidated statements of income. For the year ended March 31, 2023, bad debt expense reflects the impact of the Phase 1 and 2 Arrears Reduction programs. See Note 5, "Rate Matters" for additional details.

**Inventory**

Inventory is composed of materials and supplies as well as gas in storage.

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

Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized into property, plant and equipment as used. There were no significant write-offs of obsolete inventory for the years ended March 31, 2023, 2022, or 2021.

The Company had gas in storage of $132.2 million and $36.9 million and materials and supplies of $21.5 million and $16.1 million as of March 31, 2023 and 2022, respectively.

**Fair Value Measurements**

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

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

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

**Property, Plant and Equipment**

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

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. The average composite rates for the years ended March 31, 2023, 2022, and 2021 were 1.9%, 1.9%, and 1.9%, respectively.

Depreciation expense includes a component for the estimated cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability or regulatory asset. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. As of March 31, 2023, and 2022, the Company recognized a regulatory asset of $20.6 million and $20.7 million, respectively for the costs incurred over the amounts recovered.

*Allowance for Funds Used During Construction*

The Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. The equity component of AFUDC is reported in the accompanying consolidated statements of income as non-cash income in other income (deductions), net. The debt component of AFUDC is reported as a non-cash offset to other interest, including affiliate interest, net. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base. The Company recorded AFUDC related to equity of $20.6 million, $18.8 million, and $7.8 million, and AFUDC related to debt of $8.8 million, $7.9 million, and $4.3 million, for the years ended March 31, 2023, 2022, and 2021, respectively. The average AFUDC rates for the years ended March 31, 2023, 2022, and 2021 were 6.3%, 6.4%, and 3.6%, respectively.

*Impairment of Long-Lived Assets*

The Company tests the impairment of long-lived assets when events or changes in circumstances indicate that the carrying amount of the asset (or asset group) may not be recoverable. If identified, the recoverability of an asset is determined by comparing its carrying value to the estimated undiscounted cash flows that the asset is expected to generate. If the comparison indicates that the carrying value is not recoverable, an impairment loss is recognized for the excess of the carrying value over the estimated fair value.

For the year ended March 31, 2023, the Company recorded a partial disallowance under ASC 980-360-35 for $10.5 million of costs related to design, engineering, permitting and consultant costs that will be recovered through a surcharge and will no longer be included in rate base. The partial disallowance arose due to the NYPSC order denying cost recovery for the Vaporizers 13 & 14 Project. These costs, however, are permitted to be recovered through the Demand Capacity Surcharge Mechanism ("DCSM") effective July 1, 2023 over the twelve-month period ending June 30, 2024, therefore, the disallowance did not impact earnings. For the years ended March 31, 2023, 2022, and 2021, there were no other impairment losses recognized for long-lived assets.

**Goodwill**

The Company tests goodwill for impairment annually, or more frequently if events occur or circumstances exist that indicate it is more likely than not that the fair value of the Company is below its carrying amount. The goodwill impairment test requires a recoverability test based on the comparison of the Company's estimated fair value with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, goodwill is not considered impaired. If the carrying value

exceeds the estimated fair value, the Company is required to recognize an impairment charge for such excess, limited to the carrying amount of goodwill.

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

The Company applies two valuation methodologies to estimate its fair value, principally discounted projected future net cash flows and market-based multiples, commonly referred to as the income approach and market approach. Key assumptions include, but are not limited to, estimated future cash flows, multiples of earnings, and an appropriate discount rate. In estimating future cash flows, the Company incorporates current market information and historical factors. The determination of fair value incorporates significant unobservable inputs, requiring the Company to make significant judgments, whereby actual results may differ from assumed and estimated amounts. For the year ended March 31, 2023, the Company applied a 50/50 weighting for each valuation methodology, as it believes that each approach provides equally valuable and reliable information regarding the Company's estimated fair value.

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

**Employee Benefits**

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

**Leases**

The Company has various operating leases, primarily related to buildings and land. Right-of-use ("ROU") assets consist of the lease liability, together with any payments made to the lessor prior to commencement of the lease (less any lease incentives) and any initial direct costs. ROU assets are amortized over the lease term. Lease liabilities are recognized based on the present value of the lease payments over the lease term at the commencement date. For any leases that do not provide an implicit rate, the Company uses an estimate of its collateralized incremental borrowing rate based on the information available at the commencement date to determine the present value of future payments. In measuring lease liabilities, the Company excludes variable lease payments, other than those that depend on an index or a rate, or are in substance fixed payments, and includes lease payments made at or before the commencement date. Variable lease payments were not material for the years ended March 31, 2023 and 2022. The Company does not reflect short-term leases and low value leases on the balance sheet. There were no short term lease costs for the years ended March 31, 2023 and 2022. Expense related to low value leases was not material for the years ended March 31, 2023 and 2022.

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

**New and Recent Accounting Guidance**

**Accounting Guidance Not Yet Adopted**

*Financial Instruments – Credit Losses*

In June 2016, the FASB issued ASU No. 2016-13 "*Financial Instruments–Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements*" which requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The accounting standard provides a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses that replaces existing incurred loss impairment methodology requiring delayed recognition of credit losses. A broader range of reasonable and supportable information must be considered in developing estimates of credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses.

In May 2019, the FASB issued ASU 2019-05, "*Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*", permitting entities to irrevocably elect the fair value option for financial instruments that were previously recorded at amortized cost basis within the scope of Topic 326, except for held-to-maturity debt securities. In March 2022, the FASB issued ASU 2022-02, "F*inancial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.*" The update eliminates the accounting guidance for troubled debt restructurings by creditors and enhances the disclosure requirements for loan refinancing and restructurings made with borrowers experiencing financial difficulty.

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

**Reclassifications**

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

**3. REVENUE**

The following table presents, for the years ended March 31, 2023, 2022 and 2021, revenue from contracts with customers, as well as additional revenue from sources other than contracts with customers, disaggregated by major source:

| | **Years ended March 31,** | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| | | *(in thousands of dollars)* | |
| Revenue from contracts with customers: | | | |
| Gas distribution | **$ 2,196,826** | $ 1,934,595 | $ 1,668,283 |
| Off system sales | **213,656** | 137,716 | 56,787 |
| Total revenue from contracts with customers | **2,410,482** | 2,072,311 | 1,725,070 |
| Revenue from regulatory mechanisms | **(43,225)** | 13,376 | 9,075 |
| Other revenue | **320** | 313 | 314 |
| Total operating revenues | **$ 2,367,577** | $ 2,086,000 | $ 1,734,459 |

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

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

Distribution revenue also includes estimated unbilled amounts, which represent the estimated amounts due from retail customers for natural gas provided to customers by the Company, but not yet billed. Unbilled revenues are determined based on estimated unbilled sales volumes for the respective customer classes and then applying the applicable tariff rate to those volumes. Actual amounts billed to customers when the meter readings occur, may be different from the estimated amounts. Certain customers have the option to obtain natural gas from other suppliers. In those circumstances, revenue is only recognized for providing delivery of the commodity to the customer.

*Off System Sales ("OSS"):* Represents direct sales of gas to participants in the wholesale natural gas marketplace, which occur after customers' demands are satisfied.

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

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

## 4. REGULATORY ASSETS AND LIABILITIES

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

| | March 31, | |
|---|---|---|
| | **2023** | 2022 |
| | *(in thousands of dollars)* | |
| **Regulatory assets** | | |
| Current: | | |
| Demand capacity surcharge mechanism | **$ 16,094** | $ 28 |
| Derivative instruments | **16,985** | - |
| Facilities system surcharge | **5,962** | 671 |
| Gas safety and reliability surcharge | **115** | 343 |
| Rate adjustment mechanisms | **3,707** | 8,265 |
| Other | **337** | 301 |
| Total | **43,200** | 9,608 |
| Non-current: | | |
| Arrears reduction | **114,571** | - |
| Cost of removal | **20,584** | 20,691 |
| Environmental response costs | **2,026,007** | 1,909,076 |
| Exogenous costs | **101,499** | 101,499 |
| Postretirement benefits | **193,332** | 127,668 |
| Other | **122,115** | 101,024 |
| Total | **2,578,108** | 2,259,958 |
| **Regulatory liabilities** | | |
| Current: | | |
| Derivative instruments | **-** | 18,275 |
| Energy efficiency | **21,206** | 29,878 |
| Gas costs adjustment | **68,802** | 73,288 |
| Revenue decoupling mechanism | **44,756** | 44,572 |
| Other | **858** | 595 |
| Total | **135,622** | 166,608 |
| Non-current: | | |
| Carrying charges | **76,089** | 77,520 |
| Environmental response costs | **52,411** | 52,296 |
| Postretirement benefits | **142,166** | 152,615 |
| Rate plan deferral credits | **4,800** | 53,672 |
| Regulatory tax liability, net | **323,538** | 358,808 |
| Other | **145,460** | 155,567 |
| Total | **$ 744,464** | $ 850,478 |

**Arrears reduction:** This regulatory balance represents the deferral, net of recoveries, of the Arrears Reduction Program ("ARP") Phase 1 and Phase 2. On June 16, 2022, the NYPSC approved the Order Authorizing Phase 1 ARP for Energy Affordability Program ("EAP") customers to provide the novel coronavirus ("COVID-19") related relief through a one-time bill credit that eliminates accrued arrears through May 1, 2022, including authorization for utility recovery of arrears reduction program costs not otherwise covered by funds provided through Utility Arrears Relief Program ("UARP") or programs administered by the Office of Temporary and Disability Assistance ("OTDA"). The Phase 1 Order authorized recovery of the Phase 1 EAP ARP ratepayer funded portion and associated carrying charges over three and half years for the amount

capitalized as a regulatory asset via a surcharge effectuated by a tariff filing effective August 1, 2022. On January 19, 2023, the NYPSC approved the Order Authorizing Phase 2 ARP for non-EAP residential and certain qualifying small business customers. The Phase 2 Order authorized recovery of the Phase 2 ARP ratepayer funded portion and associated carrying charges over eleven years for the amount capitalized as a regulatory asset via a surcharge effectuated by a tariff filing effective March 1, 2023.

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

**Cost of removal:** Represents cumulative removal amounts spent, but not yet collected, to dispose of property, plant and equipment.

**Demand capacity surcharge mechanism:** The Company recovers costs associated with incremental NYPSC approved demand response, energy efficiency, and Long-Term Capacity Projects through the DCSM.

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

**Energy efficiency**: Under the current rate plan the Company will defer any under expenditures of NYPSC approved energy efficiency programs that are included in base rates. After the term of the rate plan the balance will be subject to future disposition by the NYPSC.

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

**Exogenous costs**: Under the latest rate plan, the Company was authorized to seek deferral treatment of certain exogenous costs, which are defined as incremental expenses that result from any legislative, court or regulatory change that imposes new obligations that exceed 3% of pre-tax income in any given rate year. Effective April 2017, the City of New York set significant new regulations on utilities for incremental municipal permitting and paving requirements which caused the utility to meet the threshold of exogenous costs. The Exogenous costs deferral includes incremental paving costs and inside service line inspection costs for future recovery from the customer.

**Facilities system surcharge:** On May 1, 2018, the Company entered the New York Facilities Agreement ("NYFA") with KeySpan Gas East Corporation and Consolidated Edison Company of New York, Inc. to design, maintain and operate their respective constructed portion of a system of gas mains and associated facilities for receiving and distributing natural gas. On October 18, 2018, the NYPSC issued an order to allow the Company to recover or refund NYFA costs as compared to the amount reflected in base rates. The facilities system surcharge was implemented on November 1, 2018. The surcharge is reconciled on an annual basis and any difference is refunded to, or recovered from, customers over the following fiscal year, effective July 1.

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

**Gas safety and reliability surcharge**: The regulatory asset, under the current rate plan, was modified to include the recovery of incremental proactive leak prone pipe replacement costs up to 102% of the sum of rate allowance unit costs, any earned leak repair positive revenue adjustments and incremental leak repair costs. The surcharge is reconciled on a calendar year

basis and included in the delivery rate adjustment recovered from firm sales and firm transportation customers in the following fiscal year effective July 1.

**Postretirement benefits:** The regulatory asset balance represents the Company's, unamortized, non-cash accrual of net pension actuarial gains and losses in addition to actual costs associated with Company's pension plans in excess of amounts received in rates that are to be collected in future periods. The regulatory liability represents the Company's, unamortized, non-cash accrual of net PBOP actuarial gains and losses in addition to excess amounts received in rates over actual costs of the Company's PBOP plans that are to be passed back in future periods.

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

**Rate plan deferral credits**: In the new rate case, base rate changes were designed to achieve no revenue increases in Rate Year 1 and annual revenue increases of 2% in Rate Year 2 and Rate Year 3. To achieve these outcomes, the Company will amortize $94.4 million of a net regulatory liability to offset the revenue requirements over the term of the rate plan. The rate plan deferral credit balances are being amortized over the term of the rate plan in the amounts of $17.3 million in Rate Year 1, $23.4 million in Rate Year 2, and $53.7 million in Rate Year 3.

**Regulatory tax liability, net:** Represents over-recovered federal and state deferred taxes of the Company primarily as a result of regulatory flow through accounting treatment, state income tax rate changes and excess federal deferred taxes as a result of the Tax Cuts and Jobs Act of 2017 ("Tax Act"). Under the current rate plan, the protected excess deferred income taxes are amortized using the Average Rate Assumption Method ("ARAM") and the unprotected excess deferred income taxes are amortized over a 5-year amortization period. The revenue requirement reflects the amortization of $28.3 million in each rate year.

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

## 5. RATE MATTERS

### Rate Case Filing

On April 28, 2023, the Company and KeySpan Gas East Corporation (the "New York Gas Companies" or the "Companies") filed to increase revenues by $414 million and $228 million, respectively for the twelve months ending March 31, 2025 ("Rate Year 1"). While the Companies' filings propose new rates for Rate Year 1 only, cost data for three additional years have been included to facilitate a potential multi-year settlement. The Companies believe that a multi-year settlement would allow for a phase in of the revenue increases and the ability to better manage customer bill impacts and affordability. If approved, the new charges would take effect from April 1, 2024.

These rate filings demonstrate the Companies commitment to continuing its broad support of New York's energy goals and meeting the challenges of climate change, while also ensuring the overall reliability, resiliency, and affordability of the energy system. The New York Gas Companies are proposing numerous programs that will reduce emissions and advance the clean energy goals of the Climate Leadership and Community Protection Act ("CLCPA"). Among the specific programs are targeted main replacement, a new leak repair program, extending an unprecedented ramp-up in energy efficiency, and promotion of weatherization programs.

### General Rate Case

On April 30, 2019, the New York Gas Companies filed to increase revenues for the twelve months ending March 31, 2021 ("Rate Year 1"). The New York Gas Companies were granted an extension of the suspension period, such that new rates would

now become effective September 1, 2021 and included a Make Whole provision in order to keep the Companies and their customers in the same financial position they would have been had the Companies filed for new rates by April 30, 2020.

On May 14, 2021, the Department of Public Service ("DPS") Staff and the New York Gas Companies filed a Joint Proposal ("JP") for a three-year rate plan beginning April 1, 2020 and ending March 31, 2023. The total revenue increases are 0% in Rate Year 1 for both Companies and 2% and 1.8% in Rate Year 2 and Rate Year 3 for the Company and KeySpan Gas East Corporation, respectively. To mitigate the potential bill impacts on customers, the settlement applies nearly $100 million of credits over the three years of the rate plan. In addition, the revenue requirements include amounts from the amortization of excess federal Accumulated Deferred Income Taxes ("ADIT"), which was also used to benefit customers by mitigating rates.

The JP addresses the goals of the CLCPA and includes provisions that promote energy efficiency, demand response, geothermal, and electrification options to meet customers' energy needs while minimizing the need for additional gas infrastructure. The settlement is based upon an 8.8% return on equity ("ROE") and 48% common equity ratio and includes an earnings sharing mechanism with customers when the Company's ROE is in excess of 9.3%. In addition, the JP also includes a mechanism that would allow the Company to extend the rate plan by twelve months ("Stayout Period"), such that new rates would become effective April 1, 2024. Beginning April 1, 2023, the Company began the Stayout Period which continued the provisions of the current rate plan with some modifications, including the deferral of incremental revenue requirement over the allowance in base rates for the net utility plant and depreciation expense reconciliation mechanism (capped at forecast levels) and Commission-approved energy efficiency costs not recovered in base rates to achieve energy efficiency targets (not to exceed the authorized budget) for the twelve months ended March 31, 2024.

On August 12, 2021, the NYPSC approved and adopted the JP and supporting schedules with limited additional requirements. Pursuant to the JP, the Company recorded the Make Whole provision during the fiscal year ended March 31, 2022, the impact of this provision for Rate Year 1 did not result in a material impact on the Company's financial position, results of operations or cash flows.

**Downstate Gas Moratorium**

The downstate gas moratorium settlement agreement (the "Settlement Agreement") entered in November 2019, and subsequently approved by the NYPSC, required the New York Gas Companies to lift the moratorium for approximately two years and implemented $35 million in customer assistance, demand response, energy efficiency and other shareholder funded programs. On February 25, 2021, the DPS Staff and the New York Gas Companies entered into the Second Amendment to the Settlement Agreement, approved by the NYPSC on April 15, 2021, which repurposed the $20 million of shareholder funding designated to support clean energy projects under the original Settlement Agreement. On August 12, 2021, the NYPSC approved the New York Gas Companies rate case which authorized to use the $20 million settlement amount to offset the revenue requirement of the Company's current rate plan.

**Downstate Order to Show Cause**

On February 25, 2021, the DPS Staff and the New York Gas Companies entered into a settlement agreement resolving all issues arising out of the "Orders Instituting Proceeding and to Show Cause" dated July 2019 and November 2018 for alleged gas safety violations. The settlement agreement, approved by the NYPSC on March 18, 2021, authorizes the Company to establish a deferral at shareholder expense for its portion of the settlement of $15 million for the benefit of customers to offset the costs of the Company's approved energy efficiency and demand response programs. On August 12, 2021, the NYPSC approved the New York Companies rate case which authorized to use the $15 million settlement amount to offset the revenue requirement of the Company in the current rate plan.

**Federal and Regulatory Investigations into Allegations of Fraud and Bribery**

On June 17, 2021, five former employees of National Grid USA Service Company, Inc. in the downstate New York facilities department were arrested on federal charges alleging fraud and bribery. The five former employees subsequently pleaded guilty to the charges pursuant to plea agreements and have been sentenced. NGUSA was deemed a victim of the crimes. On June 23, 2021, based on the US Attorney's announcement, the NYPSC issued an order commencing a proceeding to examine

certain programs and related capital and operations and maintenance ("O&M") expenditures of NGUSA, and the New York Gas Companies. Over the past year and a half, National Grid has fully cooperated with the NYPSC's inquiries regarding the alleged misconduct. At this time, it is not possible to predict the outcome of the regulatory investigation. However, National Grid does not expect this matter will have a materially adverse effect on its results of operations, financial position, or cash flows.

**Proceeding on Energy Affordability Programs and Effects of COVID-19 on Utility Service**

On June 11, 2020, the NYPSC opened a proceeding to investigate the impacts of COVID-19 on utilities' customers, operations, finances and ability to provide safe and reliable service at just and reasonable rates. The Company along with the other New York State utilities worked closely with our regulators to develop approaches that support residential and commercial customers, utilities, clean energy developers, and other stakeholders, all of whom contribute to the State's economic health. On January 19, 2023, the NYPSC closed the proceeding on the effects of COVID-19 on utility service, when it issued its order authorizing the Phase 2 Arrears Reduction Program.

**COVID-19 Recovery**

On January 20, 2021, the DPS Staff issued a guidance letter regarding deferral treatment of incremental COVID-19 costs. The letter articulated two scenarios under which utilities could seek deferral of such costs – through change in law provisions contained in utilities' existing rate plans or through a separate deferral petition.

On December 16, 2021, the Company notified the NYPSC that under its current rate plan provisions the Company has met the requirements during Rate Year 1 to defer, for ratemaking purposes, the unbilled fees (late payment charges and other waived fees, net of related savings) resulting from New York State's COVID-19 related orders and legislation. On February 7, 2022, the downstate New York Gas Companies jointly petitioned for approval of an alternative recovery mechanism for the COVID-19 related unbilled fees that are deferred during the term of the rate plans. On June 16, 2022, the NYPSC approved the New York Gas Companies petition for alternative recovery mechanism of COVID-19 unbilled fees, whereby, the Company will collect its deferral for Rate Year 1 of $12.96 million through a surcharge effective July 1, 2022, through June 30, 2023. In addition, the NYPSC authorizes the New York Gas Companies to surcharge or credit the deferred COVID-19 unbilled fees, net of related savings, for Rate Years 2 and 3 under its rate plan during the periods from July 1, 2023, through June 30, 2024, and July 1, 2024, through June 30, 2025, respectively. The order also approved the Company's proposal to commit $1.2 million of the deferred unbilled fee toward customer arrearages, discussed below. In June 2022, the Company met the requirements under U.S. GAAP to recognize the revenues for the COVID-19 unbilled fees for the amounts deferred through June 30, 2022. Accordingly, the Company recorded the revenue related to the COVID-19 unbilled fees deferral, in fiscal year 2023, of $20.8 million to revenue from regulatory mechanisms and the associated interest income of $1.6 million on the deferral to other income, net.

**Energy Affordability Programs**

On February 4, 2021, the DPS issued a Whitepaper providing recommendations in both the proceeding for Energy Affordability for Low Income utility customers and the proceeding on the effects of COVID-19 on utility service. On August 12, 2021, the NYPSC issued an order to adopt recommendations that aim to provide uniformity of energy affordability programs statewide via standardized practices and facilitate the ease of enrollment and customer participation. The Commission also adopted modifications to the bill discount calculation methodology to move further toward achieving the Commission's six percent energy burden goal. In accordance with the order, the joint utilities filed tariff modification updates to their respective Energy Affordability Program bill discounts on November 1, 2022 effective December 1, 2022, initiating an annual cycle of Energy Affordability Policy tariff statement updates for low-income discounts. The order also established an Energy Affordability Policy working group ("EAP Working Group"), in which the Company is a member.

**Phase 1 Arrears Reduction Program**

Several initiatives have been developed since the issuance of the August 2021 order, most notably, the UARP, which was included in the fiscal year 2022-2023 New York State budget ("NYS budget") and which is aimed at reducing the arrears held

by ratepayers from March 7, 2020, until March 1, 2022. Pursuant to the requirements of the UARP, the NYS budget enacted in April 2022, directed the DPS to establish a residential arrears reduction program for electric and gas customers, in consultation with the EAP Working Group, to first prioritize the $250 million allocation of State funds, of which the Company's portion is approximately $10.1 million, to eligible low-income customers no later than August 1, 2022.

In May 2022, the EAP Working Group issued an Arrears Report recommending, among other matters, to implement an arrears reduction program in two phases. The first phase ("Phase 1") would target low-income customers to provide much needed COVID-19 related relief through a one-time bill credit that eliminates accrued arrears through May 1, 2022, with portions above the $250 million state appropriation being funded from a combination of sources including ratepayers. The second phase ("Phase 2") would allow the EAP Working Group to develop a program designed to reduce arrears for customers who were not eligible for arrears relief under the Phase 1 program.

On June 16, 2022, the NYPSC approved the recommendations made in the Phase 1 Arrears Report discussed above. The order authorized the implementation of the Phase 1 Arrears Reduction Program, whereby, the Company's total EAP arrears reduction one-time bill credits are to be funded by approximately $10.1 million from the NYS budget allocation, a shareholder contribution of $1.2 million under the Company's approved petition for alternative recovery mechanism of COVID-19 unbilled fees, with the remaining balance to be recovered from customers through a surcharge over a three and a half year recovery period effective on August 1, 2022. The Company issued a total of approximately $50.1 million of Phase 1 EAP one-time bill credits to its gas customers through March 31, 2023.

**Phase 2 Arrears Reduction Program**

On December 23, 2022, the EAP Working Group filed the Phase 2 Arrears Report recommending that the NYPSC adopt a second phase of relief for COVID-19 related arrears through May 1, 2022 for residential non-EAP customers who did not receive relief under Phase 1 and for small commercial customers' arrears.

On January 19, 2023, the NYPSC approved the EAP Working Group's Phase 2 proposal ("Phase 2 Order"). The Phase 2 relief will include a one-time bill credit to resolve arrears through May 1, 2022 for approximately 75 percent of residential non-EAP and small business customers, and partially resolve arrears for approximately 25 percent of remaining customers. In total, the Phase 2 program provided approximately $82.2 million of one-time bill credits, to eligible customers who did not receive relief under the Phase 1 program. The cost of the Phase 2 program bill credits and carrying costs will be funded by customers through a customer surcharge over an eleven-year period. On February 21, 2023, in accordance with the Phase 2 Order, National Grid submitted a compliance filing and also requested a proposed uncollectible expense reconciliation mechanism in exchange for a future adjustment of the Phase 2 program customer surcharge, which the Company does not expect will have a material impact to the financial statements. It is uncertain as to when the NYPSC will respond to this proposal.

**Community Investment**

In October 2022, National Grid announced its commitment to help customers and communities navigate increasing winter energy prices. To help customers who need financial assistance, as winter energy prices are expected to rise significantly due to the global energy crisis and inflation, National Grid has committed $17 million in philanthropic shareholder funding. These funds are in addition to annual local community and philanthropic support. The funds will be distributed through National Grid and the National Grid Foundation to existing networks and community partners across Massachusetts and New York that are set up to help individuals, families and communities who need it most. The assistance allocated to National Grid's New York State customers and communities is approximately $7 million of which $4 million was spent in fiscal year 2023.

## 6. PROPERTY, PLANT AND EQUIPMENT

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

| | March 31, | |
|---|---|---|
| | **2023** | 2022 |
| | *(in thousands of dollars)* | |
| Plant and machinery | **$ 8,470,317** | $ 7,699,605 |
| Motor vehicles and equipment | **6,722** | 12,981 |
| Land and buildings | **205,421** | 227,584 |
| Assets in construction | **465,839** | 508,039 |
| Software and other intangibles | **132,013** | 131,796 |
| Operating leases ROU assets | **58,147** | 36,332 |
| Total property, plant and equipment | **9,338,459** | 8,616,337 |
| Accumulated depreciation and amortization | **(1,515,242)** | (1,437,946) |
| Accumulated amortization – Operating lease ROU assets | **(775)** | (18,723) |
| Property, plant and equipment, net | **$ 7,822,442** | $ 7,159,668 |

## 7. EMPLOYEE BENEFITS

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

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

*Pension Plans*

The Qualified Pension Plans are defined benefit pension plans which provide union employees, as well as nonunion employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory retirement programs provide additional pension benefits to certain executives and for eligible participants covers compensation levels in excess of the Internal Revenue Service (“IRS”) limits. During the years ended March 31, 2023, 2022 and 2021, the Company made contributions of approximately $9.5 million, $4.5 million, and $8.1 million, respectively, to the Qualified Pension Plans. The Company expects to contribute approximately $3.2 million to the Qualified Pension Plans during the year ending March 31, 2024.

Benefit payments to Pension Plan participants for the years ended March 31, 2023, 2022, and 2021 were approximately $70.6 million, $41.2 million, and $40.4 million, respectively. Benefit payments for the year ended March 31, 2023 included payments for an annuity contract purchase.

*PBOP Plans*

The PBOP plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements, and in most cases retirees must contribute to the cost of their healthcare coverage. During the years ended March 31, 2023, 2022, and 2021, the Company made contributions of approximately $0.8 million, zero, and zero, respectively, to the PBOP Plans. The Company does not expect to contribute to the PBOP Plans during the year ending March 31, 2024.

Benefit payments to PBOP plan participants for the years ended March 31, 2023, 2022, and 2021 were $11.7 million, $14.1 million, and $12.5 million, respectively.

**Net Periodic Benefit Costs**

The Company's net periodic pension cost for the years ended March 31, 2023, 2022, and 2021 were $5.1 million, $10.0 million, and $24.8 million, respectively.

The Company's net periodic PBOP cost (benefit) for the years ended March 31, 2023, 2022, and 2021 were $(6.6) million, $(5.7) million, and $3.2 million, respectively.

**Amounts Recognized in Regulatory Assets/Liabilities**

The following tables summarize the Company's changes in actuarial gains/losses and prior service costs recognized in regulatory assets/liabilities for the years ended March 31, 2023, 2022, and 2021:

| | **Pension Plans** | | |
|---|---|---|---|
| | **March 31,** | | |
| | **2023** | 2022 | 2021 |
| | *(in thousands of dollars)* | | |
| Net actuarial (gain) loss | **$ 76,541** | $ (72,841) | $ (91,725) |
| Amortization of net actuarial (loss) | **(10,737)** | (20,262) | (28,730) |
| Amortization of prior service cost, net | **(9)** | (19) | (19) |
| Total | **$ 65,795** | $ (93,122) | $ (120,474) |
| Included in regulatory assets (liabilities) | **65,795** | (93,122) | (120,474) |
| Total | **$ 65,795** | $ (93,122) | $ (120,474) |

| | **PBOP Plans** | | |
|---|---|---|---|
| | **March 31,** | | |
| | **2023** | 2022 | 2021 |
| | *(in thousands of dollars)* | | |
| Net actuarial (gain) loss | **$ 12,729** | $ (18,898) | $ (68,780) |
| Amortization of net actuarial gain (loss) | **4,584** | 3,720 | (3,979) |
| Total | **$ 17,313** | $ (15,178) | $ (72,759) |
| Included in regulatory liabilities | **17,313** | (15,178) | (72,759) |
| Total | **$ 17,313** | $ (15,178) | $ (72,759) |

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

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

| | Pension Plans | | |
|---|---|---|---|
| | March 31, | | |
| | **2023** | 2022 | 2021 |
| | | *(in thousands of dollars)* | |
| Net actuarial (gain) loss | **$ 31,448** | $ (34,356) | $ 58,747 |
| Prior service cost | **3** | 12 | 31 |
| Total | **$ 31,451** | $ (34,344) | $ 58,778 |
| Included in regulatory assets (liabilities) | **31,451** | (34,344) | 58,778 |
| Total | **$ 31,451** | $ (34,344) | $ 58,778 |

| | PBOP Plans | | |
|---|---|---|---|
| | March 31, | | |
| | **2023** | 2022 | 2021 |
| | | *(in thousands of dollars)* | |
| Net actuarial gain | **$ (46,719)** | $ (64,032) | $ (48,854) |
| Prior service cost | **(4)** | (4) | (4) |
| Total | **$ (46,723)** | $ (64,036) | $ (48,858) |
| Included in regulatory liabilities | **(46,723)** | (64,036) | (48,858) |
| Total | **$ (46,723)** | $ (64,036) | $ (48,858) |

The Company has regulatory recovery of these obligations or has to return over-collected amounts to customers and therefore amounts are included in regulatory assets/liabilities on the balance sheets.

**Amounts Recognized on the Balance Sheet**

The following table summarizes the portion of the funded status that is recognized on the Company's balance sheet as of March 31, 2023 and 2022:

| | Pension Plans | | PBOP Plans | |
|---|---|---|---|---|
| | March 31, | | March 31, | |
| | **2023** | 2022 | **2023** | 2022 |
| | *(in thousands of dollars)* | | | |
| Projected benefit obligation | **$ (734,470)** | $ (879,365) | **$ (212,167)** | $ (251,753) |
| Allocated fair value of assets | **741,401** | 947,202 | **308,445** | 358,293 |
| Funded status | **$ 6,931** | $ 67,837 | **$ 96,278** | $ 106,540 |
| | | | | |
| Non-current assets | **$ 6,931** | $ 67,846 | **$ 96,278** | $ 106,540 |
| Non-current liabilities | **-** | (9) | **-** | - |
| Total | **$ 6,931** | $ 67,837 | **$ 96,278** | $ 106,540 |

For the year ended March 31, 2023, the net actuarial loss for the Pension and PBOP plans were primarily driven by asset losses due to returns that were less than expected. These losses were partially offset by the increase in the discount rate, slight changes to the withdrawal assumption resulting from the recent experience study, and savings resulting from a new Medicare Advantage contract for PBOP. For the year end March 31, 2022, the net actuarial gain for pension and PBOP was largely driven by the increase in discount rate and change in the mortality assumption resulting from the recent experience study, partially offset by small asset losses due to returns that were less than expected. For the year end March 31, 2021, the net actuarial gain for pension and PBOP was largely the result of asset performance well above expectations and favorable contract negotiations for PBOP, partially offset by liability losses generated from the discount rate decrease and census data experience.

**Expected Benefit Payments**

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

| *(in thousands of dollars)*<br>Years Ended March 31, | Pension Plans | PBOP Plans |
|---|---|---|
| 2024 | $ 42,041 | $ 10,562 |
| 2025 | 41,507 | 10,857 |
| 2026 | 40,790 | 11,146 |
| 2027 | 39,801 | 11,438 |
| 2028 | 38,582 | 11,640 |
| 2029-2033 | 172,254 | 59,999 |
| Total | $ 374,975 | $ 115,642 |

**Assumptions Used for Employee Benefits Accounting**

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

| | PBOP Plans | | |
|---|---|---|---|
| | Years Ended March 31, | | |
| | **2023** | 2022 | 2021 |
| **Benefit Obligations:** | | | |
| Discount rate | **4.85%** | 3.65% | 3.25% |
| **Net Periodic Benefit Costs:** | | | |
| Discount rate | **3.65%** | 3.25% | 3.65% |
| Expected return on plan assets | **5.00-5.50%** | 5.00%-5.50% | 6.50%-7.00% |

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

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

**Assumed Health Cost Trend Rate**

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

**Plan Assets**

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

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

The RPC has established and reviews at least annually the Investment Policy Statement ("IPS") which sets forth the guidelines for how plan assets are to be invested. The IPS contains a strategic asset allocation for each plan which is intended to meet the objectives of the plans by diversifying its funds across asset classes, investment styles and fund managers. An asset/liability study typically is conducted periodically to determine whether the current strategic asset allocation continues to represent the appropriate balance of expected risk and reward for the plan to meet expected liabilities. Each study considers the investment risk of the asset allocation and determines the optimal mix of assets for the plan. The target asset allocation for fiscal year-end 2023 reflects the results of such a pension asset/liability analysis conducted and implemented fiscal year 2023. The union PBOP Plan asset liability study was conducted in 2023. As a result of that study the RPC approved changes to the union PBOP asset allocation effective in fiscal year 2023. The non-union PBOP Plan asset liability study is expected to be run within the next 6-12 months.

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

Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across market segments and is mainly

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

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

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

**Fair Value Measurements**

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

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

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

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

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

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

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

**Government securities:** Government Securities includes US agency and treasury securities, as well as state and local municipal bonds. The plans also include a small amount of Non-US government debt which is also captured here. US Government money market funds are also included. In addition, interest rate futures and swaps are held as a tool to manage interest rate risk.

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

**Real estate:** Real estate consists of limited partnership investments primarily in US core open end real estate funds as well as some core plus closed end real estate funds.

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

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

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

**Defined Contribution Plan**

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

## 8. CAPITALIZATION

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

| | | | March 31, | |
|---|---|---|---|---|
| | | | **2023** | 2022 |
| **Total shareholders' equity** | | | **$ 5,386,977** | $ 5,085,906 |
| **Long-term debt:** | Interest Rate | Maturity Date | | |
| *Term Loans:* | | | | |
| Bank Term Loan | Variable | December 28, 2022 | **-** | 400,000 |
| *Unsecured Notes:* | | | | |
| Senior Note | 3.41% | March 10, 2026 | **500,000** | 500,000 |
| Senior Note | 3.87% | March 4, 2029 | **550,000** | 550,000 |
| Senior Note | 4.50% | March 10, 2046 | **500,000** | 500,000 |
| Senior Note | 4.27% | March 15, 2048 | **650,000** | 650,000 |
| Senior Note | 4.49% | March 4, 2049 | **450,000** | 450,000 |
| Senior Note | 4.63% | August 5, 2027 | **400,000** | - |
| Senior Note | 4.87% | August 5, 2032 | **400,000** | - |
| Total debt | | | **3,450,000** | 3,050,000 |
| Unamortized debt issuance costs | | | **(15,561)** | (13,832) |
| Current portion of long-term debt | | | **-** | 400,000 |
| Long-term debt | | | **3,434,439** | 2,636,168 |
| **Total capitalization** | | | **$ 8,821,416** | $ 7,722,074 |

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

| *(in thousands of dollars)*<br>**March 31,** | **Maturities of Long-Term Debt** |
|---|---|
| 2024 | $ - |
| 2025 | - |
| 2026 | 500,000 |
| 2027 | - |
| 2028 | 400,000 |
| Thereafter | 2,550,000 |
| Total | $ 3,450,000 |

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

**Debt Authorizations**

On June 17, 2022, the NYPSC authorized the Company to issue up to $1.8 billion of new long-term debt securities, with the authorization valid for a period beginning on the effective date of the commission's order and ending on March 31, 2025. Under this authorization, on August 5, 2022, the Company issued $400 million 10-year and $400 million 5-year unsecured long-term debt with fixed rates of 4.866% and 4.632%, respectively.

**Dividend Restrictions**

Pursuant to the NYPSC's orders, the ability of the Company to pay dividends to NGUSA is conditioned upon maintenance of a utility capital structure with debt not exceeding 56% of total utility capitalization. As of March 31, 2023, and 2022, the Company was in compliance with the utility capital structure required by the NYPSC. In accordance with the NYPSC order approving the acquisition of KeySpan Corporation, the Company is permitted to declare dividends in an amount not to exceed retained earnings accumulated since the date of acquisition plus unappropriated retained earnings, unappropriated undistributed earnings and accumulated other comprehensive income existing immediately prior to the date of acquisition.

**Significant Debt Facilities**

*Term Loan*

On September 28, 2021, the Brooklyn Union Gas Company entered into a $400 million Term Loan with a maturity date of December 28, 2022. The interest rate is based on the daily compounded Secured Overnight Financing Rate ("SOFR") that will be finalized at the end of the term plus a credit spread. On August 11, 2022, the Term Loan was fully repaid.

**Preferred Stock**

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

**Capital Contribution From Parent**

On March 24, 2021, the Company received a capital contribution of $550 million from NGUSA.

## 9. INCOME TAXES

**Components of Income Tax Expense**

| | Years Ended March 31, | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| | | *(in thousands of dollars)* | |
| Current tax expense (benefit): | | | |
| Federal | **$ (203,063)** | $ (14,633) | $ (44,921) |
| State | **(67,364)** | (16,116) | (36,177) |
| Total current tax benefit | **(270,427)** | (30,749) | (81,098) |
| Deferred tax expense (benefit): | | | |
| Federal | **242,365** | (5,956) | 69,851 |
| State | **101,787** | 38,386 | 47,348 |
| Total deferred tax expense | **344,152** | 32,430 | 117,199 |
| Total income tax expense | **$ 73,725** | $ 1,681 | $ 36,101 |

**Statutory Rate Reconciliation**

The Company's effective tax rates for the years ended March 31, 2023, 2022, and 2021 are 19.7%, 0.8%, and 29.5%, respectively. The following table presents a reconciliation of income tax expense (benefit) at the federal statutory tax rate of 21.0% to the actual tax expense:

| | Years Ended March 31, | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| | | *(in thousands of dollars)* | |
| Computed tax | **$ 78,704** | $ 45,755 | $ 25,737 |
| Change in computed taxes resulting from: | | | |
| State income tax, net of federal benefit | **27,194** | 17,594 | 8,825 |
| Amortization of regulatory tax liability, net | **(32,232)** | (60,220) | (1,402) |
| Audit and related reserve movements | **394** | (373) | 2,931 |
| Other items, net | **(335)** | (1,075) | 10 |
| Total changes | **(4,979)** | (44,074) | 10,364 |
| Total income tax expense | **$ 73,725** | $ 1,681 | $ 36,101 |

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

**Inflation Reduction Act**

On August 16, 2022, President Biden signed into law the Inflation Reduction Act ("IRA"), which may impact how the U.S. taxes certain large corporations. The IRA imposes a 15% corporate alternative minimum tax ("CAMT") on the "adjusted financial statement income" of certain large corporations for tax years beginning after December 31, 2022. The Company expects to be subject to the new CAMT on its federal income tax return for the tax year ending March 31, 2024. While under ASC 740,

"Income Taxes", changes in income tax rates and law are accounted for in the period of enactment, the accounting implications of the CAMT provision in the IRA are only expected to impact the Company's financial statements prospectively.

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

**Deferred Tax Components**

| | March 31, | |
|---|---|---|
| | **2023** | 2022 |
| | *(in thousands of dollars)* | |
| **Deferred tax assets:** | | |
| Environmental remediation costs | **$ 514,063** | $ 479,855 |
| Net operating losses | **17,756** | 123,699 |
| Regulatory liabilities | **249,265** | 287,210 |
| Other | **75,001** | 80,642 |
| Total deferred tax assets | **856,085** | 971,406 |
| **Deferred tax liabilities:** | | |
| Property-related differences | **1,432,492** | 1,241,180 |
| Regulatory assets | **725,461** | 628,114 |
| Other | **28,562** | 53,120 |
| Total deferred tax liabilities | **2,186,515** | 1,922,414 |
| **Deferred income tax liabilities, net** | **$ 1,330,430** | $ 951,008 |

**Net Operating Losses**

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

| | Gross Carryforward Amount | Expiration Period |
|---|---|---|
| | *(in thousands of dollars)* | |
| Federal | $ 9,192 | 2038 |
| Federal – No Expiration | 114,334 | Indefinite |
| New York State | 579,391 | 2035-2042 |

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

**Status of Income Tax Examinations**

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

| Jurisdiction | Tax Year |
|---|---|
| Federal | March 31, 2020 |
| New York | March 31, 2016 |

In May 2022, the Company reached an audit settlement agreement with the IRS for the years ended March 31, 2018 and March 31, 2019. The outcome of the settlement did not have a material impact on the Company's results of operations, financial position, or cash flows.

**Uncertain Tax Positions**

The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest, net and related penalties, if applicable, in other income (deductions), net, in the accompanying statements of income. As of March 31, 2023, and 2022, the Company has accrued for interest related to unrecognized tax benefits of $3.3 million and $2.7 million, respectively. During the years ended March 31, 2023, 2022 and 2021, the Company recorded interest income of $0.7 million, interest expense of $1.5 million and interest income of $12.0 million, respectively. No tax penalties were recognized during the years ended March 31, 2023, 2022 and 2021.

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

## 10. ENVIRONMENTAL MATTERS

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

The Company has identified numerous MGP sites and related facilities, which were owned or operated by the Company or its predecessors. These former sites, some of which are no longer owned by the Company, have been identified to the NYPSC and the New York State Department of Environmental Conservation (“DEC”) for inclusion on appropriate site inventories. Administrative Orders on Consent (“AOC”) or Voluntary Cleanup Agreements have been executed with the DEC to address the investigation and remediation activities associated with certain sites. Expenditures incurred for the years ended March 31, 2023, 2022, and 2021 were $71.8 million, $72.8 million, and $134.4 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $1.9 billion and $1.7 billion as of March 31, 2023 and 2022, respectively. These costs are expected to be incurred over approximately 47 years, and these undiscounted amounts have been recorded as estimated liabilities on the consolidated balance sheets. However, remediation costs for each site may be materially higher or lower than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered.

Through rate orders, the NYPSC has provided for the recovery of SIR costs. Accordingly, as of March 31, 2023 and 2022, the Company has recorded net environmental regulatory assets of $2.0 billion and $1.9 billion, respectively.

The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful. The Company is pursuing environmental insurance recoveries in connection with several legal proceedings that are ongoing between the Company and insurance companies who have provided historic coverage over environmentally impacted sites. Following any favorable resolution of these claims, the Company is expected to return insurance recoveries to customers through the Company’s regulatory mechanisms. However, legal proceedings in each case still have a number of stages to complete, any of which could modify the amount of any eventual claim. As such it is not currently practicable to provide a reliable estimate of the amount of likely eventual recoveries.

The Company has a grantor interest in an environmental remediation trust established to manage and administer funds contributed towards the cleanup effort for environmental remediation. The Company has a controlling financial interest in this trust and therefore consolidates the assets and liabilities of the trust, which mainly consists of cash held by the trust,

which usage is restricted for the purpose of remediation efforts, and a lease asset and liability related to a property the trust leases for site staging requirements as part of the remediation efforts.

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

## 11. COMMITMENTS AND CONTINGENCIES

### Purchase Commitments

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

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

| *(in thousands of dollars)* March 31, | Gas Purchases | Capital Expenditures |
|---|---|---|
| 2024 | $ 311,071 | $ 55,605 |
| 2025 | 282,950 | - |
| 2026 | 255,103 | - |
| 2027 | 211,206 | - |
| 2028 | 195,051 | - |
| Thereafter | 710,731 | - |
| Total | $ 1,966,112 | $ 55,605 |

### Financial Guarantees

The Company is a guarantor of a lease agreement as part of its participation in a grantor trust established to manage and administer funds contributed towards cleanup efforts for environmental remediation. The trust maintains all obligations for the payment of rent, insurance and property taxes for the leased property. In the unlikely event that the trust were to default on required payments or be dissolved, the Company would become responsible for those lease obligations. Total lease obligations (undiscounted) over the 15 year term are approximately $80.6 million.

### Legal Matters

### Energy Efficiency Programs Investigation

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

### Other Litigation

In addition to the matters described above, the Company is subject to various legal proceedings arising out of the ordinary course of its business. The Company does not consider any of such proceedings to be material, individually or in the aggregate,

to its business or likely to result in a material adverse effect on its results of operations, financial position, or cash flows. See Note 5, "Rate Matters" for additional details on the approved rate case and the Federal and Regulatory Investigations into Allegations of Fraud and Bribery.

**12. LEASES**

The Company has various operating leases, primarily related to buildings and land used to support its gas operations, with lease terms ranging between 3 and 55 years.

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

The Company entered into an operating lease agreement for property leased by an environmental remediation trust the Company consolidates. The agreement commenced September 2022 with a lease term of 15 years. The annual base rent is $4 million and increases 3% annually with a discount rate of 3.5%.

Expense related to operating leases was $2.6 million, $11.1 million, and $12.2 million for the years ended March 31, 2023, 2022, and 2021, respectively.

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

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

| | **Year Ended March 31,** | | |
|---|---|---|---|
| | **2023** | 2022 | 2021 |
| *(In thousands of dollars)* | | | |
| Cash paid for amounts included in lease liabilities | | | |
| Operating cash flows from operating leases | **$ 2,594** | $ 11,113 | $ 12,242 |
| ROU assets obtained in exchange for new operating lease liabilities | **$ 56,588** | $ - | $ - |
| Weighted-average remaining lease term – operating leases | **14 years** | 3 years | 4 years |
| Weighted-average discount rate – operating leases | **3.46%** | 2.63% | 2.65% |

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

| Year Ending March 31, | Operating Leases *(in thousands of dollars)* |
|---|---|
| 2024 | **$ 3,144** |
| 2025 | **4,666** |
| 2026 | **4,510** |
| 2027 | **4,649** |
| 2028 | **4,784** |
| Thereafter | **52,995** |
| Total future minimum lease payments | **74,748** |
| Less: imputed interest | **(17,376)** |
| Total | **$ 57,372** |
| **Reported as of March 31, 2023:** | |
| Current lease liability | **$ 3,853** |
| Non-current lease liability | **53,519** |
| Total | **$ 57,372** |

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

## 13. RELATED PARTY TRANSACTIONS

### Accounts Receivable from and Accounts Payable to Affiliates

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

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

| | **Accounts Receivable from Affiliates** | | **Accounts Payable to Affiliates** | |
|---|---|---|---|---|
| | **March 31,** | | **March 31,** | |
| | **2023** | 2022 | **2023** | 2022 |
| | *(in thousands of dollars)* | | | |
| Boston Gas Company | **$ 4,888** | $ 738 | **$ 5,203** | $ 2,406 |
| KeySpan Gas East Corporation | **2,199** | 637 | **4,976** | 2,919 |
| NGUSA | **1,760** | 4,181 | **74,057** | 81,774 |
| NGUSA Service Company | **11,589** | 9,438 | **29,403** | 27,337 |
| Other | **907** | 121 | **1,285** | 89 |
| Total | **$ 21,343** | $ 15,115 | **$ 114,924** | $ 114,525 |

**Intercompany Money Pool**

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

The Regulated and Unregulated Money Pools are funded by operating funds from participants in the applicable pool. NGUSA has the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Money Pools, if necessary. As of March 31, 2023, the Company had short-term regulated intercompany money pool borrowing of $21.0 million and NETCO unregulated short-term intercompany money pool investment of $279.2 million. As of March 31, 2022, the Company had short-term intercompany money pool investments of $372.1 million, including NETCO unregulated short-term intercompany money pool investments of $272.4 million. The average interest rates for the intercompany money pool were 2.9%, 0.4%, and 0.7% for the years ended March 31, 2023, 2022, and 2021, respectively.

**Service Company Charges**

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

Charges from the service companies of NGUSA to the Company are mostly related to traditional administrative support functions. For the years ended March 31, 2023, 2022, and 2021, costs allocated to the Company using the second and third tiers noted above were $594.1 million, $512.8 million, and $493.9 million, respectively.