



Nantucket Electric Company

Financial Statements

For the years ended March 31, 2023 and 2022

NANTUCKET ELECTRIC COMPANY

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Nantucket Electric Company

Opinion

We have audited the financial statements of Nantucket Electric Company (the "Company"), which comprise the balance sheets as of March 31, 2023 and 2022, and the related statements of income, cash flows and changes in shareholders' equity for the years then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Deloitte & Touche LLP

June 29, 2023

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

	Years Ended March 31,	
	2023	2022
Operating revenues	\$ 32,865	\$ 26,317
Operating expenses:		
Purchased electricity	3,901	2,274
Operations and maintenance	15,810	10,961
Depreciation and amortization	3,099	2,963
Other taxes	821	832
Total operating expenses	23,631	17,030
Operating income	9,234	9,287
Other income and (deductions):		
Interest on long-term debt	(1,087)	(207)
Other interest, including affiliate interest, net	(180)	(93)
Other income, net	2,559	206
Total other income (deductions), net	1,292	(94)
Income before income taxes	10,526	9,193
Income tax expense	3,375	2,682
Net income	\$ 7,151	\$ 6,511

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

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

	Years Ended March 31,	
	2023	2022
Operating activities:		
Net income	\$ 7,151	\$ 6,511
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,099	2,963
Regulatory amortizations	(411)	-
Deferred income tax benefit	(231)	(246)
Bad debt benefit	(12)	(714)
Amortization of debt discount and issuance costs	96	108
Pension and postretirement benefits expenses, net	52	367
Pension and postretirement benefits contributions	(684)	(593)
Changes in operating assets and liabilities:		
Accounts receivable and other receivables, net and unbilled revenues	(218)	509
Accounts receivable from/payable to affiliates, net	565	931
Regulatory assets and liabilities (current), net	2,688	2,650
Regulatory assets and liabilities (non-current), net	1,531	998
Prepaid and accrued taxes, net	886	(40)
Accounts payable and other liabilities	1,798	222
Other, net	(590)	(260)
Net cash provided by operating activities	<u>15,720</u>	<u>13,406</u>
Investing activities:		
Capital expenditures	(5,151)	(2,744)
Cost of removal	(332)	(930)
Intercompany money pool	(10,124)	(11,078)
Financial investments	-	1,299
Net cash used in investing activities	<u>(15,607)</u>	<u>(13,453)</u>
Financing activities:		
Net cash used in financing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	113	(47)
Cash and cash equivalents, beginning of year	57	104
Cash and cash equivalents, end of year	<u>\$ 170</u>	<u>\$ 57</u>
Supplemental disclosures:		
Interest paid	\$ (976)	\$ (87)
Income taxes paid	(2,733)	(2,882)
Significant non-cash items:		
Capital-related accruals included in accounts payable	166	658
Parent tax loss allocation	350	614

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

NANTUCKET ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2023	2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 170	\$ 57
Accounts receivable	3,482	3,070
Allowance for doubtful accounts	(430)	(322)
Accounts receivable from affiliates	1,011	1,207
Intercompany moneypool asset	93,943	83,819
Unbilled revenues	1,118	1,192
Inventory	809	412
Regulatory assets – current	85	73
Prepaid taxes	23	-
Other current assets	11	10
Total current assets	100,222	89,518
Property, plant and equipment, net	87,567	84,516
Non-current assets:		
Regulatory assets – noncurrent	1,713	2,133
Goodwill	15,706	15,706
Postretirement benefits asset	99	295
Other noncurrent assets	20	37
Total non-current assets	17,538	18,171
Total assets	\$ 205,327	\$ 192,205

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

NANTUCKET ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2023	2022
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	\$ 4,227	\$ 3,043
Accounts payable to affiliates	1,924	1,555
Taxes accrued	3,573	3,014
Customer deposits	89	111
Regulatory liabilities – current	27,113	24,413
Other current liabilities	1,099	969
Total current liabilities	38,025	33,105
Non-current liabilities:		
Regulatory liabilities – noncurrent	18,369	15,590
Deferred income tax liabilities, net	1,142	2,065
Postretirement benefits	1,302	2,413
Operating lease liability – noncurrent	1,049	1,124
Other noncurrent liabilities	246	249
Total non-current liabilities	22,108	21,441
Commitments and contingencies (Note 10)		
Capitalization:		
Shareholders' equity	94,485	86,984
Long-term debt	50,709	50,675
Total capitalization	145,194	137,659
Total liabilities and capitalization	\$ 205,327	\$ 192,205

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

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

	<u>Accumulated Other Comprehensive Income (Loss)</u>					
	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Unrealized Gain (Loss) on Securities</u>	<u>Total Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance as of March 31, 2021	\$ -	\$ 31,041	\$ 32	\$ 32	\$ 48,788	\$ 79,861
Net Income	-	-	-	-	6,511	6,511
Other comprehensive loss:						
Unrealized losses on securities, net of \$1 tax benefit	-	-	(2)	(2)	-	(2)
Total comprehensive income	-	-	-	-	-	6,509
Parent tax loss allocation	-	614	-	-	-	614
Balance as of March 31, 2022	<u>\$ -</u>	<u>\$ 31,655</u>	<u>\$ 30</u>	<u>\$ 30</u>	<u>\$ 55,299</u>	<u>\$ 86,984</u>
Balance as of March 31, 2022	\$ -	\$ 31,655	\$ 30	\$ 30	\$ 55,299	\$ 86,984
Net Income	-	-	-	-	7,151	7,151
Total comprehensive income	-	-	-	-	-	7,151
Parent tax loss allocation	-	350	-	-	-	350
Balance as of March 31, 2023	<u>\$ -</u>	<u>\$ 32,005</u>	<u>\$ 30</u>	<u>\$ 30</u>	<u>\$ 62,450</u>	<u>\$ 94,485</u>

The Company had 1,201 shares of common stock authorized, with 1 share issued and outstanding at a par value of \$1 per share at March 31, 2023 and 2022.

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

**NANTUCKET ELECTRIC COMPANY
NOTES TO THE FINANCIAL STATEMENTS**

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nantucket Electric Company (“the Company”) is an electric retail distribution company providing electric service to approximately 14,300 customers on the Island of Nantucket.

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

Pursuant to a settlement agreement associated with NGUSA’s purchase of the Company in 1996, approved by the Massachusetts Department of Public Utilities (“DPU”), the Company is considered, along with its affiliate Massachusetts Electric Company (“Massachusetts Electric”) as one regulated entity for the purpose of recovering its costs and establishing its rates assessed to its customers, with the exception of the recovery of the Company’s investment in two undersea electric cables. The undersea electric cables are recovered from customers through a separate cable facilities surcharge. In the recovery of certain regulatory assets, funding of the recovery is from the customers of both companies. However, the mechanism by which recovery is ultimately achieved is through a single regulatory asset recorded on the balance sheet of Massachusetts Electric. The Company’s share of these costs and recoveries are reflected through a return on equity mechanism between the Company and Massachusetts Electric, as discussed in Note 12, “Related Party Transactions”.

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

The Company has evaluated subsequent events and transactions through June 29, 2023, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Regulatory Accounting

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

Revenue Recognition

Revenues are recognized for energy 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 electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues).

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

Cash and Cash Equivalents

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

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 records discounts on the purchase of receivables (“POR”) from energy supply customers. The discounts from POR reduce the overall expense recorded. The Company recorded bad debt benefit of zero and \$0.7 million for the years ended March 31, 2023 and 2022, respectively, within operations and maintenance expenses in the accompanying statements of income.

Inventory

Inventory is composed of materials and supplies and 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 or 2022.

Fair Value Measurements

The Company measures securities 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 FERC and the DPU. The average composite rates for the years ended March 31, 2023 and 2022 were 3.0%.

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 liability of \$2.2 million and \$1.2 million for the amount recovered that was in excess of costs incurred, respectively.

Allowance for Funds Used During Construction

The Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. The equity component of AFUDC is reported in the accompanying statements of income as non-cash income in other income, 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 \$127 thousand and \$63 thousand and AFUDC related to debt of \$5 thousand and \$3 thousand, for the years ended March 31, 2023 and 2022, respectively. The average AFUDC rates for the years ended March 31, 2023 and 2022 were 5.8% and 5.6%, 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 years ended March 31, 2023 and 2022, there were no 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 ending 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 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, land and fleet vehicles. 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 and low value leases on the balance sheet. Expenses related to short-term and low value leases were 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, "*Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*." The update eliminates the accounting guidance for troubled debt restructurings by creditors and enhances the disclosure requirements for loan refinancing and restructurings made with borrowers experiencing financial difficulty.

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

Reclassifications

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

3. REVENUE

The following table presents, for the years ended March 31, 2023 and 2022, 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
	<i>(in thousands of dollars)</i>	
Revenue from contracts with customers:		
Electric services	\$ 25,130	\$ 23,064
Total revenue from contracts with customers	25,130	23,064
Revenue from regulatory mechanisms	(475)	(3,602)
Other revenue	8,210	6,855
Total operating revenues	\$ 32,865	\$ 26,317

Electric Services: The Company owns and maintains an electric distribution network on Nantucket Island. Distribution revenues are primarily from the sale of electricity and related services to retail customers. Distribution sales are regulated by the DPU, which is responsible for determining the prices and other terms of services as part of the 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. Electric service revenues are derived from the regulated sale and distribution of electricity to residential, commercial, and industrial customers within the Company's service territory under the tariff rates. The tariff rates approved by the regulator are designed to recover the costs incurred by the Company for products and services provided and along with a return on investment.

The performance obligation related to these sales is to provide electricity to the customers on demand. The electricity supplied under the 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 electricity as the Company provides these services. The Company records revenues based upon the approved tariff rate and the volume delivered to the customers, which corresponds with the amount the Company has the right to invoice.

This revenue also includes estimated unbilled amounts, which represent the estimated amounts due from retail customers for electricity provided to customers by the Company, but not yet billed. Unbilled revenues are determined 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 electricity from other suppliers. In those circumstances, revenue is only recognized for providing delivery of the commodity to the customer.

Additionally, the Company owns an electric transmission system in Nantucket. Transmission systems generally include overhead lines, underground cables and substations, connecting generation and interconnectors to the distribution system. The Company's transmission services are regulated by both the DPU and by the FERC in respect of interstate transmission.

Other Revenue from Contracts with Customers: Other Revenue from Contracts with Customers consists of capital related operations and maintenance billings and pole rentals. This revenue also includes Massachusetts Electric reimbursement as discussed in Note 12, Related Party Transactions".

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 electric distribution rates have a revenue decoupling mechanism ("RDM") which allows for annual adjustments to the Company's delivery rates as a result of the reconciliation between allowed revenue and billed revenue. The Company also has other ARPs related to the achievement of certain objectives, demand side management initiatives, and certain other

rate making mechanisms. The Company recognizes ARPs with a corresponding offset to a regulatory asset or liability account when the regulatory specified events or conditions have been met, when the amounts are determinable, and are probable of recovery (or payment) through future rate adjustments within 24-months from the end of the annual reporting period.

4. REGULATORY ASSETS AND LIABILITIES

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

	March 31,	
	2023	2022
<i>(in thousands of dollars)</i>		
Regulatory assets		
Current:		
Rate adjustment mechanisms	\$ 85	\$ 73
Total	<u>85</u>	<u>73</u>
Non-current:		
Postretirement benefits	1,705	2,125
Other	8	8
Total	<u>1,713</u>	<u>2,133</u>
Regulatory liabilities		
Current:		
Rate adjustment mechanisms	3,727	3,244
Transmission service	21,692	19,983
Other	1,694	1,186
Total	<u>27,113</u>	<u>24,413</u>
Non-current:		
Energy efficiency	8,587	7,175
Cost of removal	2,153	1,185
Second cable deferral	1,509	1,904
Regulatory tax liability, net	6,012	5,319
Other	108	7
Total	<u>\$ 18,369</u>	<u>\$ 15,590</u>

As of March 31, 2023 and 2022, other than the Postretirement benefits of \$0.8 million and \$1.2 million, respectively, of the regulatory assets summarized above, all regulatory assets earn a rate of return.

As of March 31, 2023 and 2022, there were no allowances for earnings on shareholders' investment that were capitalized for ratemaking purposes but not for U.S. GAAP reporting.

Cost of removal: Represents cumulative removal amounts collected but not yet spent. This liability is discharged as removal costs are incurred.

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

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

Rate adjustment 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 DPU.

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

Second cable deferral: Represents the recoveries of costs associated with the second undersea cable to the island of Nantucket, which was placed in service on April 18, 2006. The recovery mechanism was intended to mitigate the immediate customer rate impact by accruing costs in the first several years and remitting such accruals in later years.

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

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

5. RATE MATTERS

As described in Note 1, "Nature of Operations and Basis of Presentation," the Company and Massachusetts Electric are considered as one regulated entity for the purpose of recovering its costs and establishing its rates assessed to its customers. For certain regulatory assets and liabilities, including incremental storm costs of qualifying storm events, site investigation and remediation costs, solar generation costs, and any other costs incurred by the companies when taken as a single entity, the funding of the recovery or means of refund is from or to the customers of both companies, with a single regulatory asset or liability recorded on the balance sheet of Massachusetts Electric. As discussed in the "Related Party Reimbursement" section in Note 12, "Related Party Transactions," the Company's share of such costs and recoveries are reflected through the DPU-approved return on equity mechanism between the Company and Massachusetts Electric.

The Company records its regulatory assets and liabilities associated with items that are specific to the Company, including but not limited to, energy efficiency, postretirement benefits, rate adjustment mechanisms, and regulatory deferred tax liability, net.

General Rate Case

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

On July 16, 2021, in response to allegations that five former New York-based National Grid employees accepted bribes and kickbacks from contractors, the Massachusetts Department of Public Utilities indicated that it would open an investigation

into this matter, after the conclusion of the NY PSC's investigation (see Note 10, "Commitments and Contingencies," for further detail).

PBR Plan Filing

On June 15, 2021, the Company and Massachusetts Electric filed the second annual PBR plan filing for rates effective October 1, 2021. The PBR plan filing adjusts base distribution rates pursuant to a revenue cap formula, provides a credit to customers for any customer share of excess earnings pursuant to the earnings sharing mechanism, and recovers from or credits customers for the impact of costs in excess of a threshold associated with exogenous events, including storms resulting in incremental costs in excess of \$30 million. The result of the revenue cap formula was a proposed increase to base distribution revenue of 2.71%, or \$22.8 million. On September 8, 2021, the DPU approved the Company and Massachusetts Electric's proposed PBR and capital expenditure adjustment filing, effective October 1, 2021, subject to further investigation and reconciliation in the second phase of the proceeding. On February 23, 2022, the DPU issued its final approval of the Company and Massachusetts Electric's proposed PBR and capital expenditure adjustment filing.

On June 17, 2022, the Company and Massachusetts Electric filed the third annual PBR plan filing for rates effective October 1, 2022. The Company and Massachusetts Electric requested approval of a PBR adjustment of \$43.9 million, based on a PBR percentage of 4.92%. This adjustment reflects the implementation of the Company and Massachusetts Electric's proposed voluntary one-time Customer Impact Mitigation Plan, which the Company proposed due to the extreme economic circumstances and high inflation rates currently impacting customers. On September 26, 2022, the DPU approved the Company and Massachusetts Electric's proposed PBR adjustment and Customer Impact Mitigation Plan, effective October 1, 2022. The DPU also stated that it will conduct its review of the Company and Massachusetts Electric's proposed amortization of the exogenous storm event with incremental costs in excess of \$30 million as part of the Company and Massachusetts Electric's next PBR plan filing.

The Company made its annual PBR filing on June 15, 2023. The filing requests a PBR Adjustment for effect October 1, 2023 of \$66.7 million, plus recovery of \$13.5 million annually over five years associated with an exogenous storm event in which the Company incurred incremental costs in excess of \$30 million, resulting in a total of \$80.2 million. The filing includes a voluntary Customer Impact Mitigation Plan, that reduces what the Company would have otherwise requested under its PBR formula by \$14.7 million, from \$81.4 million to \$66.7 million (not inclusive of the storm event costs). The filing also includes a request to approve the recovery method for increased local property taxes due to a change in the assessment methodology, which the DPU previously determined was an "exogenous event" under the PBR tariff, and to recover the ongoing yearly impacts of this change (\$5.9 million for the year ended March 31, 2021; \$7.4 million for the year ended March 31, 2022; and \$0.6 million for the year ended March 31, 2023).

Tax Cuts and Jobs Act

On November 21, 2019, the FERC issued Order 864 to address ratemaking and regulatory reporting of excess or deficient accumulated deferred income taxes ("ADIT") related to the Tax Cuts and Jobs Act ("Tax Act"). On June 29, 2020, NEP, on behalf of the Company, submitted a compliance filing to address the application of Order 864 in NEP's Tariff No. 1. The filing proposed changes to various revenue requirement calculations in the tariff for the inclusion of the rate adjustment and income tax allowance mechanisms. The filing also included the populated permanent ADIT worksheet, which will be provided with the issuance of final bills pursuant to the provisions of the tariff. NEP has proposed for the Company to amortize transmission-related, protected property-related excess or deficient ADIT associated with the 2017 Tax Act using the average rate assumption method, and a 21-year amortization period for unprotected property-related excess or deficient balances. Other unprotected excess or deficient ADIT is proposed to be amortized over five years, consistent with the time period approved in the DPU docket addressing the Tax Act. Following discussions with FERC staff, NEP made a supplemental compliance filing on the Company's behalf on July 19, 2022, in which it proposed adjustments to the initial filing to add greater clarity and transparency. On October 25, 2022, FERC issued an order accepting the Company's compliance filings related to application of Order 864 in Tariff No. 1.

Grid Modernization Plan

On August 19, 2015, the Company, together with Massachusetts Electric, filed its first proposed grid modernization plan (“GMP”) with the DPU. On May 10, 2018, the DPU issued an order in this proceeding. The order approved \$82 million in grid-facing investments over three years (and subsequently, the DPU extended the GMP to a fourth year) in (1) conservation voltage reduction and volt/volt-amps reactive optimization; (2) advanced distribution automation; (3) feeder monitors; (4) communications and information/operational technologies; and (5) advanced distribution management/distribution supervisory control and data acquisition. The DPU allowed recovery of both operation and maintenance (“O&M”) expenses and capital costs through a reconciling mechanism. The DPU did not approve any customer-facing (i.e., advanced metering infrastructure, or “AMI”) investments; the DPU said it would address these in a further investigation (which it did in the Company’s GMP for calendar years 2022-2025, see below). The Company has filed annual reports and cost recovery filings with the DPU for its GMP in 2019, 2020, 2021, 2022 and 2023.

The Company filed its proposed four-year GMP (for calendar years 2022–2025) on July 1, 2021, which included proposals to continue the previously-approved investments (designated as “Track 1” in the proceeding), invest in a distributed energy resource management system (“DERMS”), conduct two demonstration projects, and deploy AMI (all designated as “Track 2” in the proceeding). The Company requested authorization for \$316.3 million in grid-facing investments over four years, consisting of \$289.3 million for Track 1 investments, \$7.9 million for DERMS investments, \$6.4 million for the two demonstration projects, and \$12.7 million to support the implementation of FERC Order No. 2222. On October 7, 2022, the DPU issued its final order on Track 1, preauthorizing a \$300.8 million budget for the Company’s continuing grid-facing investments in (1) monitoring and control (\$4.1 million); (2) volt/volt-amps reactive optimization (\$76.4 million); (3) advanced distribution automation (\$37.7 million); (4) an advanced distribution management system (\$61.0 million); (5) information/operational technology (\$18.8 million); and (6) communications (\$102.8 million) for the 2022-2025 GMP. On November 30, 2022, the DPU issued its Track 2 Order, preauthorizing \$35.4 million in new grid-facing investments for the years 2022-2025 grid modernization plan. Accelerated cost recovery for these investments will continue through the separate grid modernization factor. The DPU also has preauthorized \$391.1 million in spending for our AMI “core” investments for the years 2023-2027, and created a new AMI factor for accelerated cost recovery for these costs. The DPU separated some of AMI investments into a new category of “supporting” AMI investments, and provided preliminary approval for a budget of \$96.1 million for these investments. The Company will seek cost recovery for these supporting investments through annual AMI factor filings.

COVID-19 Moratorium on Utility Shut Offs

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

On December 31, 2020, the DPU approved the following implementation items related to the ratemaking treatment of the COVID-19 customer assistance programs on which the Massachusetts local distribution companies and the Massachusetts Attorney General’s (“AG”) office had reached consensus: (1) the distribution companies should be allowed to record, defer, and track their bad debt and other COVID-related expenses; (2) cost recovery should be limited to the incremental costs incurred; and (3) certain costs must be extraordinary to qualify for recovery. As of March 31, 2023, the Company has deferred \$27.3 million of delivery bad debt (for both the Company and Massachusetts Electric) and \$0.8 million of other COVID-related costs, as the Company believes that these amounts are probable of recovery.

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

AG also takes the position that the DPU should consider the significance of the distribution companies' net incremental O&M costs due to COVID-19 to determine whether they resulted in substantial harm to the distribution companies' financial position. The briefing phase has concluded, and the DPU's order is pending. The Order will likely be issued after August 2024 when the Distribution Companies submit their final report on bad debt levels through June 30, 2024. The Distribution Companies were required to track delivery-related bad-debt write-offs for two years, from July 1, 2020 through June 30, 2022, and filed a report on August 1, 2022, reporting incremental delivery-related net charge offs. The Companies are required to continue to track bad-debt write-offs for the two-year period of July 1, 2022 through June 30, 2024, with a report to be filed on August 1, 2024, depending on each utility's timing of base distribution rate case filings, and to submit filings to the DPU after that point to commence recovery of the demonstrated incremental amount.

Massachusetts Petition for Waiver of Jurisdiction Regarding the Rhode Island Sale

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

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

- In June 2022, the Company, together with Massachusetts Electric, forgave \$3.0 million in arrearages for low-income electric distribution customers with arrears above \$500 that were over 90 days past due.
- In June 2022, the Company, together with Massachusetts Electric, contributed \$0.6 million to the AG's residential energy assistance grant program.
- As compensation to customers for potential future increases in IASC costs during the first five years after the NECO divestiture, the Company, together with Massachusetts Electric, provided a one-time credit of \$4.2 million to customers during the six-month period between November 2022 and April 2023.
- On July 15, 2022, the Company and Massachusetts Electric disclosed their IASC costs to the AG's office. The Company and Massachusetts Electric will be responsible for costs associated with the AG's retention of a certified public accountant to verify the IASC costs.

Storm Threshold Deferral Request

On June 17, 2022, the Company and Massachusetts Electric petitioned the DPU for authorization to defer for future recovery from the storm fund \$6.2 million in storm cost threshold amounts associated with four qualifying major storm events that occurred in calendar year 2021. On January 19, 2023, the Department issued an order allowing the Company to apply deferral accounting treatment to three excess calendar year 2021 threshold amounts totaling \$4.65 million. The Department disallowed \$1.55 million of threshold costs associated with the October 26, 2021 Wind/Rain Event because it is an exogenous event. The Department will determine the appropriate level of recovery for the excess storm fund threshold amount (if any) in the Company's next base distribution rate case.

Municipal Fiscal Year 2022 Property Tax Exogenous Event Request

The Massachusetts Department of Revenue (DOR) has required municipalities to change the way they calculate property taxes, resulting in property tax increases to the Company. On October 18, 2022, the Company filed to be able to recover the costs of this change as an "exogenous event" under its PBR plan, along with Massachusetts Electric and Boston Gas Company. On May 17, 2023, the DPU approved the Company's request to recover incremental fiscal year 2022 property tax expenses due to certain municipalities changing their assessment methodology after DOR changed its certification standards. The approval is \$7.4 million for the Company and Massachusetts Electric. After a favorable ruling in a separate Eversource case allowing Eversource to recover these incremental property taxes, the Company added a request to recover fiscal year 2021

incremental property taxes in the proceeding, but the DPU did not allow this request because it was not part of the initial filing and notice in the proceeding. The Company requested recovery of these fiscal year 2021 amounts and fiscal year 2023 incremental costs in its PBR filing made June 15, 2023.

6. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2023	2022
	<i>(in thousands of dollars)</i>	
Plant and machinery	\$ 139,623	\$ 135,082
Land and buildings	4,723	4,822
Assets in construction	2,871	2,209
Operating leases ROU assets	1,943	1,773
Total property, plant and equipment	149,160	143,886
Accumulated depreciation and amortization	(60,930)	(58,949)
Accumulated amortization - Operating lease ROU assets	(663)	(421)
Property, plant and equipment, net	\$ 87,567	\$ 84,516

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. As of April 1, 2021, NGUSA became the sponsoring company of the nonqualified pension arrangements the Company participated in and all assets and liabilities associated with those nonqualified arrangements were transferred to NGUSA.

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. Pension and PBOP service costs are included within operations and maintenance expense, and non-service costs are included within other income, net in the accompanying statements of income. Portions of the net periodic benefit costs disclosed below have been capitalized as a component of property, plant and equipment, net.

Pension Plans

The Qualified Pension Plans are defined benefit pension plans which provide union employees, as well as non-union 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 and 2022, the Company made contributions of approximately \$0.2 million and \$0.5 million, respectively, to the Qualified Pension Plans. The Company does not expect to contribute 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 and 2022 were approximately \$0.4 million and \$0.3 million, respectively.

PBOP Plans

The PBOP plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their healthcare coverage. During the years ended March 31, 2023 and 2022, the Company made \$0.4 million and zero contributions, respectively, to the PBOP Plans. The Company expects to contribute \$0.2 million to the PBOP Plans during the year ending March 31, 2024.

Benefit payments to PBOP plan participants for the years ended March 31, 2023 and 2022 were approximately \$0.1 million in both years.

Net Periodic Benefit Costs

The Company's net periodic benefit pension cost for the years ended March 31, 2023 and 2022 are zero and \$0.2 million, respectively.

The Company's net periodic benefit PBOP cost for the years ended March 31, 2023 and 2022 was \$0.1 million in both years.

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 and 2022:

	Pension Plans	
	March 31,	
	2023	2022
	<i>(in thousands of dollars)</i>	
Net actuarial loss (gain)	\$ 401	\$ (980)
Amortization of net actuarial loss	(38)	(171)
Total	<u>\$ 363</u>	<u>\$ (1,151)</u>
Change in regulatory assets	\$ 363	\$ (1,151)
Total	<u>\$ 363</u>	<u>\$ (1,151)</u>
	PBOP Plans	
	March 31,	
	2023	2022
	<i>(in thousands of dollars)</i>	
Net actuarial gain	\$ (734)	\$ (584)
Amortization of net actuarial gain (loss)	42	(18)
Total	<u>\$ (692)</u>	<u>\$ (602)</u>
Change in regulatory (liabilities) assets	\$ (692)	\$ (602)
Total	<u>\$ (692)</u>	<u>\$ (602)</u>

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 and 2022:

	Pension Plans	
	March 31,	
	2023	2022
	<i>(in thousands of dollars)</i>	
Net actuarial loss	\$ 1,352	\$ 989
Total	<u>\$ 1,352</u>	<u>\$ 989</u>
Included in regulatory assets	\$ 1,352	\$ 989
Total	<u>\$ 1,352</u>	<u>\$ 989</u>

	PBOP Plans	
	March 31,	
	2023	2022
	<i>(in thousands of dollars)</i>	
Net actuarial (gain) loss	\$ (517)	\$ 175
Total	<u>\$ (517)</u>	<u>\$ 175</u>
Included in regulatory (liabilities) assets	\$ (517)	\$ 175
Total	<u>\$ (517)</u>	<u>\$ 175</u>

Amounts Recognized on the Balance Sheet

The following table summarizes the portion of the funded status above 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
	<i>(in thousands of dollars)</i>			
Projected benefit obligation	\$ (8,176)	\$ (7,654)	\$ (1,699)	\$ (2,481)
Allocated fair value of assets	<u>8,275</u>	<u>7,949</u>	<u>329</u>	<u>-</u>
Funded status	<u>\$ 99</u>	<u>\$ 295</u>	<u>\$ (1,370)</u>	<u>\$ (2,481)</u>
Non-current assets	\$ 99	\$ 295	\$ -	\$ -
Other current liabilities	-	-	(68)	(68)
Non-current liabilities	-	-	(1,302)	(2,413)
Total	<u>\$ 99</u>	<u>\$ 295</u>	<u>\$ (1,370)</u>	<u>\$ (2,481)</u>

For the year ended March 31, 2023, the net actuarial loss for Pension was largely driven by asset losses due to returns that were less than expected as well as the increase in the cash balance interest crediting rate, partially offset by the increase in discount rate and slight changes to the withdrawal assumption resulting from the recent experience study. The net actuarial gains for the PBOP Plans were driven by the increase in discount rate and savings resulting from a new Medicare Advantage contract for PBOP, partially offset by asset losses and the slight withdrawal assumption changes. 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.

Expected Benefit Payments

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

<i>(in thousands of dollars)</i>	Pension	PBOP
Years Ending March 31,	Plans	Plans
2024	\$ 481	\$ 68
2025	501	78
2026	521	92
2027	538	102
2028	554	113
2029-2033	2,881	651
Total	<u>\$ 5,476</u>	<u>\$ 1,104</u>

Assumptions Used for Employee Benefits Accounting

	<u>Pension Plans</u>	
	<u>Years Ended March 31,</u>	
	<u>2023</u>	<u>2022</u>
Benefit Obligations:		
Discount rate	4.85%	3.65%
Rate of compensation increase (nonunion)	4.30%	4.30%
Rate of compensation increase (union)	4.25%	4.25%
Weighted average cash balance interest crediting rate	4.40%	2.75%
Net Periodic Benefit Costs:		
Discount rate	3.65%-4.30%	3.25%
Rate of compensation increase (nonunion)	4.30%	4.10%
Rate of compensation increase (union)	4.25%	4.05%
Expected return on plan assets	5.25%-5.75%	5.50%
Weighted average cash balance interest crediting rate	2.75%	2.75%
	<u>PBOP Plans</u>	
	<u>Years Ended March 31,</u>	
	<u>2023</u>	<u>2022</u>
Benefit obligations:		
Discount rate	4.85%	3.65%
Net periodic benefit costs:		
Discount rate	3.65%-4.30%	3.25%
Expected return on plan assets	5.00%-6.00%	5.00%-5.50%

Discount rate and expected return on plan asset assumptions reflect remeasurements during the year ended March 31, 2023. 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, trustee, 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 analysis typically is conducted periodically to determine whether the current strategic asset allocation continues to represent the appropriate balance of expected risk and reward for the plan to meet expected liabilities. Each study considers the investment risk of the asset allocation and determines the optimal mix of assets for the plan. The target asset allocation for fiscal year-end 2023 reflects the results of such a pension asset/liability analysis conducted and implemented fiscal year 2023. As a result of that asset liability analysis, the asset mix for the Pension Plan was changed to further reduce investment risk given increased funded status of the Pension Plan and to better hedge the respective plan liabilities. The Union PBOP Plan asset liability study was conducted in 2023. As a result of that study, the RPC approved changes to the Union PBOP asset allocation effective in fiscal year 2023. The Non-Union PBOP Plan asset liability study is expected to be run within the next 6-12 months.

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

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

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

	Pension Plans		Union PBOP Plans		Non-Union PBOP Plans	
	March 31,		March 31,		March 31,	
	2023	2022	2023	2022	2023	2022
Equity	24%	30%	15%	39%	70%	70%
Diversified alternatives	7%	8%	5%	11%	0%	0%
Fixed income securities	60%	50%	80%	50%	30%	30%
Private equity	4%	5%	0%	0%	0%	0%
Real estate	3%	4%	0%	0%	0%	0%
Infrastructure	2%	3%	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			
	<u>Level 1</u>	<u>Level 2</u>	<u>Not categorized</u>	<u>Total</u>
	<i>(in thousands of dollars)</i>			
Pension assets:				
Equity	\$ 59,894	\$ -	\$ 235,930	\$ 295,824
Diversified alternatives	34,092	-	112,876	146,968
Corporate bonds	-	577,597	160,085	737,682
Government securities	2,701	150,827	184,534	338,062
Private equity	-	-	213,372	213,372
Real estate	-	-	113,168	113,168
Infrastructure	-	-	96,438	96,438
Total assets	<u>\$ 96,687</u>	<u>\$ 728,424</u>	<u>\$ 1,116,403</u>	<u>\$ 1,941,514</u>
Pending transactions				(22,711)
Total net assets				<u>\$ 1,918,803</u>
PBOP assets:				
Equity	\$ 59,685	\$ -	\$ 106,977	\$ 166,662
Diversified alternatives	19,661	-	2,057	21,718
Corporate bonds	-	214,895	-	214,895
Government securities	13,309	90,634	781	104,724
Insurance contracts	-	-	38,731	38,731
Total assets	<u>\$ 92,655</u>	<u>\$ 305,529</u>	<u>\$ 148,546</u>	<u>\$ 546,730</u>
Pending transactions				4,079
Total net assets				<u>\$ 550,809</u>

March 31, 2022

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

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: These 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 and 2022, the Company recognized an expense in the accompanying statements of income of \$0.1 million in both years, respectively, for matching contributions.

8. CAPITALIZATION

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

	March 31,	
	2023	2022
	<i>(in thousands of dollars)</i>	
Total shareholders' equity	\$ 94,485	\$ 86,984
Long-term debt:		
<i>Unsecured tax-exempt notes:</i>		
2004 Massachusetts Development Finance Agency ("MDFA")	Variable	March 1, 2039
2005 MDFA	Variable	December 1, 2040
2007 MDFA	Variable	August 1, 2042
Total debt	51,300	51,300
Unamortized debt issuance costs	(591)	(625)
Total long-term debt	50,709	50,675
Total capitalization	\$ 145,194	\$ 137,659

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

<i>(in thousands of dollars)</i>	Maturities of Long-Term Debt
<u>March 31,</u>	
2024	\$ -
2025	-
2026	-
2027	-
2028	-
Thereafter	<u>51,300</u>
Total	<u>\$ 51,300</u>

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

The Company has regulatory approval from the FERC to issue up to \$15 million of short-term debt. The authorization was renewed with an effective date of October 15, 2022 and expires on October 14, 2024. The Company had no external short-term debt as of March 31, 2023 and 2022. Refer to Note 12, "Related Party Transactions" under "Intercompany Money Pool" for short-term debt outstanding with associated companies.

Electric Revenue Bonds

As of March 31, 2023, the Company had \$51.3 million outstanding of Electric Revenue Bonds in the form of tax-exempt commercial paper with maturity dates ranging from 2039 through 2042. The debt is remarketed at periods of 1-270 days and had variable interest rates ranging from for 0.35% and 4.05% and from 0.11% and 0.75% for the years ended March 31, 2023 and 2022, respectively. The bonds were issued by the Massachusetts Development Finance Agency in connection with the Company's financing of its first and second underground and submarine cable projects.

The Company has a Standby Bond Purchase Agreement ("SBPA") of \$51.3 million, which expires on May 31, 2028. The SBPA is available to provide liquidity support for \$51.3 million of the Company's Electric Revenue Bonds in the form of tax-exempt commercial paper. The Company has classified this debt as long-term due to its intent and ability to refinance the debt on a long-term basis if it is not able to remarket it. As of March 31, 2023, and 2022, there were no bond purchases made by the banks participating in this agreement.

Massachusetts Electric unconditionally guarantees the full and prompt payment of the principal, premium, if any, and interest on the tax-exempt bonds issued by the Massachusetts Development Finance Agency in connection with the Company's financing of its first and second underground and submarine cable projects. The Company does not compensate Massachusetts Electric for the guarantee. Massachusetts Electric would be required to make any principal, premium, or interest payments if the Company did not fulfill its obligations under the financing agreement.

Dividend Restrictions

Pursuant to provisions in connection with the prior mergers, payment of dividends on common stock are not permitted if, after giving effect to such payment of dividends, common equity becomes less than 30% of total capitalization. As of March 31, 2023, and March 31, 2022 common equity was 65% and 63% of total capitalization, respectively. Under these provisions, none of the Company's retained earnings as of March 31, 2023 and March 31, 2022 were restricted as to common dividends.

9. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2023	2022
	<i>(in thousands of dollars)</i>	
Current tax expense:		
Federal	\$ 2,590	\$ 2,109
State	1,016	819
Total current tax expense	<u>3,606</u>	<u>2,928</u>
Deferred tax benefit:		
Federal	(65)	(157)
State	(166)	(89)
Total deferred tax benefit	<u>(231)</u>	<u>(246)</u>
Total income tax expense	<u>\$ 3,375</u>	<u>\$ 2,682</u>

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2023 and 2022 are 32.1% and 29.2%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 21% to the actual tax expense:

	Years Ended March 31,	
	2023	2022
	<i>(in thousands of dollars)</i>	
Computed tax	\$ 2,211	\$ 1,930
Change in computed taxes resulting from:		
State income tax, net of federal benefit	672	577
Amortization of regulatory tax liability - net	501	506
R&D Credit, net of reserves	-	(309)
Other	(9)	(22)
Total changes	<u>1,164</u>	<u>752</u>
Total income tax expense	<u>\$ 3,375</u>	<u>\$ 2,682</u>

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

Inflation Reduction Act

On August 16, 2022, President Biden signed into law the Inflation Reduction Act ("IRA"), which may impact how the U.S. taxes certain large corporations. The IRA imposes a 15% 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 its financial statements prospectively.

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

Deferred Tax Components

	March 31,	
	2023	2022
	<i>(in thousands of dollars)</i>	
Deferred tax assets:		
Postretirement benefits	\$ 394	\$ 622
Regulatory liabilities	11,838	10,605
Other	866	863
Total deferred tax assets	<u>13,098</u>	<u>12,090</u>
Deferred tax liabilities:		
Property-related differences	13,711	13,541
Regulatory assets	491	603
Other	38	11
Total deferred tax liabilities	<u>14,240</u>	<u>14,155</u>
Deferred income tax liabilities, net	<u>\$ 1,142</u>	<u>\$ 2,065</u>

The deferred tax assets associated with the tax credit carryforwards are presented net with the deferred tax liability in the Company's balance sheet.

Status of Income Tax Examinations

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

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

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

Uncertain Tax Positions

The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income, net, in the accompanying statement of income. As of March 31, 2023, and 2022, the Company has accrued for interest related to unrecognized tax benefits of \$4 thousand and \$12 thousand, respectively. During the years ended March 31, 2023 and 2022, the Company recorded interest expense of \$3 thousand and interest income of \$14 thousand, respectively. No tax penalties were recognized during the years ended March 31, 2023 and 2022.

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

10. COMMITMENTS AND CONTINGENCIES

Legal Matters

The Company is subject to various legal proceedings arising out of the ordinary course of its business. The Company does not consider any of such proceedings to be material, individually or in the aggregate, to its business or likely to result in a material adverse effect on its results of operations, financial position, or cash flows.

Federal and Regulatory Investigations into Allegations of Fraud and Bribery

On June 17, 2021, five former employees of National Grid USA Service Company, Inc. in the downstate New York facilities department were arrested on federal charges alleging fraud and bribery. The five former employees subsequently pleaded guilty to the charges, pursuant to plea agreements. NGUSA was deemed a victim of the crimes. The DPU, the New York Public Service Commission (“NY PSC”), and the Rhode Island Public Utilities Commission have issued requests for information related to the alleged criminal conduct. The DPU has indicated that it will open an investigation into this matter after the conclusion of the NY PSC’s investigation. At this time, it is not possible to predict the outcome of the regulatory investigation. However, the Company does not expect this matter will have a material adverse effect on its results of operations, financial position, or cash flows.

Internal and Federal Investigations into Energy Efficiency Programs

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

11. LEASES

The Company has various operating leases, primarily related to buildings, land and fleet vehicles used to support electric operations, with lease terms ranging between 5 and 10 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.

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
	<i>(in thousands of dollars)</i>	
Cash paid for amounts included in lease liabilities		
Operating cash flows from operating leases	\$ 267	\$ 217
ROU assets obtained in exchange for new operating lease liabilities	\$ 170	\$ 1,230
Weighted-average remaining lease term – operating leases	7 years	9 years
Weighted-average discount rate – operating leases	2.1%	1.7%

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:

	Operating Leases
	<i>(in thousands of dollars)</i>
Year Ending March 31,	
2024	\$ 254
2025	197
2026	172
2027	170
2028	151
Thereafter	421
Total future minimum lease payments	<u>1,365</u>
Less: imputed interest	<u>(86)</u>
Total	<u>\$ 1,279</u>
Reported as of March 31, 2023:	
Current lease liability	230
Non-current lease liability	1,049
Total	<u>\$ 1,279</u>

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.

12. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

The Company records short-term receivables from, and payables to, certain of its affiliates in the ordinary course of business. The amounts receivable from, and payable to, its affiliates do not bear interest and are settled through the intercompany money pool. A summary of 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
	<i>(in thousands of dollars)</i>			
Massachusetts Electric Company	\$ 803	\$ 789	\$ 244	\$ 313
New England Power Company	10	12	309	416
NGUSA	44	22	103	51
NGUSA Service Company	151	382	1,235	739
Other	3	2	33	36
Total	<u>\$ 1,011</u>	<u>\$ 1,207</u>	<u>\$ 1,924</u>	<u>\$ 1,555</u>

Advances from Affiliates

The Company has an agreement with NGUSA whereby the Company can borrow up to \$10 million from time to time for working capital needs. The advance is non-interest bearing. As of March 31, 2023 and 2022, the Company had no outstanding advance from affiliates.

Notes Receivable from and Notes Payable to Associated Companies (“Intercompany Money Pool”)

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

The Regulated Money Pool is funded by operating funds from participants. NGUSA has the ability to borrow up to \$3.0 billion from National Grid plc for working capital needs including funding of the Regulated Money Pool, if necessary. The Company had short-term intercompany money pool investments of \$93.9 million and \$83.8 million as of March 31, 2023 and 2022, respectively. The average interest rates for the intercompany money pool were 2.9% and 0.4% for the years ended March 31, 2023 and 2022, respectively.

Related Party Reimbursement

In accordance with the Credit and Operating Support Agreement dated March 26, 1996, Massachusetts Electric will reimburse the Company an amount equal to the difference between the Company’s actual net income for the year and the net income necessary for the Company to earn its DPU approved ROE for the fiscal year, currently 9.6%. This reimbursement shall constitute additional revenue to the Company and expense to Massachusetts Electric. The Company is entitled to retain any return in excess of 9.6%. For the years ended March 31, 2023 and 2022, Massachusetts Electric reimbursed the Company \$7.4 million and \$6.3 million, 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, and 2022 cost allocated to the Company were \$5.7 million and \$4.9 million, respectively.