nationalgrid

# Nantucket Electric Company

Financial Statements

For the years ended March 31, 2024 and 2023

**NANTUCKET ELECTRIC COMPANY**

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

Deloitte.

Deloitte & Touche LLP
30 Rockefeller Plaza
New York, NY
USA

Tel: +1 212 492 4000
Fax: +1 212 489 1687
www.deloitte.com

# 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, 2024 and 2023, and the related statements of operations, 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, 2024 and 2023, 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 28, 2024

**NANTUCKET ELECTRIC COMPANY**
**STATEMENTS OF OPERATIONS**
*(in thousands of dollars)*

| | Years Ended March 31, | |
|---|---|---|
| | **2024** | 2023 |
| **Operating revenues** | **$ 34,260** | $ 32,865 |
| **Operating expenses:** | | |
| Purchased electricity | **3,115** | 3,901 |
| Operations and maintenance | **18,291** | 15,810 |
| Depreciation and amortization | **3,218** | 3,099 |
| Other taxes | **871** | 821 |
| Total operating expenses | **25,495** | 23,631 |
| **Operating income** | **8,765** | 9,234 |
| **Other income and (deductions):** | | |
| Interest on long-term debt | **(2,183)** | (1,087) |
| Other interest, including affiliate interest, net | **(558)** | (180) |
| Other income, net | **5,589** | 2,559 |
| Total other income, net | **2,848** | 1,292 |
| **Income before income taxes** | **11,613** | 10,526 |
| **Income tax expense** | **3,648** | 3,375 |
| **Net income** | **$ 7,965** | $ 7,151 |

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, | |
|---|---|---|
| | **2024** | 2023 |
| **Operating activities:** | | |
| Net income | **$ 7,965** | $ 7,151 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | **3,218** | 3,099 |
| Regulatory amortizations | **-** | (411) |
| Deferred income tax benefit | **(405)** | (231) |
| Bad debt benefit | **(58)** | (12) |
| Amortization of debt discount and issuance costs | **174** | 96 |
| Pension and postretirement benefits expenses, net | **53** | 52 |
| Other non-cash items | **(153)** | - |
| Pension and postretirement benefits contributions, net | **(305)** | (684) |
| Changes in operating assets and liabilities: | | |
| Accounts receivables and other receivables, net and unbilled revenues, net | **(334)** | (218) |
| Accounts receivable from/payable to affiliates, net | **(398)** | 565 |
| Regulatory assets and liabilities (current), net | **2,793** | 2,688 |
| Regulatory assets and liabilities (non-current), net | **1,798** | 1,531 |
| Prepaid and accrued taxes, net | **166** | 886 |
| Accounts payable and other liabilities | **1,015** | 1,798 |
| Other, net | **(116)** | (590) |
| Net cash provided by operating activities | **15,413** | 15,720 |
| **Investing activities:** | | |
| Capital expenditures | **(5,479)** | (5,151) |
| Cost of removal | **(337)** | (332) |
| Intercompany money pool | **(9,744)** | (10,124) |
| Net cash used in investing activities | **(15,560)** | (15,607) |
| **Financing activities:** | | |
| Net cash used in financing activities | **-** | - |
| Net increase (decrease) in cash and cash equivalents | **(147)** | 113 |
| Cash and cash equivalents, beginning of year | **170** | 57 |
| Cash and cash equivalents, end of year | **$ 23** | $ 170 |
| **Supplemental disclosures:** | | |
| Interest paid, net of amounts capitalized | **$ (1,935)** | $ (976) |
| Income taxes paid | **(3,789)** | (2,733) |
| **Significant non-cash items:** | | |
| Capital-related accruals included in accounts payable | **201** | 166 |
| Parent tax loss allocation | **-** | 350 |
| ROU assets obtained in exchange for new operating lease liabilities | **1,140** | 170 |

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

**NANTUCKET ELECTRIC COMPANY**
**BALANCE SHEETS**
*(in thousands of dollars)*

| | March 31, | |
|---|---|---|
| | **2024** | 2023 |
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | **$ 23** | $ 170 |
| Accounts receivable, net | **3,150** | 3,052 |
| Accounts receivable from affiliates | **1,330** | 1,011 |
| Intercompany moneypool asset | **103,687** | 93,943 |
| Unbilled revenues, net | **1,421** | 1,118 |
| Inventory | **421** | 809 |
| Regulatory assets – current | **86** | 85 |
| Other current assets | **28** | 34 |
| Total current assets | **110,146** | 100,222 |
| **Property, plant and equipment, net** | **91,522** | 87,567 |
| **Non-current assets:** | | |
| Regulatory assets – noncurrent | **1,470** | 1,713 |
| Goodwill | **15,706** | 15,706 |
| Postretirement benefits asset | **245** | 99 |
| Other noncurrent assets | **365** | 20 |
| Total non-current assets | **17,786** | 17,538 |
| **Total assets** | **$ 219,454** | $ 205,327 |

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

**NANTUCKET ELECTRIC COMPANY**
**BALANCE SHEETS**
*(in thousands of dollars)*

| | March 31, | |
|---|---|---|
| | **2024** | 2023 |
| **LIABILITIES AND CAPITALIZATION** | | |
| **Current liabilities:** | | |
| Accounts payable | **$ 5,158** | $ 4,227 |
| Accounts payable to affiliates | **1,845** | 1,924 |
| Taxes accrued | **3,716** | 3,573 |
| Customer deposits | **85** | 89 |
| Regulatory liabilities – current | **29,907** | 27,113 |
| Other current liabilities | **1,132** | 1,099 |
| Total current liabilities | **41,843** | 38,025 |
| **Non-current liabilities:** | | |
| Regulatory liabilities – noncurrent | **21,173** | 18,369 |
| Deferred income tax liabilities, net | **88** | 1,142 |
| Postretirement benefits | **1,054** | 1,302 |
| Operating lease liability – noncurrent | **1,697** | 1,049 |
| Other noncurrent liabilities | **398** | 246 |
| Total non-current liabilities | **24,410** | 22,108 |
| **Commitments and contingencies (Note 11)** | | |
| **Capitalization:** | | |
| Shareholders' equity | **102,458** | 94,485 |
| Long-term debt | **50,743** | 50,709 |
| **Total capitalization** | **153,201** | 145,194 |
| **Total liabilities and capitalization** | **$ 219,454** | $ 205,327 |

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

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

| | Common Stock | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) On Securities | Accumulated Other Comprehensive Income (Loss): Total Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| **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** | **$ -** | **$ 32,005** | **$ 30** | **$ 30** | **$ 62,450** | **$ 94,485** |
| **Balance as of March 31, 2023** | **$ -** | **$ 32,005** | **$ 30** | **$ 30** | **$ 62,450** | **$ 94,485** |
| Net income | - | - | - | - | 7,965 | 7,965 |
| Total comprehensive income | | | | | | 7,965 |
| Implementation of ASC 326, net of $3 tax benefit[1] | - | - | - | - | 8 | 8 |
| **Balance as of March 31, 2024** | **$ -** | **$ 32,005** | **$ 30** | **$ 30** | **$ 70,423** | **$ 102,458** |

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, 2024 and 2023.

[1] See Note 4 “Allowance For Doubtful Accounts" for additional information.

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 14,502 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 13, "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 28, 2024, 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, 2024, with the exception of items otherwise disclosed in these financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Use of Estimates

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

### Regulatory Accounting

The 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. The Corporate Alternative Minimum Tax ("CAMT") is allocated based on the ratio of separate company CAMT to total consolidated NGNA CAMT.

**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 account to reflect certain financial assets (including accounts receivable, unbilled accrued revenues and other current assets) net of expected credit losses, at estimated net realizable value. Effective April 1, 2023, the current expected credit loss model was applied for purposes of calculating the allowance for doubtful accounts.

The allowance for doubtful accounts is determined based on a variety of factors, including, for each type of receivable, applying an estimated reserve percentage to each aging category, which takes into account historical collections, write-off experience, and management's assessment of collectability from customers, as appropriate. Management continuously assesses the collectability of receivables and adjusts estimates accordingly if circumstances change and such adjustments are reasonable and supportable based on actual experience, current conditions, and forward-looking information as well as future expectations. Receivable balances are written-off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated, and when such 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 $0.1 million and zero for the years ended March 31, 2024 and 2023, respectively, within operations and maintenance expense in the accompanying statements of operations.

**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, 2024 or 2023.

**Power Purchase Agreements**

The Company enters into power purchase agreements ("PPAs") to procure electricity to serve its electric service customers. The Company first evaluates whether such agreements contain a lease. In performing this evaluation, the Company considers whether the terms of the PPA provide the Company with the right to direct use of the generating facility and if the Company has the right to obtain substantially all of the economic benefits derived from use of the facility. In determining whether the Company has the right to direct use of the facility, the Company will consider which rights have the most significant impact on the economic benefits to be derived from the asset; for example, dispatch rights or the right to be involved in the facility's design. If the PPA is determined to contain a lease, the Company assesses whether it should be classified as a finance lease or an operating lease.

If the PPA does not contain a lease, the Company assesses whether the contract is a derivative or includes one or more embedded derivatives. In making this determination, the Company assesses whether the PPA includes a notional amount or payment provision through the contract's delivery requirements or terms of default. If the PPA is a derivative or contains one or more embedded derivatives, the Company will assess whether the requirements for election of the normal purchases and normal sales scope exception are met. If the requirements for the election are not met or the election is not made, the Company reports the derivative at fair value on the consolidated balance sheet. If the election is made, the Company accounts for the PPA as an executory contract whereby costs are recognized as electricity is purchased. If the contract does not contain a lease and is not a derivative, the Company accounts for the PPA as an executory contract.

The Company also assesses whether the PPA is a variable interest in a variable interest entity ("VIE"). In determining whether the PPA is a variable interest, the Company assesses whether the contract absorbs certain risks, such as commodity price risk, that the VIE was designed to pass on to its interest holders. If the PPA is determined to be a variable interest in a VIE, the Company determines whether it is the primary beneficiary.

**Fair Value Measurements**

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data;
- Level 3: unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability

due to little or no market activity for the asset or liability with low correlation to observable market inputs; and

- Not categorized: investments in certain funds, that meet certain conditions of ASC 820, are not required to be categorized within the fair value hierarchy. These investments are typically in commingled funds or limited partnerships that are not publicly traded and have ongoing subscription and redemption activity. As a practical expedient, the fair value of these investments is the Net Asset Value ("NAV") per fund share.

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

**Property, Plant and Equipment**

Property, plant and equipment is stated at original cost. The capitalized cost of additions to property, plant and equipment includes costs such as direct materials, 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, 2024 and 2023 were 3.0%.

Depreciation expense includes a component for the estimated cost of removal ("COR"), which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related COR is removed from the associated regulatory liability.

*Allowance for Funds Used During Construction*

The Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. The equity component of AFUDC is reported in the accompanying statements of operations as non-cash income in other income (deductions), net. The debt component of AFUDC is reported as a non-cash offset to other interest, including affiliate interest, net. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base. The Company recorded AFUDC related to equity of $153 thousand and $127 thousand and AFUDC related to debt of $22 thousand and $5 thousand, for the years ended March 31, 2024 and 2023, respectively. The average AFUDC rates for the years ended March 31, 2024 and 2023 were 6.6% and 5.8%, 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 such an event or change in circumstances is 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, 2024 and 2023, there were no impairment losses recognized for long-lived assets.

**Goodwill**

The Company tests goodwill for impairment annually on October 1, or more frequently if events occur or circumstances exist that indicate it is more likely than not that the fair value of the Company is below its carrying amount. The goodwill impairment test requires a recoverability test based on the comparison of the Company's estimated fair value with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, goodwill is not considered impaired. If the carrying value exceeds the estimated fair value, the Company is required to recognize an impairment charge for such excess, limited to the carrying amount of goodwill.

The Company applies two valuation methodologies to estimate its fair value, principally discounted projected future net cash flows and market-based multiples, commonly referred to as the income approach and market approach. Key assumptions include, but are not limited to, 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, 2024, 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, 2023, at which time the Company's estimated fair value significantly exceeded the carrying value. The Company did not recognize any goodwill impairment during the years ending March 31, 2024 or 2023.

**Employee Benefits**

The Company participates with other NGUSA subsidiaries in defined benefit pension plans and 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, 2024 and 2023.

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

**New and Recent Accounting Guidance**

**Accounting Guidance Recently 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 adopted this new guidance on April 1, 2023. See Note 4, "Allowance for Doubtful Accounts" for further information.

**Accounting Guidance Not Yet Adopted**

*Income Taxes (Topic 740): Income Tax Disclosures*

In December 2023, the FASB issued ASU 2023-09, "*Income Taxes (Topic 740): Improvements to Income Tax Disclosures*" which improves the income tax disclosures by requiring disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid.

The Company will early adopt this standard for annual periods effective April 1, 2025. The Company is currently assessing the application of the new guidance but does not expect the adoption to have a material impact.

**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, 2024 and 2023, 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 | |
|---|---|---|
| | **2024** | 2023 |
| | *(in thousands of dollars)* | |
| Revenue from contracts with customers: | | |
| Electric services | **$ 25,855** | $ 25,130 |
| Total revenue from contracts with customers | **25,855** | 25,130 |
| Revenue from alternative revenue programs | **(953)** | (475) |
| Other revenue | **9,358** | 8,210 |
| Total operating revenues | **$ 34,260** | $ 32,865 |

*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.

*Revenue from Alternative Revenue Programs:* 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 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. In addition, the Company has demand side management incentives. The Company recognizes revenues from ARPs with a corresponding offset to a regulatory asset or liability account when the regulatory specified events or conditions have been met, when the amounts are determinable, and are probable of recovery (or payment) through future rate adjustments within 24-months from the end of the annual reporting period.

*Other revenue:* Other revenue consists of capital related operations and maintenance billings and pole rentals. This revenue primarily includes Massachusetts Electric reimbursement as discussed in Note 13, "Related Party Transactions".

## 4. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Receivables are recorded at amortized cost, net of credit loss allowance for doubtful accounts. The allowance primarily relates to trade receivables from utility customers (both billed and unbilled), as well as amounts receivable from various other counterparties such as governmental agencies, municipalities, and other utilities. The Company had a total allowance for doubtful accounts of $454 thousand and $430 thousand, of which $439 thousand and $430 thousand relates to accounts receivable and $15 thousand and zero relates to unbilled revenues as of the years ended March 31, 2024 and 2023, respectively. The activity in the accumulated provision for uncollectible accounts for the year ended March 31, 2024 is as follows:

| | Year Ended March 31, 2024 (in thousands of dollars) | | |
|---|---|---|---|
| | **Customer Accounts Receivables** | **Other Accounts Receivables** | **Total Allowance** |
| Beginning balance | $ 306 | $ 124 | $ 430 |
| Impact of adoption of ASC Topic 326 on April 1, 2023 | 3 | (13) | (10) |
| Credit loss expense | 175 | 3 | 178 |
| Write-offs | (182) | (37) | (219) |
| Recoveries Collected | 40 | 35 | 75 |
| Ending balance | $ 342 | $ 112 | $ 454 |

## 5. 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, | |
|---|---|---|
| | **2024** | 2023 |
| | *(in thousands of dollars)* | |
| **Regulatory assets** | | |
| Current: | | |
| Rate adjustment mechanisms | **$ 86** | $ 85 |
| Total | **86** | 85 |
| Non-current: | | |
| Postretirement benefits | **1,461** | 1,705 |
| Other | **9** | 8 |
| Total | **1,470** | 1,713 |
| **Regulatory liabilities** | | |
| Current: | | |
| Rate adjustment mechanisms | **4,383** | 3,727 |
| Transmission service | **23,304** | 21,692 |
| Revenue decoupling mechanism | **2,220** | 1,694 |
| Total | **29,907** | 27,113 |
| Non-current: | | |
| Energy efficiency | **10,875** | 8,587 |
| Cost of removal | **2,506** | 2,153 |
| Second cable deferral | **1,024** | 1,509 |
| Regulatory tax liability, net | **6,663** | 6,012 |
| Other | **105** | 108 |
| Total | **$ 21,173** | $ 18,369 |

Regulatory assets associated with future financial obligations and were deferred in accordance with Orders issued by the DPU do not earn a return until such time a cash outlay has been made. As of March 31, 2024 and 2023, regulatory assets of $0.8 million for Postretirement benefits for both years, did not earn a return. The recovery period of these regulatory assets is to be determined in future rate plans or other Orders issued by the DPU.

The Company recovers carrying charges related to regulatory assets where there has been a cash outlay. These carrying charges include an interest component, recognized as a component of regulatory assets, associated with the portion of the regulatory assets deemed to be financed with debt. These carrying charges also include an equity return component, which is an allowance for earnings on shareholders' investment. This equity return component will be recovered through future rates, but is not recognized for financial reporting purposes. There were no amounts for the equity return component not recognized in the financial statements as of March 31, 2024 and 2023, respectively.

**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").

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

**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.

## 6. RATE MATTERS

### Rate Case Filing

On November 16, 2023, the Company and its affiliate, Massachusetts Electric, filed an application for new base distribution rates to become effective October 1, 2024. The Company and Massachusetts Electric's petition requests an overall net increase in base distribution revenue of approximately $131 million based upon a 10.5% return on equity, and a capital structure of 53.48% equity, 46.47% long-term debt, and 0.05% preferred stock. The proposed increase includes an increase in annual funding of the storm fund from $16 million to $53 million per year and $7 million per year related to exogenous property tax expenses previously approved and deferred for future recovery. The net increase in base distribution revenue was updated to $123 million in the revised revenue requirements and bill impacts filed on May 3, 2024.

Also included in the petition is the Company and Massachusetts Electric's five-year Comprehensive Performance and Investment Plan or "CPI Plan", which encompasses the Company and Massachusetts Electric's core investment plan, investments to deliver the clean energy transition, and performance metrics to hold the Company and Massachusetts Electric accountable to its CPI Plan. The CPI Plan includes two methods of cost recovery: (1) five-year performance-based ratemaking for operating costs only ("PBR-O") plan, which adjusts non-capital related components of base distribution revenue annually based on a pre-determined formula, plus recovery of incremental capital-related operating expense, and exogenous event costs if applicable; and (2) an Infrastructure, Safety, Reliability and Electrification or "ISRE" mechanism for the annual recovery outside of base rates related to both core capital investment post-test year and any incremental costs associated with the Company and Massachusetts Electric's "Future Grid" plan to be reviewed by the DPU in the separate Electric Sector Modernization Plan ("ESMP") proceeding. Both the PBR-O and ISRE recovery mechanisms include the potential to earn incentive revenues and/or penalties as determined annually by the Company and Massachusetts Electric's actual performance against a suite of symmetrical performance metrics. The PBR-O mechanism also includes recovery of exogenous events which meet a significance threshold of $3.6 million, including separate recovery factors related to exogenous storm costs for single storm events greater than $30 million as well as a new proposed exogenous debt cost recovery factor which would refund or collect from customers the difference between actual debt costs incurred and the level of debt cost recovery embedded in base distribution rates annually. The PBR-O proposal includes an earnings sharing mechanism, under which the Company and Massachusetts Electric would share 75% of its earnings that exceed 11.5% return on equity with customers. If

approved, the Company and Massachusetts Electric would agree not to file for an effective change in base distribution rates outside of the annual PBR-O and ISRE mechanisms for a period of five years from the effective date of new rates.

In addition to the base request of $123 million and CPI plan, the Company and Massachusetts Electric has petitioned for three additional proposals outside of its base distribution rates. The first is an extension of the storm fund replenishment factor through September 2029 as well as an increase of approximately $13 million to the annual funding level. The Company and Massachusetts Electric has also petitioned to extend the term of its Vegetation Management Pilot through September 2029. Finally, the Company and Massachusetts Electric has proposed revisions to its current low-income discount rate structure for customers earning 60% of the state median income or less, from the current flat rate of 32% to a tiered structure with discount ranging from 32% to 55%, depending on income and energy burden. The low-income proposal also includes a dedicated team to engage eligible customers through in-person events and a targeted outreach to increase program participation. Recovery of the increased discounts along with costs of increased education and outreach activities would occur through the Company and Massachusetts Electric's existing Residential Assistance Adjustment Factors once the program is implemented.

The new base distribution rates would be reflected on customers' bills starting November 1, 2024. To ensure the Company and Massachusetts Electric invests, operates, and maintains its distribution system wisely, the proposal will undergo a prudency review by the DPU over a statutory 10-month period and will provide for public input and comment. Public hearings were held in March, April and May 2024 across the service territory. Evidentiary hearings were concluded in May 2024 and an order is expected in September 2024.

**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 having incremental costs in excess of $30 million. On September 8, 2021, the DPU allowed the Company and Massachusetts Electric's proposed PBR Adjustment and Capital Expenditure Adjustment for effect October 1, 2021, subject to further investigation and reconciliation. On February 23, 2022, the DPU gave final approval to the Company and Massachusetts Electric's second annual PBR plan filing for rates that went into effect October 1, 2021, a total increase to base distribution revenue of 2.709%, or $22.8 million.

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 and Massachusetts Electric 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 and Massachusetts Electric made its fourth annual PBR filing on June 15, 2023. The filing requested 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 and Massachusetts Electric incurred incremental costs in excess of $30 million, resulting in a total of $80.2 million. The filing included a voluntary Customer Impact Mitigation Plan, that reduced what the Company and Massachusetts Electric 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 included 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).

On September 28, 2023, the DPU approved the Company and Massachusetts Electric's proposed PBR Adjustment and Customer Impact Mitigation Plan, as well as the proposed exogenous storm cost recovery factors, effective October 1, 2023. The DPU also approved recovery of the ongoing incremental property tax as requested pertaining to the years ended March 31, 2021 and March 31, 2022.

On June 14, 2024, the Company and Massachusetts Electric filed its fifth annual PBR filing, proposing to recover two exogenous storms with incremental costs in excess of $30 million in the storm factor effective October 1, 2024 as allowed by the PBR Provision, equating to recovery of approximately $16.3 million annually over 5 years.

**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 and Massachusetts Electric, 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 and Massachusetts Electric 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 and Massachusetts Electric's behalf on July 19, 2022, in which it proposed adjustments to the initial filing to add greater clarity and transparency. NEP, on behalf of the Company and Massachusetts Electric, submitted a supplement to the amended compliance filing on October 3, 2022, based on further discussions with FERC staff. On October 25, 2022, FERC issued an order accepting the Company and Massachusetts Electric'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 approving $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 advanced metering infrastructure, or "AMI" investments; the DPU said it would address these in a further investigation (which it did in the Company and Massachusetts Electric's GMP for calendar years 2022-2025, see below). The Company and Massachusetts Electric has filed annual reports and cost recovery filings with the DPU for its GMP in 2019, 2020, 2021, 2022 and 2023.

The Company and Massachusetts Electric 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). On October 7, 2022, the DPU issued its final order on Track 1, preauthorizing a $300.8 million budget 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 the AMI investments into a new category of "supporting" AMI investments and provided preliminary approval for a budget of $96.1 million for these investments. On March 15, 2024, the Company and Massachusetts Electric made its first annual AMI cost recovery filing for calendar year 2023, which seeks recovery of $3.9 million in O&M costs for calendar year 2023. The

filing also provides an update on calendar year 2023 program implementation. The Company and Massachusetts Electric plan to complete its AMI implementation by the end of 2027.

On April 1, 2022, the Company and Massachusetts Electric filed with the DPU its four-year Grid Modernization Term Report, which reports on the Company and Massachusetts Electric's implementation of its Grid Modernization Program for calendar years 2018-2021. The DPU also consolidated into this proceeding the Company and Massachusetts Electric's annual grid modernization cost recovery filings for calendar years 2018-2021, and is conducting a final review of the costs in this proceeding.

On January 12, 2024, the DPU changed the Grid Modernization annual report filing deadline from April 1st to July 1st, in order to allow the companies time to present "final, audited" cost information in the annual reports. On March 15, 2024, the Company and Massachusetts Electric made its GMP cost recovery filing for calendar year 2023, seeking recovery of a $20.4 million revenue requirement, with total costs for calendar year 2023 of $100.5 million. The filing provides a brief update on program implementation for calendar year 2023. Overall the program remains on track, a full update will be provided in the calendar year 2023 Grid Modernization annual report which is due to the DPU on July 1, 2024.

**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 and Massachusetts Electric 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 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 and March 31, 2024, Massachusetts Electric 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 and Massachusetts Electric believe 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 new docket, D.P.U. 20-91. The AG opposes recovery by distribution companies with PBR plans (including the Company and Massachusetts Electric) 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, upon closing, PPL Rhode Island owned 100% of the outstanding shares

of common stock in NECO. The DPU approved NGUSA's request for a waiver of G.L. c. 164, § 96(c), regarding the sale of NECO in July 2021. Following that approval there was an appeal process which concluded in May 2022 with a settlement agreement with the Attorney General and on May 25, 2022, NECO was sold to PPL Rhode Island.

On June 24, 2022, the Company and Massachusetts Electric submitted its compliance filing per directives in the DPU's July 16, 2021, order as well as commitments in the AGO Settlement to issue a one-time bill credit to customers. On July 26, 2022, the DPU approved the Company and Massachusetts Electric's bill credit proposal and compliance filing. The one-time bill credit was refunded to customers through their bills over six months period from November 2022 to April 2023. On June 30, 2023, the Company and Massachusetts Electric made a filing on the annual report with the AG and DPU in accordance with Section 2.13 of the Settlement. The Company and Massachusetts Electric also provided information related to the annual report requirements as part of the Cost Mitigation Report submitted with the rate filing on November 16, 2023. Review of the cost mitigation report by the DPU and AG will occur in the context of the rate case.

**Storm Threshold Deferral Requests**

On June 17, 2022, the Company and Massachusetts Electric petitioned the DPU for authorization to defer for future recovery $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 DPU issued an order allowing the Company and Massachusetts Electric to apply deferral accounting treatment to threshold amounts associated with three major storm events, totaling $4.65 million. The DPU disallowed $1.55 million of threshold costs associated with the October 26, 2021 Wind/Rain Event because it would be considered as an exogenous event. The DPU will determine the appropriate level of recovery for the excess storm fund threshold amount (if any) in the Company and Massachusetts Electric's next base distribution rate case. On June 15, 2023, the Company and Massachusetts Electric petitioned the DPU for authorization to defer for future recovery $6.2 million in storm cost threshold amounts associated with four qualifying major storm events that occurred in calendar year 2022. Briefing concluded on October 24, 2023. On November 13, 2023, the DPU issued an order allowing the Company and Massachusetts Electric to apply deferral accounting treatment to the four storm thresholds. The Company and Massachusetts Electric has sought recovery of deferred amounts in its current rate case petition. The DPU will determine what if any recovery is appropriate in its rate case order. On June 14, 2024, the Company and Massachusetts Electric requested deferral accounting treatment of 8 storm thresholds for events in calendar year 2023 for a total of $12.4 million until the storm cost recovery filing to be made in 2025.

**Storm Cost Recovery**

On September 26, 2019, the Company and Massachusetts Electric submitted a cost recovery filing to the DPU for three storms from in 2017 and 2018 totaling $102.5 million in incremental O&M costs pursuant to the storm fund. On November 27, 2023, the DPU issued an order approving $99.7 million in requested costs, disallowing $2.8 million due to insufficient documentation and unrelated storm costs. On January 11, 2024, the Company and Massachusetts Electric made an original compliance filing to recalculate costs for storm fund recovery based on the revised capitalization methodology approved in D.P.U. 18-94-A and calculated consistent with D.P.U. 18-94 and D.P.U. 18-153. The total net incremental O&M deferred storm costs was decreased by $18.7 million, comprised of $2.8 million of disallowances, $16.1 million increase in capital exclusions, and a decrease of $0.2 million in materials exclusions. Due to the calculation revisions, the originally sought amount $102.5 million was reduced to $83.8 million, which will result in $2.8 million of disallowances; the net increase to capital and materials exclusions was recorded as a reclassification from the deferral account to property plant and equipment and will be recovered through rate base in a future base rate filing. The compliance filing was approved on February 12, 2024 without revision. The Company and Massachusetts Electric filed a revised compliance filing on May 3, 2024. The storm cost deficit was reduced by $0.3 million as of December 31, 2023.

**Municipal Fiscal Year 2022 Property Tax Exogenous Event Deferral 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 and Massachusetts Electric. On October 18, 2022, the Company and Massachusetts Electric filed to be able to recover the costs of this change as an "exogenous event" under its performance-based ratemaking ("PBR") plan, along with Massachusetts Electric and Boston Gas Company. On May 17, 2023, the DPU approved the Company and Massachusetts Electric'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 approved amount was $7.4 million for the Company and Massachusetts Electric. The Company and Massachusetts Electric were directed to propose a recovery method for the approved amounts in the next PBR filing due on June 15, 2023. After a favorable ruling in a separate case allowing Eversource Energy to recover these type of incremental property taxes, the Company and Massachusetts Electric 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 and Massachusetts Electric requested recovery of these fiscal year 2021 amounts and fiscal year 2023 incremental costs in its PBR filing made June 15, 2023. On September 28, 2023, the DPU approved the Company and Massachusetts Electric's recovery proposal pertaining to fiscal years 2021 and 2022 incremental property tax expense. Recovery of fiscal year 2023 incremental property tax expense was disallowed, as the annual incremental expense incurred of $0.6 million did not meet the significance threshold for exogenous recovery under the current PBR provision. The Company and Massachusetts Electric sought approval to defer the recovery of $40.0 million associated with the cumulative annual increase to its property taxes for fiscal years 2021 through 2023 and to recover $8.0 million each year over a five-year period beginning on October 1, 2024. The DPU approved the Company and Massachusetts Electric's proposal, and consistent with the disallowance of the fiscal year 2023 incremental property tax costs above, reduced the amount of recovery to $38.7 million or $7.7 million each year. As of March 31, 2024, Massachusetts Electric deferred $39.1 million to regulatory assets for both, the Company and Massachusetts Electric, which resulted in the reduction of property tax expense in the current year.

**Electric Sector Modernization Plan**

G.L. c. 164, Sections 92B and 92C, requires each electric distribution company to develop ESMP to proactively upgrade the distribution system to help the Commonwealth realize its statewide greenhouse gas ("GHG") emissions limits and sublimits under Chapter 21N. On January 29, 2024, the Company and Massachusetts Electric filed its ESMP with the DPU. Per the DPU's February 20, 2024 Interlocutory Order on Scope of Proceedings, the DPU will investigate these first ESMP filings as strategic plans and in that context will investigate compliance with the statute, the electric distribution companies' ("EDCs") forecast methods and net benefits proposals, the appropriate cost recovery framework (base rates or a reconciling mechanism), and the standard of review, and will defer performance metrics to a subsequent phase of the proceedings. The DPU will not adjudicate budget pre-approval requests (including for new CIPs) or cost allocation or rate design proposals. The statute requires the DPU to issue an order by August 29, 2024.

## 7. 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, | |
|---|---|---|
| | **2024** | 2023 |
| | *(in thousands of dollars)* | |
| Plant and machinery | **$ 142,401** | $ 139,623 |
| Land and buildings | **4,752** | 4,723 |
| Assets in construction | **4,923** | 2,871 |
| Operating leases ROU assets | **2,782** | 1,943 |
| Total property, plant and equipment | **154,858** | 149,160 |
| Accumulated depreciation | **(62,541)** | (60,930) |
| Accumulated amortization - Operating lease ROU assets | **(795)** | (663) |
| Property, plant and equipment, net | **$ 91,522** | $ 87,567 |

## 8. 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 operations. Non-service costs contain components for interest cost, expected return on assets, amortization of actuarial gain/loss and settlement charges. 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, 2024 and 2023, the Company made contributions of approximately zero and $0.2 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, 2025.

Benefit payments to Pension Plan participants for the years ended March 31, 2024 and 2023 were approximately $0.6 million and $0.4 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, 2024 and 2023, the Company made $0.2 million and $0.4 million contributions, respectively, to the PBOP Plans. The Company expects to contribute $0.2 million to the PBOP Plans during the year ending March 31, 2025.

Gross benefit payments to PBOP plan participants for the years ended March 31, 2024 and 2023 were approximately $0.1 million in both years.

**Net Periodic Benefit Costs**

The Company's net periodic benefit pension cost (benefit) for the years ended March 31, 2024 and 2023 are $(0.1) million and zero, respectively.

The Company's net periodic benefit PBOP cost for the years ended March 31, 2024 and 2023 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, 2024 and 2023:

| | Pension Plans | |
|---|---|---|
| | March 31, | |
| | **2024** | 2023 |
| | *(in thousands of dollars)* | |
| Net actuarial (gain) loss | **$ (77)** | $ 401 |
| Amortization of net actuarial loss | **-** | (38) |
| Total | **$ (77)** | $ 363 |
| Change in regulatory assets or liabilities | **$ (77)** | $ 363 |
| Total | **$ (77)** | $ 363 |

| | PBOP Plans | |
|---|---|---|
| | March 31, | |
| | **2024** | 2023 |
| | *(in thousands of dollars)* | |
| Net actuarial gain | **$ (51)** | $ (734) |
| Amortization of net actuarial gain | **51** | 42 |
| Total | **$ -** | $ (692) |
| Change in regulatory assets or liabilities | **$ -** | $ (692) |
| Total | **$ -** | $ (692) |

**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, 2024 and 2023:

| | Pension Plans | |
|---|---|---|
| | March 31, | |
| | **2024** | 2023 |
| | *(in thousands of dollars)* | |
| Net actuarial loss | **$ 1,275** | $ 1,352 |
| Total | **$ 1,275** | $ 1,352 |
| Included in regulatory assets | **$ 1,275** | $ 1,352 |
| Total | **$ 1,275** | $ 1,352 |

| | PBOP Plans | |
|---|---|---|
| | March 31, | |
| | **2024** | 2023 |
| | *(in thousands of dollars)* | |
| Net actuarial gain | **$ (517)** | $ (517) |
| Total | **$ (517)** | $ (517) |
| Included in regulatory liabilities | **$ (517)** | $ (517) |
| Total | **$ (517)** | $ (517) |

**Reconciliation of Funded Status to 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, 2024 and 2023:

| | Pension Plans | | PBOP Plans | |
|---|---|---|---|---|
| | March 31, | | March 31, | |
| | **2024** | 2023 | **2024** | 2023 |
| | *(in thousands of dollars)* | | | |
| Projected benefit obligation | **$ (7,948)** | $ (8,176) | **$ (1,704)** | $ (1,699) |
| Allocated fair value of assets | **8,193** | 8,275 | **577** | 329 |
| Funded status | **$ 245** | $ 99 | **$ (1,127)** | $ (1,370) |
| | | | | |
| Non-current assets | **$ 245** | $ 99 | **$ -** | $ - |
| Other current liabilities | **-** | - | **(73)** | (68) |
| Non-current liabilities | **-** | - | **(1,054)** | (1,302) |
| Total | **$ 245** | $ 99 | **$ (1,127)** | $ (1,370) |

For the year ended March 31, 2024, the net actuarial gain for Pension was primarily driven by an increase in discount rate and slight changes in the retirement assumption tables resulting from a recent experience study, partially offset by asset losses due to returns that were less than expected. The net actuarial gains for the PBOP Plans were driven by an increase in discount rate, savings recognized from a Pharmacy Benefit Manager market check completed for the Company's contract, as well as the updated Medicare Advantage contract to reflect actual enrollment. For the year end 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.

**Expected Benefit Payments**

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2024 (amounts for PBOP Plans are shown net of employer group waiver plan subsidies expected):

| *(in thousands of dollars)*<br>Years Ending March 31, | Pension Plans | PBOP Plans |
|---|---|---|
| 2025 | $ 546 | $ 73 |
| 2026 | 535 | 86 |
| 2027 | 559 | 101 |
| 2028 | 578 | 112 |
| 2029 | 592 | 128 |
| 2030-2034 | 3,115 | 651 |
| Total | $ 5,925 | $ 1,151 |

**Assumptions Used for Employee Benefits Accounting**

| | Pension Plans | |
|---|---|---|
| | Years Ended March 31, | |
| | **2024** | 2023 |
| **Benefit Obligations:** | | |
| Discount rate | **5.15%** | 4.85% |
| 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 | **4.47%** | 4.40% |
| **Net Periodic Benefit Costs:** | | |
| Discount rate | **4.85%** | 3.65%-4.30% |
| Rate of compensation increase (nonunion) | **4.30%** | 4.30% |
| Rate of compensation increase (union) | **4.25%** | 4.25% |
| Expected return on plan assets | **6.50%** | 5.25%-5.75% |
| Weighted average cash balance interest crediting rate | **4.40%** | 2.75% |

| | PBOP Plans | |
|---|---|---|
| | Years Ended March 31, | |
| | **2024** | 2023 |
| **Benefit obligations:** | | |
| Discount rate | **5.15%** | 4.85% |
| **Net periodic benefit costs:** | | |
| Discount rate | **4.85%** | 3.65%-4.30% |
| Expected return on plan assets | **6.25%-6.75%** | 5.00%-6.00% |

Discount rate and expected return on plan asset assumptions reflect remeasurements during the year ended March 31, 2024. 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 premium is added for active management of both equity and fixed income securities. The long-term rates of return for each asset class are then weighted in accordance with the actual asset allocation, resulting in the expected return on plan assets for each plan.

**Assumed Health Cost Trend Rate**

| | Years Ended March 31, | |
|---|---|---|
| | **2024** | 2023 |
| Health care cost trend rate assumed for next year | | |
| Pre 65 | **6.20%** | 6.40% |
| Post 65 | **5.10%** | 5.20% |
| Prescription | **8.00%** | 7.10% |
| 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 | **2033** | 2031+ |

**Plan Assets**

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

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

The RPC has established and reviews at least annually the Investment Policy Statement ("IPS"), which sets forth the guidelines for how plan assets are to be invested. The IPS contains a strategic asset allocation for each plan, which is intended to meet the objectives of the Plans by diversifying their funds across asset classes, investment styles, and fund managers. An asset/liability study is conducted periodically to determine whether the current strategic asset allocation continues to represent the appropriate balance of expected risk and reward for the plan to meet expected liabilities. Each study considers the investment risk of the asset allocation and determines the optimal mix of assets for the plan. The target asset allocation for fiscal year-end 2024 reflects the results of such a pension study conducted and implemented in fiscal year 2024. As a result of that asset liability analysis, the asset mix for the Pension Plans were changed to further reduce investment risk given the increased funded status of the plans and to better hedge the respective plan liabilities. The Non-Union PBOP Plan asset liability study was conducted in fiscal year 2024. The study did not result in a change to the National Grid Non-Union PBOP asset allocation. The last Union PBOP study was conducted in fiscal year 2023. As a result of that asset liability analysis, the asset mix was changed to further reduce investment risk given the increased funded status of the plans and to better hedge the respective plan liabilities. Those change took effect during fiscal year 2023.

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

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

The target asset allocations for the benefit plans as of March 31, 2024 and 2023 are as follows:

| | **Pension Plans** | | **Union PBOP Plans** | | **Non-Union PBOP Plans** | |
|---|---|---|---|---|---|---|
| | **March 31,** | | **March 31,** | | **March 31,** | |
| | **2024** | 2023 | **2024** | 2023 | **2024** | 2023 |
| Equity | **13%** | 24% | **15%** | 15% | **70%** | 70% |
| Diversified alternatives | **4%** | 7% | **5%** | 5% | **0%** | 0% |
| Fixed income securities | **60%** | 60% | **80%** | 80% | **30%** | 30% |
| Private equity | **12%** | 4% | **0%** | 0% | **0%** | 0% |
| Real estate | **5%** | 3% | **0%** | 0% | **0%** | 0% |
| Infrastructure | **6%** | 2% | **0%** | 0% | **0%** | 0% |
| | **100%** | 100% | **100%** | 100% | **100%** | 100% |

**Fair Value Measurements**

The following tables provide the fair value measurements amounts for the pension and PBOP assets at the trust level (includes all trusts applicable to Plans the Company participates in):

| | March 31, 2024 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Not categorized | Total |
| | *(in thousands of dollars)* | | | |
| **Pension assets:** | | | | |
| Equity | $ 33,748 | $ - | $ 211,424 | $ 245,172 |
| Diversified alternatives | 18,614 | - | 64,033 | 82,647 |
| Corporate bonds | - | 615,887 | 138,114 | 754,001 |
| Government securities | 2,056 | 166,919 | 179,406 | 348,381 |
| Private equity | - | - | 222,159 | 222,159 |
| Real estate | - | - | 91,543 | 91,543 |
| Infrastructure | - | - | 110,291 | 110,291 |
| Total assets | **$ 54,418** | **$ 782,806** | **$ 1,016,970** | **$ 1,854,194** |
| Pending transactions | | | | (44,661) |
| Total net assets | | | | **$ 1,809,533** |
| **PBOP assets:** | | | | |
| Equity | $ 45,180 | $ - | $ 128,400 | $ 173,580 |
| Diversified alternatives | 17,870 | - | 1,628 | 19,498 |
| Corporate bonds | - | 229,188 | - | 229,188 |
| Government securities | 10,416 | 92,491 | 631 | 103,538 |
| Insurance contracts | - | - | 41,699 | 41,699 |
| Total assets | **$ 73,466** | **$ 321,679** | **$ 172,358** | **$ 567,503** |
| Pending transactions | | | | 5,152 |
| Total net assets | | | | **$ 572,655** |

| | March 31, 2023 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Not categorized | Total |
| | *(in thousands of dollars)* | | | |
| **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 | **$ 96,687** | **$ 728,424** | **$ 1,116,403** | **$ 1,941,514** |
| Pending transactions | | | | (22,711) |
| Total net assets | | | | **$ 1,918,803** |
| **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 | **$ 92,655** | **$ 305,529** | **$ 148,546** | **$ 546,730** |
| Pending transactions | | | | 4,079 |
| Total net assets | | | | **$ 550,809** |

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

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

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

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

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

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

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

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

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

**Not Categorized**: For investments in commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV per fund share, derived from the underlying securities' quoted prices in active markets, and they are excluded from the fair value hierarchy. Investments in commingled funds with redemption restrictions and that use NAV are excluded from the fair value hierarchy.

**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, 2024 and 2023, the Company recognized an expense in the accompanying statements of operations of $0.1 million in both years, for matching contributions.

## 9. CAPITALIZATION

Total capitalization for the Company at March 31, 2024 and 2023 is as follows:

| | | | **March 31,** | |
|---|---|---|---|---|
| | | | **2024** | 2023 |
| | | | *(in thousands of dollars)* | |
| **Total shareholders' equity** | | | **$ 102,458** | $ 94,485 |
| **Long-term debt:** | Interest Rate | Maturity Date | | |
| *Unsecured tax-exempt notes:* | | | | |
| 2004 Massachusetts Development Finance Agency ("MDFA") | Variable | March 1, 2039 | **10,000** | 10,000 |
| 2005 MDFA | Variable | December 1, 2040 | **28,000** | 28,000 |
| 2007 MDFA | Variable | August 1, 2042 | **13,300** | 13,300 |
| Total debt | | | **51,300** | 51,300 |
| Unamortized debt issuance costs | | | **(557)** | (591) |
| Total long-term debt | | | **50,743** | 50,709 |
| **Total capitalization** | | | **$ 153,201** | $ 145,194 |

The aggregate maturities of long-term debt for the years subsequent to March 31, 2024 are as follows:

| *(in thousands of dollars)*<br>March 31, | **Maturities of Long-Term Debt** |
|---|---|
| 2025 | $ - |
| 2026 | - |
| 2027 | - |
| 2028 | - |
| 2029 | - |
| Thereafter | 51,300 |
| Total | $ 51,300 |

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, 2024, and 2023, 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, 2024 and 2023. Refer to Note 13, "Related Party Transactions" under "Intercompany Money Pool" for short-term debt outstanding with associated companies.

**Electric Revenue Bonds**

As of March 31, 2024, 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 2.50% and 4.70% and from 0.35% and 4.05% for the years ended March 31, 2024 and 2023, 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, 2024 and 2023, 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, 2024 and March 31, 2023, common equity was 67% and 65% of total capitalization, respectively. Under these provisions, none of the Company's retained earnings as of March 31, 2024 and March 31, 2023 were restricted as to common dividends.

## 10. INCOME TAXES

### Components of Income Tax Expense

| | Years Ended March 31, | |
|---|---|---|
| | **2024** | 2023 |
| | *(in thousands of dollars)* | |
| Current tax expense (benefit): | | |
| Federal | **$ 2,811** | $ 2,590 |
| State | **1,242** | 1,016 |
| Total current tax expense (benefit) | **4,053** | 3,606 |
| Deferred tax expense (benefit): | | |
| Federal | **(106)** | (65) |
| State | **(299)** | (166) |
| Total deferred tax expense (benefit) | **(405)** | (231) |
| Total income tax expense (benefit) | **$ 3,648** | $ 3,375 |

### Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2024 and 2023 are 31.4% and 32.1%, 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, | |
|---|---|---|
| | **2024** | 2023 |
| | *(in thousands of dollars)* | |
| Computed tax | **$ 2,439** | $ 2,211 |
| Change in computed taxes resulting from: | | |
| State income tax, net of federal benefit | **745** | 672 |
| Amortization of regulatory tax liability - net | **452** | 501 |
| Other | **12** | (9) |
| Total changes | **1,209** | 1,164 |
| Total income tax expense | **$ 3,648** | $ 3,375 |

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% CAMT on the "adjusted financial statement income" of certain large corporations for tax years beginning after December 31, 2022. National Grid is subject to the new CAMT on its federal income tax return for the tax year ending March 31, 2024. As of March 31, 2024, the Company has not been allocated any CAMT.

**Deferred Tax Components**

| | March 31, | |
|---|---|---|
| | **2024** | 2023 |
| | *(in thousands of dollars)* | |
| **Deferred tax assets:** | | |
| Regulatory liabilities | **$ 13,270** | $ 11,838 |
| Other | **1,095** | 1,260 |
| Total deferred tax assets | **14,365** | 13,098 |
| **Deferred tax liabilities:** | | |
| Property-related differences | **13,950** | 13,711 |
| Other | **503** | 529 |
| Total deferred tax liabilities | **14,453** | 14,240 |
| **Deferred income tax liabilities, net** | **$ 88** | $ 1,142 |

**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, 2021 |
| Massachusetts | March 31, 2013 |

**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 statements of operations. As of March 31, 2024 and 2023, the Company has accrued for interest related to unrecognized tax benefits of $5 thousand and $4 thousand, respectively. During the years ended March 31, 2024 and 2023, the Company recorded interest expense of $0.2 thousand and $3 thousand, respectively. No tax penalties were recognized during the years ended March 31, 2024 and 2023.

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

## 11. COMMITMENTS AND CONTINGENCIES

**Legal Matters**

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

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

On June 17, 2021, five former employees of National Grid USA Service Company, Inc. in the downstate New York facilities department were arrested on federal charges alleging fraud and bribery. The five former employees subsequently pleaded guilty to the charges, pursuant to plea agreements. 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. The Company does not expect this matter will have a material adverse effect on its results of operations, financial position, or cash flows.

*Energy Efficiency Programs Investigations*

National Grid is participating in regulatory proceedings regarding certain conduct associated with the energy efficiency programs operated by its affiliates. At this time, it is not possible to predict the outcomes or the amount, if any, of any liabilities that may be incurred in connection with it by National Grid and 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.

## 12. 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 1 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, 2024, the Company does not have any finance leases.

The expense related to operating leases was $339 thousand and $267 thousand for the years ended March 31, 2024 and 2023, respectively.

As of March 31, 2024, 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, | |
|---|---|---|
| | **2024** | 2023 |
| | *(in thousands of dollars)* | |
| Cash paid for amounts included in lease liabilities | | |
| Operating cash flows from operating leases | **$ 339** | $ 267 |
| ROU assets obtained in exchange for new operating lease liabilities | **$ 1,140** | $ 170 |
| | | |
| Weighted-average remaining lease term – operating leases | **7 years** | 7 years |
| Weighted-average discount rate – operating leases | **4.4%** | 2.1% |

The following contains the Company's maturity analysis of its operating lease liabilities as of March 31, 2024, showing the undiscounted cash flows on an annual basis reconciled to the discounted operating lease liabilities recognized in the comparative balance sheet:

| | **Operating Leases** |
|---|---|
| **Year Ending March 31,** | *(in thousands of dollars)* |
| 2025 | **$ 365** |
| 2026 | **333** |
| 2027 | **324** |
| 2028 | **312** |
| 2029 | **301** |
| Thereafter | **649** |
| Total future minimum lease payments | **2,284** |
| Less: imputed interest | **(297)** |
| Total | **$ 1,987** |

| Reported as of March 31, 2024: | | |
|---|---|---|
| Current lease liability | | 290 |
| Non-current lease liability | | 1,697 |
| Total | $ | 1,987 |

There are certain leases in which the Company is the lessor. Revenue under such leases was immaterial for the years ended March 31, 2024 and 2023.

## 13. RELATED PARTY TRANSACTIONS

### Accounts Receivable from and Accounts Payable to Affiliates

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

The Company records short-term receivables for any deposits held by affiliates that are due to the Company, and payables for any deposits held by the Company that are due to 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, | |
| | **2024** | 2023 | **2024** | 2023 |
| | *(in thousands of dollars)* | | | |
| Massachusetts Electric Company | **$ 1,178** | $ 803 | **$ 360** | $ 244 |
| New England Power Company | **7** | 10 | **424** | 309 |
| NGUSA | **22** | 44 | **96** | 103 |
| NGUSA Service Company | **122** | 151 | **872** | 1,235 |
| Other | **1** | 3 | **93** | 33 |
| Total | **$ 1,330** | $ 1,011 | **$ 1,845** | $ 1,924 |

### Advances from Affiliates

The Company has an agreement with NGUSA whereby the Company can borrow up $10 million from time to time for working capital needs. The advance is non-interest bearing. As of March 31, 2024 and 2023, 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 $103.7 million and $93.9 million as of March 31, 2024 and 2023, respectively. The average interest rates for the intercompany money pool were 5.2% and 2.9% for the years ended March 31, 2024 and 2023, respectively. Additionally, NGUSA had committed revolving credit facilities of approximately $6.7 billion, all of which have expiry dates beyond March 31, 2026, with two one-year extensions. As of March 31, 2024 these facilities have not been drawn against and can be used to fund the money pool.

**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, 2024 and 2023, Massachusetts Electric reimbursed the Company $8.7 million and $7.4 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, 2024 and 2023 cost allocated to the Company were $5.6 million and $5.7 million, respectively.