nationalgrid

National Grid Generation LLC and Subsidiaries

Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED

DECEMBER 31, 2020

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I hereby certify that I am Vice-President, FERC Controller of National Grid Generation LLC and that the enclosed consolidated financial statements for the twelve months ended December 31, 2020 have been prepared in accordance with generally accepted accounting principles, and are, in my opinion, materially correct.

Christopher McCusker, Vice-President, FERC Controller

4/16/2021____________________

Date

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NATIONAL GRID GENERATION LLC AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Managers of
National Grid Generation LLC

We have audited the accompanying consolidated financial statements of National Grid Generation LLC and Subsidiaries (the "Company"), which comprise the consolidated balance sheets and statements of capitalization as of December 31, 2020 and 2019, and the related consolidated statements of income, changes in member's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Grid Generation LLC and Subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 16, 2021

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended December 31,	
	2020	2019
Operating revenues	**$ 496,472**	$ 479,531
Operating expenses:		
Operations and maintenance	**188,152**	170,947
Depreciation	**56,641**	54,757
Other taxes	**205,450**	202,408
Total operating expenses	**450,243**	428,112
Operating income	**46,229**	51,419
Other income and (deductions):		
Interest on long-term debt	**(1,261)**	(1,219)
Other interest, including affiliate interest, net	**(4,579)**	(6,750)
Loss on disposal of assets	**(380)**	-
Other income, net	**562**	7,021
Total other deductions, net	**(5,658)**	(948)
Income before income taxes	**40,571**	50,471
Income tax expense	**13,060**	15,147
Net income	**$ 27,511**	$ 35,324

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended December 31,	
	2020	2019
Operating Activities:		
Net income	**$ 27,511**	$ 35,324
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**56,641**	54,757
Deferred income tax	**(21,041)**	956
(Income) loss from equity investments, net of dividends received	**-**	(979)
Loss on disposal of assets	**380**	-
Decommissioning charges, net of payments	**1,007**	956
Pension and postretirement benefit expenses, net	**(1,932)**	(1,589)
Changes in operating assets and liabilities		
Accounts receivable and other receivables, net, and unbilled revenues	**(9,233)**	3,148
Accounts receivable from/payable to affiliates, net	**(12,048)**	(1,187)
Inventory	**(566)**	(1,078)
Emission credits and emission credits reserve	**348**	(81)
Prepaid and accrued taxes	**36,665**	7,428
Other prepayments	**(303)**	8
Accounts payable and other liabilities	**1,888**	5,057
Other, net	**(4,516)**	1,642
Net cash provided by operating activities	**74,801**	104,362
Investing Activities:		
Capital expenditures	**(50,416)**	(43,009)
Intercompany money pool	**(6,522)**	(42,701)
Investment in joint venture	**-**	(889)
Other	**7**	107
Net cash used in investing activities	**(56,931)**	(86,492)
Financing Activities:		
Payments on long-term debt	**(17,870)**	(17,870)
Net cash used in financing activities	**(17,870)**	(17,870)
Net increase (decrease) in cash, cash equivalents, restricted cash and special deposits	**-**	-
Cash, cash equivalents, restricted cash and special deposits, beginning of period	**-**	-
Cash, cash equivalents, restricted cash and special deposits, end of period	**$ -**	$ -
Supplemental disclosures:		
Interest paid	**$ (6,718)**	$ (6,524)
Income taxes paid	**(12,320)**	(4,430)
Significant non-cash items:		
Capital-related accruals included in accounts payable	**3,083**	3,767
Parent tax loss allocation	**14,533**	-
National Grid Ventures divestiture	-	(26,734)

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	December 31,	
	2020	2019
ASSETS		
Current assets:		
Accounts receivable, net of allowance	**$ 268**	$ 57
Accounts receivable from affiliates	**4,655**	2,395
Intercompany money pool asset	**80,433**	73,911
Unbilled revenues	**12,656**	3,531
Inventory	**41,406**	40,840
Emission credits	**37,351**	22,740
Other current assets	**675**	475
Total current assets	**177,444**	143,949
Property, plant and equipment, net	**667,127**	668,387
Other non-current assets:		
Other noncurrent assets	**14,547**	10,031
Total other non-current assets	**14,547**	10,031
Total assets	**$ 859,118**	$ 822,367

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	December 31,	
	2020	2019
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 63,369**	$ 62,666
Accounts payable to affiliates	**32,844**	20,327
Current portion of long-term debt	**17,870**	17,870
Taxes accrued	**73,578**	73,751
Current portion of emission credit reserve	**35,642**	7,009
Other current liabilities	**7,479**	7,308
Total current liabilities	**230,782**	188,931
Other non-current liabilities:		
Asset retirement obligations	**23,065**	17,955
Deferred income tax liabilities, net	**74,197**	95,238
Emission credit reserve	-	13,674
Other noncurrent liabilities	**20,286**	19,955
Total other non-current liabilities	**117,548**	146,822
Capitalization:		
Member's equity	**324,863**	282,819
Long-term debt	**185,925**	203,795
Total capitalization	**510,788**	486,614
Total liabilities and capitalization	**$ 859,118**	$ 822,367

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			December 31,	
			2020	2019
Total member's equity			**$ 324,863**	$ 282,819
Long-term debt:	Interest Rate	Maturity Date		
Pollution Control Revenue Bonds – Series 1999A	Variable	October 1, 2028	**41,125**	41,125
Electric Facilities Revenue Bonds – Series 1997A	Variable	December 1, 2027	**24,880**	24,880
			66,005	66,005
Promissory Notes to National Grid North America Inc.	3.13 - 3.25%	June 2027 – April 2028	**137,790**	155,660
Total Debt			**203,795**	221,665
Current portion of long-term debt			**17,870**	17,870
Total long-term debt			**185,925**	203,795
Total capitalization			**$ 510,788**	$ 486,614

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY
(in thousands of dollars)

	Additional Paid-in Capital	Retained Earnings	Total
Balance as of December 31, 2018	**$ 156,762**	**$ 117,467**	**$ 274,229**
Net income	-	35,324	35,324
Equity distribution	(26,734)	-	(26,734)
Balance as of December 31, 2019	**$ 130,028**	**$ 152,791**	**$ 282,819**
Net Income	-	27,511	27,511
Parent Tax Loss Allocation	14,533	-	14,533
Balance as of December 31, 2020	**$ 144,561**	**$ 180,302**	**$ 324,863**

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

National Grid Generation LLC (together with its subsidiaries referred to as "the Company") is a New York limited liability company that owns and operates 50 electric generation units with approximately 3,800 megawatts ("MWs") of electric generation capacity located in Long Island. The Company, together with its wholly-owned subsidiaries, National Grid Glenwood Energy Center, LLC ("Glenwood") and National Grid Port Jefferson Energy Center LLC ("Port Jefferson"), sell capacity, energy conversion, and ancillary services to the Long Island Power Authority ("LIPA"). See Note 3, "Equity Investments," for further information on the Company's non-consolidated subsidiaries.

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

The Company earns all of its revenue from contracts with LIPA based upon an agreement with LIPA (the "Amended and Restated Power Supply Agreement" or "A&R PSA"), which provides for the sale of all capacity and requested energy from its oil and gas-fired generating facilities. In addition, Glenwood and Port Jefferson have 25-year Power Purchase Agreements ("PPAs") with LIPA to provide capacity, energy, and ancillary services to LIPA and each plant is designed to produce 80 MWs of electricity.

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The novel coronavirus (COVID-19) pandemic has disrupted the U.S. and global economies and is having a significant impact on global health. In March 2020, COVID-19 was declared a pandemic by the World Health Organization (WHO) and the Centers for Disease Control and Prevention. The COVID-19 pandemic has not had a material financial impact on the Company as of December 31, 2020; however, the extent to which the COVID-19 pandemic will impact the Company in the future is uncertain at this time. The Company is monitoring COVID-19 developments closely.

The Company has evaluated subsequent events and transactions through April 16th, 2021, 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 December 31, 2020. The Company continues to evaluate the ongoing impact of COVID-19 on both customers and financial performance and is complying with all requests from regulators to share relevant information.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing financial statements that conform to FERC Requirements, 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 include the impact of the ongoing COVID-19 pandemic and are reflected in the accompanying financial statements. Actual results could differ from those estimates.

Revenue Recognition

Revenues are recognized for sales of capacity and energy to LIPA under terms of the A&R PSA, with rates approved by the Federal Energy Regulatory Commission ("FERC"). See Note 10, "Leases," for additional information on the A&R PSA. The Company records unbilled revenues for the estimated amount of energy delivered from the bill date to the end of the accounting period.

Other Taxes

The Company collects taxes and fees from LIPA 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, taking into account the assessment period. The Company had accrued for property taxes of $49.9 million and $48.6 million as of December 31, 2020 and 2019, respectively.

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 consolidated financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses, and general business credit carryforwards. The Company assesses the available positive and negative evidence to estimate whether sufficient future taxable income of the appropriate tax character will be generated to realize the benefits of existing deferred tax assets. When the evaluation of the evidence indicates that the Company will not be able to realize the benefits of existing deferred tax assets, a valuation allowance is recorded to reduce existing deferred tax assets to the net realizable amount.

The effects of tax positions are recognized in the consolidated 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 benefits-for-loss allocation pursuant to a tax sharing agreement between NGNA and its subsidiaries. The benefits of consolidated tax losses and credits are allocated to the NGNA subsidiaries giving rise to such benefits in determining each subsidiary's tax expense in the year that the loss or credit arises. In a year that a consolidated loss or credit carryforward is utilized, the tax benefit utilized in consolidation is paid proportionately to the subsidiaries that gave rise to the benefit regardless of whether 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.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined taking into account historical collection and write-off experience and management's assessment of collectability from LIPA. The collectability of receivables is continuously assessed, and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the balances are deemed to be uncollectible, which is reflected in the Company's operations and maintenance expense

Inventory

Inventory is comprised of materials and supplies and carbon dioxide emission credits. Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized as used. The Company wrote off $0.1 million in obsolete inventory for both the years ended December 31, 2020 and 2019, respectively. The Company's carbon dioxide emission credits are valued at the lower of weighted average cost or net realizable value and are held primarily for consumption or may be sold to third-party purchasers.

The Company had materials and supplies of $41.4 and $40.8 million as of December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the Company recorded emission allowance credits of $37.4 and $22.7 million and a compliance reserve of $35.6 million and $20.7 million, respectively.

As per the Regional Greenhouse Gas Initiative, the Company is required to maintain carbon dioxide emission credits for emissions which are emitted over a three-year compliance period. After the end of each interim control period, which is each of the first two calendar years of a three-year compliance period, the Company is required to surrender 50% of its emission credits for the control period, which is recognized as a reduction to inventory and the emission credit reserve on the accompanying consolidated balance sheet. At the end of the three-year compliance period, the remaining inventory and emission credit reserve are surrendered and removed from the balance sheet.

Property, Plant, and Equipment

Property, plant, and equipment is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of property, plant, and equipment is capitalized. The capitalized cost of additions to property, plant, and equipment includes costs such as direct material, labor and benefits, and capitalized interest.

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. The average composite rates for the year ended December 31, 2020 and 2019 was 2.7% and 2.8%. The average service life for the year ended December 31, 2020 and 2019 was 37 years and 36 years.

Capitalized Interest

In accordance with ASC 835, "Interest," the Company capitalized interest in the amount of $0.9 million and $0.7 million as of December 31, 2020 and 2019, respectively. The average capitalized interest rates for the years ended December 31, 2020 and 2019 were 1.06% and 2.01%, 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 may not be recoverable. If identified, the recoverability of an asset is determined by comparing its carrying value to the estimated undiscounted cash flows that the asset is expected to generate. If the comparison indicates that the carrying value is not recoverable, an impairment loss is recognized for the excess of the carrying value over the estimated fair value. For the years ended December 31, 2020 and 2019, there were $0.2 million and $0.0 million of impairment losses recognized for long-lived assets, respectively.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant, and equipment. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations, are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period, the asset retirement obligation is accreted to its present value.

The Company has various asset retirement obligations primarily associated with its electric generation activities. Generally, the Company's largest asset retirement obligations relate to: (i) cleaning and removal requirements associated with storage tanks containing waste oil and other waste contaminants; (ii) legal requirements to remove asbestos upon major renovation or demolition of structures and facilities; and (iii) waste water treatment pond removal.

The following table represents the changes in the Company's asset retirement obligations:

	December 31,	
	2020	2019
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 18,827**	$ 17,872
Accretion expense	**1,007**	956
Liabilities settled	**(2)**	(1)
Revisions to present values of estimated cash flows	**4,105**	-
Balance as of the end of the year	**$ 23,937**	$ 18,827

The Company recognized an increase of $4.1 million to asset retirement obligations as a result of changes to the timing and amount of cashflows of existing retirement obligations. The Company had a current portion of asset retirement obligations of $0.9 million and $0.9 million included in Other Current Liabilities on the balance sheet as of December 31, 2020 and 2019, respectively.

Employee Benefits

The Company follows the accounting guidance for multi-employer accounting to record pension and postretirement benefits other than pension ("PBOP") expenses. The Company's pension and PBOP expenses represent direct charges and allocations from affiliated service companies, while the liability is recorded at the Parent. Contributions are also based on these pension and PBOP expenses.

New and Recent Accounting Guidance

Accounting Guidance Recently Adopted

Compensation

In August 2018, the FASB issued ASU No. 2018-14 "Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans," which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans, including elimination of certain current disclosure requirements. For the Company, the requirements of the new standard will be effective for the calendar year ending December 31, 2021; however, early adoption is permitted. The Company early adopted this new guidance on January 1, 2020 using a retrospective basis to all period presented.

Accounting Guidance Not Yet Adopted

Income Taxes

In December 2019, the FASB issued ASU No. 2019-12 "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" which simplifies various aspects of the accounting for income taxes by eliminating certain exceptions to current requirements. The standard also enhances and simplifies other requirements, including tax basis step-up in goodwill obtained in a transaction that is not a business combination, ownership changes in investments, and interim-period accounting for enacted changes in tax law. For public business entities, the standard is effective for calendar years, and interim periods within those calendar years, beginning after December 15, 2020. For all other entities, the standard is effective for calendar years beginning after December 15, 2021, and interim periods within calendar years beginning after December 15, 2022. Early adoption is permitted. The Company plans to early adopt this standard on January 1, 2021 and is currently assessing the impact of this standard on its financial statements.

Callable Debt Securities

In October 2020, the FASB issued ASU No. 2020-08 "Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs" to clarifies that an entity should reevaluate whether a callable debt security that has multiple call dates is within the scope of paragraph ASC 310-20-35-33 for each reporting period. For public business entities, the standard is effective for calendar years, and interim periods within those calendar years, beginning after December 15, 2020. Early application is not permitted for public business entities. For all other entities, the standard is effective for calendar years beginning after December 15, 2021, and interim periods within calendar years beginning after December 15, 2022. Early application is permitted for all other entities for calendar years, and interim periods within those calendar years, beginning after December 15, 2020. The Company plans to early apply this standard on a prospective basis on January 1, 2021 for existing or newly purchased callable debt securities and is currently assessing the impact of this standard on its financial statements.

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 Instruments," 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 standards provides a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses which is to replace the incurred loss impairment methodology of delayed recognition of credit losses. A broader range of reasonable and supportable information must be considered in developing the credit loss. 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 fair value option for financial instruments that were previously recorded at amortized cost basis within the scope of Topic 326, with the exception of held-to-maturity debt securities. For the Company, the requirements in these updates, as amended in November 2019 by ASU 2019-10 "Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates", will be effective for calendar years beginning after December 15, 2022, including interim periods within those calendar years. The Company is currently assessing the application of the standard to determine if it will have a material impact on the presentation, results of operations, cash flows, and financial position of the Company.

3. EQUITY INVESTMENTS

During 2019, NGNA commenced a restructuring plan to move certain of its nonregulated businesses, which were located throughout the organizational structure, underneath a single holding company. Subsequently, on November 30, 2019, the Company transferred its ownership interest in National Grid Generation Ventures LLC ("Ventures") to NGNA through an equity distribution. As this was a transaction between entities under common control, the Company's interest in Ventures was transferred at net book value, or $27.0 million. There was no gain or loss as a result of this transfer.

The company had no equity earnings for the year ended December 31, 2020. Prior to December 1, 2019, the Company recognized $1.0 million for the year ended December 31, 2019. The Company had not issued any loans, commitments or guarantees any of the equity investment entities.

4. PROPERTY, PLANT, AND EQUIPMENT

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

	December 31,	
	2020	2019
	(in thousands of dollars)	
Plant and machinery	**$ 1,738,319**	$ 1,710,816
Assets in construction	**58,076**	44,544
Land and buildings	**364,592**	361,227
Motor vehicles and equipment	**2,169**	1,405
Software and other intangibles	**8,364**	8,364
Total property, plant and equipment	**2,171,520**	2,126,356
Accumulated depreciation and amortization	**(1,504,393)**	(1,457,969)
Property, plant and equipment, net	**$ 667,127**	$ 668,387

5. EMPLOYEE BENEFITS

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

The Pension plans provide union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives.

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 coverage.

Plan assets are maintained for all of NGUSA and its subsidiaries in commingled trusts. 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 expenses are included within operations expenses in the accompanying statements of income.

The Company’s A&R PSA with LIPA provides for the recovery of direct and allocated pension and PBOP costs through the capacity charge mechanism. These costs are presently recovered through the capacity charge mechanism during the subsequent contract year under the A&R PSA. These same costs are a direct input into funding considerations attributed to the Company in respect of the plans.

The KeySpan Retirement Income Plan, the KeySpan Benefit Plan for Retired (East) Union Employees, the KeySpan Life Insurance Plan for Retired (East) Management Employees, and the KeySpan Medical Plan for Retired (East) Management Employees are the primary Plans that provided pension and PBOP benefits in respect of the Company. Contributions in respect of the Company totaled $37 thousand and $9.6 million for the years ended December 31, 2020 and 2019, respectively.

All pension and PBOP costs associated with the Plan either directly charged or allocated from affiliated service companies are settled through the Company's Intercompany money pool (refer to the Intercompany Money Pool section of Note 11, "Related Party Transactions"). The amounts settled through the intercompany money pool are considered as the Company's contributions to the Plans.

The Company's gross pension and PBOP costs directly charged and allocated from affiliated service companies for the years ended December 31, 2020 and 2019 are as follows:

	Years Ended December 31,	
	2020	2019
	(in thousands of dollars)	
Pension	**$ 13,644**	$ 10,799
PBOP	**1,266**	(1,986)
	$ 14,910	$ 8,813

Gross pension and PBOP costs include \$2.0 million and \$1.6 million of capitalized costs for the years ended December 31, 2020 and 2019, respectively.

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended December 31, 2020 and 2019, the Company recognized an expense in the accompanying consolidated statements of income of \$0.9 million and \$0.8 million for matching contributions.

Other Benefits

As of December 31, 2020 and 2019, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR") of \$2.1 million and \$1.2 million, respectively. IBNR reserves have been established for claims and/or events that have transpired but have not yet been reported to the Company for payment.

6. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to December 31, 2020 are as follows:

(in thousands of dollars)	
As of December 31,	
2021	$ 17,870
2022	17,870
2023	17,870
2024	17,870
2025	17,870
Thereafter	114,445
Total	$ 203,795

Debt Authorizations

Since January 12, 2015, the Company has had regulatory approval from the FERC to issue up to \$250 million of short-term debt. The authorization, which was renewed with an effective date of January 11, 2021 expires on October 14, 2022. The Company had no short-term debt outstanding to third-parties as of December 31, 2020 and 2019. Refer to the Intercompany Money Pool footnote included in Note 11, "Related Party Transactions," for short-term debt outstanding to its affiliates.

State Authority Financing Bonds

As of December 31, 2020 and 2019, $41.1 million of 1999 Series A Pollution Control Revenue Bonds due October 1, 2028 were outstanding. The interest rate ranged from 1.25% to 10.44% and 0.85% to 3.33% for the years ended December 31, 2020 and 2019, respectively.

The Company also had outstanding $24.9 million of variable rate 1997 Series A Electric Facilities Revenue Bonds due December 1, 2027 as of December 31, 2020 and 2019. The interest rate on these bonds is reset weekly and ranged from 0.11% to 5.15% and 1.13% to 2.28% during the years ended December 31, 2020 and 2019, respectively. These bonds are backed by a standby letter of credit and reimbursement agreement which includes a percent of indebtedness covenant that cannot exceed 70%. During the years ended December 31, 2020 and 2019, the Company was in compliance with this covenant.

Promissory Notes

On November 20, 2015, the Company entered into an intercompany loan with NGNA totaling $227 million, composed of a $165 million intercompany loan with an interest rate of 3.25% due to mature on April 30, 2028 and a $62 million intercompany loan with an interest rate of 3.13% due to mature on June 1, 2027. The intercompany loans have an annual sinking fund requirement totaling $17.9 million, which is included in current portion of long-term debt on the accompanying consolidated balance sheets as of December 31, 2020 and 2019, respectively.

Restrictions on Payment of Dividends

The Company is obligated to meet certain non-financial covenants pursuant to the participation agreement with the New York State Energy Research and Development Authority. During the years ended December 31, 2020 and 2019, the Company was in compliance with all such covenants.

Pursuant to FERC regulations, payment of dividends would not be permitted if, after giving effect to such payment of dividends, member's equity becomes less than 30% of total capitalization. As of December 31, 2020 and 2019, member's equity was 61.5% and 56.1% of total capitalization, respectively. Under these provisions, none of the Company's retained earnings as of December 31, 2020 and 2019 were restricted as to payment of dividends.

7. INCOME TAXES

Components of Income Tax Expense

	Years Ended December 31,	
	2020	2019
	(in thousands of dollars)	
Current tax expense:		
Federal	**$ 23,707**	$ 10,665
State	**10,394**	3,526
Total current tax expense:	**34,101**	14,191
Deferred tax expense (benefit):		
Federal	**(14,372)**	315
State	**(6,669)**	641
Total deferred tax expense (benefit)	**(21,041)**	956
Total income tax expense	**$ 13,060**	$ 15,147

Statutory Rate Reconciliation

The Company's effective tax rate for the years ended December 31, 2020 and 2019 was 32.2% and 30.0%, respectively. The following table presents a reconciliation of income tax expense (benefit) at the federal statutory tax rate of 21% to the actual tax expense:

	Years Ended December 31,	
	2020	2019
	(in thousands of dollars)	
Computed tax	**$ 8,520**	$ 10,599
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**2,943**	3,292
Audit and reserve settlements	**1,598**	1,223
Other	**(1)**	33
Total changes	**4,540**	4,548
Total income tax expense	**$ 13,060**	$ 15,147

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

Deferred Tax Components

	December 31,	
	2020	2019
	(in thousands of dollars)	
Deferred tax assets:		
Reserves not currently deducted	$ 2,308	$ 2,536
Postretirement benefits and other employee benefits	1,503	1,290
Net operating losses	2,339	1,452
Other items – net	3,197	3,680
Total deferred tax assets	**9,347**	**8,958**
Deferred tax liabilities:		
Property related differences	83,544	91,261
Property taxes	-	12,935
Total deferred tax liabilities	**83,544**	**104,196**
Net deferred income tax liabilities	**$ 74,197**	**$ 95,238**

Net Operating Losses

The amounts and expiration dates of the Company's net operating losses carryforward as of December 31, 2020 are as follows:

Carryforward Amount	Expiration Period

		(in thousands of dollars)	
Federal	**$**	**12,001**	**2033-2036**
State		**20,906**	**2035**

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

Status of Income Tax Examinations

During the year ended December 31, 2020, the Company reached a settlement with the IRS for the tax years ended March 31, 2013, 2014, and 2015. The outcome of the settlement did not have a material impact to the Company's results of operations, financial position, or cash flows.

The years ended March 31, 2016 through March 31, 2020 remain subject to examination by the IRS and the State of New York.

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 consolidated statements of income. As of December 31, 2020, and 2019, the Company has accrued for interest related to unrecognized tax benefits of $0.1 million and $0.8 million, respectively. During the years ended December 31, 2020 and 2019, the Company recorded interest expense of $0.02 million and $0.1 million, respectively. No tax penalties were recognized during the years ended December 31, 2020 and 2019.

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.

8. ENVIRONMENTAL MATTERS

Ordinary business operations subject the Company to various federal, state, and local laws, rules, and regulations dealing with the environment, including air, water, and hazardous waste. The Company's business operations are regulated by various federal, regional, state, and local authorities, including the EPA, the New York State Department of Environmental Conservation ("DEC"), the New York City Department of Environmental Protection, and the Nassau and Suffolk County Departments of Health.

Except as set forth below, no material proceedings relating to environmental matters have been commenced or, to the Company's knowledge, are contemplated by any federal, state, or local agency against the Company and the Company is not a defendant in any material litigation with respect to any matter relating to the protection of the environment. The Company believes that its operations are in substantial compliance with environmental laws and that requirements imposed by environmental laws are not likely to have a material adverse impact on the Company's financial position or results of operations.

Air

The Company's generating facilities are subject to increasingly stringent emissions limitations under current and anticipated future requirements of the EPA and the DEC. In addition to efforts to improve both ozone and particulate matter air quality, there has been an increased focus on greenhouse gas emissions in recent years. The Company's previous investments in low

NO_x boiler combustion modifications, the use of natural gas firing systems at its steam electric generating stations, and the compliance flexibility available under cap and trade programs have enabled the Company to achieve its prior emission reductions in a cost-effective manner. These investments include the installation of enhanced NO_x controls and efficiency improvement projects at certain of the Company's Long Island based electric generating facilities. The total cost of these improvements was approximately $105.8 million, all of which have been placed in service as of the date of this report; a mechanism for recovery from LIPA of these investments has been established. The Company will continue to make investments for additional emissions reductions, as needed. The Company has developed a compliance strategy to address anticipated future requirements and is closely monitoring the regulatory developments to identify any necessary changes to its compliance strategy. At this time, the Company is unable to predict what effect, if any, these future requirements will have on its consolidated financial position, results of operations, and cash flows.

Water

Additional capital expenditures associated with the renewal of the surface water discharge permits for the Company's steam electric power plants have been required by the DEC pursuant to Section 316 of the Clean Water Act to mitigate the plants' alleged cooling water system impacts to aquatic organisms. Final permits have been issued for Port Jefferson and Northport. Capital improvements have been completed at Port Jefferson and are in the design, procurement, and construction phase for Northport. The Company continues to engage in discussions with the DEC regarding the nature of capital upgrades or other mitigation measures necessary to reduce any impacts at E.F. Barrett. The Company is awaiting a final permit from the DEC to proceed with the improvements at E.F. Barrett. Costs associated with these capital improvements are reimbursable from LIPA under the A&R PSA.

9. 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.

Amended and Restated Power Supply Agreement

Effective May 28, 2013 (and most recently amended on April 1, 2018), the Company provides services to LIPA under an amended and restated ("A&R") PSA. Under the A&R PSA, the Company has a return on equity of 9.75% and a capital structure of 50% debt and 50% equity. The Company's annual revenue requirement for the year ended December 31, 2020 was $439M.

The A&R PSA has a term of fifteen years, provided LIPA has the option to terminate the agreement as early as April 2025 on two years advance notice. The Company accounts for the A&R PSA as an operating lease under ASC 842. In addition, LIPA has options to ramp down blocks of capacity on two years advance notice for steam generating units and one year advance notice for other generating units covered by the A&R PSA. The earliest effective ramp down date for the Company's Northport steam generating units is two years after the date of the ramp down notice; ramp downs for all other units could be effective at any time after consideration of the notice periods. Should any ramp downs be exercised, the Company is entitled to a ramp down payment equal to the net book value of the retired unit as defined in the A&R PSA plus operating and maintenance expenses for 18 months for steam generating units and 12 months for all generating units. The ramp down payment for a steam unit includes a discount factor. This discount factor ranges from 50% of the unit's net book value if retired with an effective date in 2022 up to 62.5% of the unit's net book value if retired with an effective date thereafter.

In December 2019, LIPA provided advance notice for one non-steam generating unit ramp down, with an effective date in December 2020. This unit is not fully depreciated, and the company incurred a $0.4 million loss. In March 2021, LIPA requested this unit continue to be used and converted to Load Modifier status effective in May 2021.

In February 2020, LIPA provided advance notice for one non-steam generating unit ramp down with an effective date in February 2021. The Company does not expect a material impact from this ramp down. In March 2021, LIPA requested that this unit continue to be used and converted to Load Modifier status effective in March 2021.

The A&R PSA provides potential penalties to the Company if it does not maintain the output capability of the generating facilities, as measured by annual industry-standard tests of operating capability, plant availability, and efficiency. These penalties may total $4 million annually. Although the A&R PSA provides LIPA with all of the capacity from the generating facilities, LIPA has no obligation to purchase energy from the generating facilities and can purchase energy on a least-cost basis from all available sources consistent with existing transmission interconnection limitations of the transmission and distribution system. The Company must, therefore, operate its generating facilities in a manner such that the Company can remain competitive with other producers of energy. To date, the Company has dispatched to LIPA and LIPA has accepted the level of energy generated at the agreed to price per megawatt hour. Under the terms of the A&R PSA, LIPA is obligated to pay for capacity at rates that reflect recovery of an agreed level of the overall cost of maintaining and operating the generating facilities, including recovery of depreciation and return on its investment in plant. The revenue requirement, which is comprised of the capacity charge, is approximately 88.5% of total revenue and is adjusted each year using cost escalation and inflation factors applied to the prior year's capacity charge. A monthly variable maintenance charge is billed for each unit of energy actually acquired from the generating facilities. The billings to LIPA under the A&R PSA do not include a provision for fuel costs, as such fuel is owned by LIPA.

10. LEASES

Upon adoption of Topic 842, the Company continues to recognize operating revenue related to the A&R PSA and PPAs whereby LIPA agrees to purchase capacity, energy, and ancillary services from the Company and its subsidiaries. The agreements had been previously assessed by the Company and were determined to be leases under ASC 840, and classified as operating leases. Management elected the practical expedient whereby no reassessment is required for leases that have commenced prior to the adoption of the new lease standard. Practical expedients include a package of three expedients that must be taken together and allows the Company to: not reassess whether existing contracts contain leases, carryforward the existing classification of any leases, and not reassess initial direct costs associated with existing leases.

The contracts have a range of expiration dates from 2025 through 2028. The payments associated with these contracts are variable in nature as they are tied to capacity charges and underlying expenses related to pension, 401K, emissions, operations and maintenance and other variable expenses of the Company. Capacity charges vary as these are reset annually and charged evenly for the 12-month period. The remaining expenses vary month to month with periodic true up billings. Variability of the remaining expenses is primarily due to the variable nature of maintenance, head count, value of carbon dioxide credits purchased, usage of contractors, long-term and short-term projects, and other factors.

The PSA provides LIPA with all the capacity from the generating facilities, LIPA has no obligation to purchase energy from the generating facilities and can purchase energy on a least-cost basis from all available sources consistent with existing transmission interconnection limitations of the transmission and distribution system. There are no significant assumptions taken in the accounting for these leases. Renewal options are available for LIPA. The payments received from the contracts amounted to $490.1 million for the year ended December 31, 2020 and comprise substantially all the revenue presented on the income statement.

11. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates		**Accounts Payable to Affiliates**	
	December 31,		**December 31,**	
	2020	2019	**2020**	2019
	(in thousands of dollars)			
NGUSA	**$ -**	$ -	**$ 26,803**	$ 12,973
NGUSA Service Company	**3,114**	1,816	**3,977**	6,888
National Grid Engineering Services, LLC	**1,521**	578	**1,627**	365
National Grid Electric Services, LLC	**-**	-	**95**	95
Other Affiliates	**20**	1	**342**	6
TOTAL	**$ 4,655**	$ 2,395	**$ 32,844**	$ 20,327

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool in which it participates. The Company is a participant in the Regulated Money Pool and can both borrow and invest funds. Borrowings from the Regulated Money Pool bear interest in accordance with the terms of the Regulated Money Pool Agreement. As the Company fully participates in the Regulated Money Pool rather than settling intercompany charges with cash, all changes in the intercompany money pool balance are reflected as investing or financing activities in the accompanying consolidated statements of cash flows. For the purpose of presentation in the consolidated 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. Collectively, NGUSA has the ability to borrow up to $3 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 $80.4 million and $73.9 million as of December 31, 2020 and 2019, respectively. The average interest rates for the intercompany money pool were 1.09% and 2.54% for the years ended December 31, 2020 and 2019, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide and facilitate 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 and allocations inclusive of operating expenses and capital transactions such property taxes, payroll, employee benefits, consulting, contractor, utility plant and depreciation. For the years ended December 31, 2020 and 2019 these charges were $307.9 million and $297.9 million, respectively.