nationalgrid

National Grid Generation LLC and Subsidiaries

Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2022

I hereby certify that I am the Controller of National Grid Generation LLC and that the enclosed consolidated financial statements for the year ended December 31, 2022 have been prepared in accordance with generally accepted accounting principles, and are, in my opinion, materially correct.

Michael Dixon, Controller

05/02/2023

Date

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NATIONAL GRID GENERATION LLC AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Managers of
National Grid Generation LLC

Opinion

We have audited the 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, 2022 and 2021, and the related consolidated statements of operations, changes in member's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, 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

May 2, 2023

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

	Years Ended December 31,	
	2022	2021
Operating revenues	**$ 496,566**	**$ 501,120**
Operating expenses:		
Purchased electricity	**1,116**	1,026
Operations and maintenance	**217,991**	205,694
Depreciation and amortization	**58,606**	57,356
Other taxes	**167,587**	192,343
Total operating expenses	**445,300**	456,419
Operating income	**51,266**	44,701
Other income and (deductions):		
Interest on long-term debt	**(1,112)**	(680)
Other interest, including affiliate interest, net	**(4,784)**	(4,564)
Gain on disposal of assets	**-**	346
Other income, net	**7,563**	5,339
Total other income, net	**1,667**	441
Income before income taxes	**52,933**	45,142
Income tax expense	**15,015**	12,541
Net income	**$ 37,918**	$ 32,601

The accompanying notes are an integral part of these financial statements

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

	Years Ended December 31,	
	2022	2021
Operating Activities:		
Net income	**$ 37,918**	$ 32,601
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**58,606**	57,356
Deferred income tax benefit	**(4,366)**	(4,278)
Gain on disposal of assets	**-**	(346)
Decommissioning charges, net of payments	**1,229**	974
Pension and postretirement benefit expenses, net	**(1,002)**	(1,885)
Changes in operating assets and liabilities:		
Accounts receivable and other receivables, net, and unbilled revenues	**3,966**	1,573
Accounts receivable from/payable to affiliates, net	**(2,517)**	(21,282)
Inventory	**(1,282)**	(1,100)
Emission credits and emission credits reserve	**3,180**	(4,191)
Prepaid and accrued taxes	**7,648**	(10,325)
Accounts payable and other liabilities	**78,151**	28,475
Other, net	**475**	2,171
Net cash provided by operating activities	**182,006**	79,743
Investing Activities:		
Capital expenditures	**(43,490)**	(40,123)
Intercompany Money Pool	**(75,277)**	(21,614)
Other, net	**(45,613)**	108
Net cash used in investing activities	**(164,380)**	(61,629)
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	**(244)**	244
Cash, cash equivalents, restricted cash and special deposits, beginning of year	**244**	-
Cash, cash equivalents, restricted cash and special deposits, end of year	**$ -**	$ 244
Supplemental disclosures:		
Interest paid	**$ (4,749)**	$ (4,823)
Income taxes paid	**(11,255)**	(44,047)
Significant non-cash items:		
Capital-related accruals included in accounts payable	**2,316**	2,094
Parent tax loss allocation	**2,321**	2,601

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

	December 31,	
	2022	2021
ASSETS		
Current assets:		
Restricted cash and special deposits	**$ -**	244
Accounts receivable	**335**	722
Allowance for doubtful accounts	**(139)**	(241)
Accounts receivable from affiliates	**5,616**	2,854
Intercompany Money Pool	**177,324**	102,047
Unbilled revenues	**7,188**	10,865
Inventory	**43,788**	42,506
Emission credits	**74,794**	44,901
Other	**2,201**	5,817
Total current assets	**311,107**	209,715
Property, plant and equipment, net	**682,669**	650,948
Other non-current assets	**10,377**	12,258
Total assets	**$ 1,004,153**	$ 872,921

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

	December 31,	
	2022	2021
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 129,150**	$ 96,576
Accounts payable to affiliates	**10,006**	9,761
Current portion of long-term debt	**17,870**	17,870
Taxes accrued	**65,979**	65,671
Current portion of emission credit reserve	**30,155**	20,263
Other	**7,067**	8,724
Total current liabilities	**260,227**	218,865
Other non-current liabilities:		
Asset retirement obligations	**71,716**	24,692
Deferred income tax liabilities, net	**65,553**	69,919
Emission credit reserve	**41,919**	18,738
Other	**14,249**	12,587
Total non-current liabilities	**193,437**	125,936
Commitments and contingencies (Note 8)		
Capitalization:		
Member's equity	**400,304**	360,065
Long-term debt	**150,185**	168,055
Total capitalization	**550,489**	528,120
Total liabilities and capitalization	**$ 1,004,153**	$ 872,921

The accompanying notes are an integral part of these financial statements

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

			December 31,	
			2022	2021
Total member's equity			$ **400,304**	$ **360,065**
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	**102,050**	**119,920**
Total Debt			**168,055**	**185,925**
Current portion of long-term debt			**17,870**	**17,870**
Total long-term debt			**150,185**	**168,055**
Total capitalization			$ **550,489**	$ **528,120**

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, 2020	**$ 144,561**	**$ 180,302**	**$ 324,863**
Net income	-	32,601	32,601
Benefit of parent tax loss allocation	2,601	-	2,601
Balance as of December 31, 2021	**$ 147,162**	**$ 212,903**	**$ 360,065**
Net income	-	37,918	37,918
Benefit of parent tax loss allocation	2,321	-	2,321
Balance as of December 31, 2022	**$ 149,483**	**$ 250,821**	**$ 400,304**

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

National Grid Generation LLC (together with its wholly-owned subsidiaries National Grid Glenwood Energy Center, LLC ("Glenwood") and National Grid Port Jefferson Energy Center LLC ("Port Jefferson"), 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 sells capacity, energy conversion, and ancillary services to the Long Island Power Authority ("LIPA").

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. This includes income generated under the Amended and Restated Power Supply Agreement ("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 Company has evaluated subsequent events and transactions through May 2, 2023, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended December 31, 2022.

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. 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 and PPAs, with rates approved by the Federal Energy Regulatory Commission ("FERC"). See Note 9, "Leases," for additional information on the A&R PSA and PPAs. 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 $48.3 million and $48.8 million as of December 31, 2022 and 2021, 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 benefit of 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.

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. The Company adopted this new guidance prospectively on January 1, 2021. The amendments did not result in a material impact on the Company's financial position, results of operations, or cash flows.

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, carbon dioxide emission credits, and nitrogen oxide (NOx) 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's carbon dioxide emission and NOx 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 following table summarizes the Company's materials and supplies and emissions credits (carbon dioxide and nitrogen oxide).

	2022	2021
	(in thousands of dollars)	
Material and Supplies	**$ 43,788**	$ 42,506
Emission Credits	**74,794**	44,901

In accordance with 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.

Under the Environmental Protection Agency's (EPA) "Revised Cross State Air Pollution Rule", the Company is required to maintain NOx emission credits for emissions during the Ozone season (May-September of each calendar year). By June 1, following the end of the Ozone season, the Company is required to surrender its emission credits for the previous calendar year's Ozone season, which is recognized as a reduction to inventory and the emission credit reserve on the accompanying consolidated 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. The average composite rates for the years ended December 31, 2022 and 2021 was 2.7%. The average service life for the years ended December 31, 2022 and 2021 was 36 years.

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 or asset group 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, 2022 and 2021, there were no impairment losses recognized for long-lived assets, respectively.

Compliance Reserves

As of December 31, 2022 and 2021, the Company recorded compliance reserves for carbon dioxide and nitrogen oxide of $72.1 million and $39.0 million, respectively.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of utility plant. 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) legal requirements to remove asbestos upon major renovation or demolition of structures and facilities; (ii) cleaning and removal requirements associated with storage tanks containing waste oil and other waste contaminants; and (iii) waste water treatment pond removal.

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

	December 31,	
	2022	2021
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 24,831**	**$ 23,937**
Accretion expense	**1,229**	**974**
Liabilities settled	**(1)**	**-**
Revisions to present values of estimated cash flows	**45,657**	**(80)**
Balance as of the end of the year	**$ 71,716**	**$ 24,831**

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.

New and Recent Accounting Guidance

Accounting Guidance Not Yet Adopted

Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU No. 2016-13 "Financial Instruments–Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements," which requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The accounting standards provide a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses that replaces the incurred loss impairment methodology of delayed recognition of credit losses. A broader range of reasonable and supportable information must be considered when developing credit loss estimates. The allowance for credit losses is a valuation account deducted from the amortized cost basis of the financial asset 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 adoption of this new guidance on January 1, 2023 will not have a material impact on the Company's financial position, results of operations, or cash flows.

3. PROPERTY, PLANT, AND EQUIPMENT

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

	December 31,	
	2022	2021
	(in thousands of dollars)	
Plant and machinery	**$ 1,821,273**	$ 1,787,642
Motor vehicles and equipment	**2,879**	2,879
Land and buildings	**414,876**	369,276
Assets in construction	**51,369**	45,707
Software and other intangibles	**8,694**	8,364
Total property, plant and equipment	**2,299,091**	2,213,868
Accumulated depreciation and amortization	**(1,616,422)**	(1,562,920)
Property, plant and equipment, net	**$ 682,669**	$ 650,948

4. 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 who 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 the accompanying consolidated statements of operations.

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 $14.6 million and $7.3 million for the years ended December 31, 2022 and 2021, respectively.

All pension and PBOP costs associated with the Plans 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 in Note 10, "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 (benefit) directly charged (credited) through allocations from affiliated service companies for the years ended December 31, 2022 and 2021 are as follows:

	Years Ended December 31,	
	2022	2021
	(in thousands of dollars)	
Pension	**$ 3,028**	**$ 9,192**
PBOP	**(5,996)**	**(3,600)**
	$ (2,968)	**$ $ 5,592**

Gross pension and PBOP costs include $1.0 million and $1.9 million of capitalized costs for the years ended December 31, 2022 and 2021, respectively.

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended December 31, 2022 and 2021, the Company recognized an expense in the accompanying consolidated statements of operations of $0.9 million in both years for matching contributions.

5. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to December 31, 2022 are as follows:

(in thousands of dollars)	
As of December 31,	
2023	17,870
2024	17,870
2025	17,870
2026	17,870
2027	42,750
Thereafter	53,825
Total	$ 168,055

Debt Authorizations

Since January 12, 2015, the Company has had regulatory approval from FERC to issue up to $250 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 short-term debt outstanding to third parties as of December 31, 2022 and 2021. Refer to the Intercompany Money Pool section in Note 10, "Related Party Transactions," for the Company's investing activity with its affiliates.

State Authority Financing Bonds

As of December 31, 2022 and 2021, $41.1 million of 1999 Series A Pollution Control Revenue Bonds due October 1, 2028 were outstanding. The interest rate ranged from 0.04% to 3.60% for the year ended December 31, 2022, and from 0.04% to 2.55% for the year ended December 31, 2021.

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, 2022 and 2021. The interest rate on these bonds is reset weekly and ranged from 0.08% to 4.17% during the year ended December 31, 2022, and 0.06% to 0.2% during the year ended December 31, 2021. 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, 2022 and 2021, the Company was in compliance with this covenant.

Promissory Notes

On November 20, 2015, the Company entered into multiple intercompany loans 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 the current portion of long-term debt on the accompanying consolidated balance sheets as of December 31, 2022 and 2021, 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, 2022 and 2021, 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, 2022 and 2021, member's equity was 70.4% and 65.9% of total capitalization, respectively. Under these provisions, none of the Company's retained earnings as of December 31, 2022 and 2021 were restricted as to payment of dividends.

6. INCOME TAXES

Components of Income Tax Expense

	Years Ended December 31,	
	2022	2021
	(in thousands of dollars)	
Current tax expense:		
Federal	**$ 15,699**	$ 12,133
State	**3,682**	4,686
Total current tax expense:	**19,381**	16,819
Deferred tax expense (benefit):		
Federal	**(5,720)**	(3,931)
State	**1,354**	(347)
Total deferred tax benefit	**(4,366)**	(4,278)
Total income tax expense	**$ 15,015**	$ 12,541

Statutory Reconciliation

The Company's effective tax rate for the years ended December 31, 2022 and 2021 was 28.4% and 27.8%, 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, 2022	Years Ended December 31, 2021
	(in thousands of dollars)	
Computed tax	**$ 11,116**	$ 9,480
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**3,980**	3,428
Other	**(81)**	(367)
Total changes	**3,899**	3,061
Total income tax expense	**$ 15,015**	$ 12,541

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, 2022	December 31, 2021
	(in thousands of dollars)	
Deferred tax assets:		
Reserves not currently deducted	**$ 737**	$ 650
Reserves – Injuries and Damages	**2,252**	2,204
Postretirement benefits and other employee benefits	**1,409**	1,346
Net operating losses	**-**	3,213
Other items	**1,732**	1,279
Total deferred tax assets	**6,130**	8,692
Deferred tax liabilities:		
Property related differences	**71,683**	78,611
Total deferred tax liabilities	**71,683**	78,611
Net deferred income tax liabilities	**$ 65,553**	$ 69,919

In April 2021, New York State enacted the 2021/2022 state budget, which included several tax related provisions. The enacted budget included raising the corporate franchise tax rate to 7.25% and reinstating the capital base of the franchise tax at 0.1875% for three years as part of a three-year Covid recovery plan. The new legislation is effective for tax years beginning on or after January 1, 2021 and before January 1, 2024, which for the Company includes fiscal years ending March 31, 2022 through March 31, 2024. The Company has evaluated the new legislation and determined there is no material impact as of the balance sheet date.

Status of Income Tax Examinations

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

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

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

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 operations. The interest related to unrecognized tax benefits reserve and related interest expense were immaterial for both years. No tax penalties were recognized during the years ended December 31, 2022 and 2021.

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

7. 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 U.S. Environmental Protection Agency ("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 NOx 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 NOx 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. An additional NOx reduction system installation has been completed at the Glenwood Unit 2 gas turbine system , and is ongoing at E.F. Barrett and East Hampton gas turbine units. 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 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.

8. COMMITMENTS AND CONTINGENCIES

Legal Matters

On June 17, 2021, five former National Grid employees in the downstate New York facilities department were arrested on federal charges alleging fraud and bribery. It is National Grid's understanding that the investigation by the US Attorney's Office and FBI remains ongoing. National Grid has been identified as a victim of the alleged crimes and will continue to comply with the government's investigation. The New York Public Service Commission commenced a proceeding to review the potential impact of the federal proceeding on National Grid's New York operating companies, and the Massachusetts Department of Public Utilities and the Rhode Island Public Utilities Commission have each issued requests for information related to the alleged criminal conduct. The Long Island Power Authority separately commenced an audit to determine what, if any, impact the alleged criminal conduct had on National Grid's charges to LIPA under certain contracts. At this time, it is not possible to predict the outcome of the investigation or regulatory reviews or determine the amount, if any, of any potential customer impacts or other liabilities that may be incurred by the Company or its affiliates. However, the Company does not expect this matter will have a material adverse effect on its results of operations, financial position, or cash flows.

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 Agreements

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 years ended December 31, 2022 and 2021 were $428.1 million and $461.5 million, respectively.

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 and PPAs as operating leases 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. 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. The earliest ramp down effective date is May 1, 2025 for Barrett Units 1 and/or 2, and for Port Jefferson Units 3 and/or 4.

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

On April 18, 2022, the Company and LIPA signed a "Letter Agreement to Clarify and Settle Ramp Down Rights and Other Issues under the A&R PSA" ("Letter Agreement"). The Letter Agreement provided for further ramp down options, clarification on how a ramp down is calculated in regard to the capacity charge and notional tracking account of $68M, and confirmed recovery of $5 million of previously incurred costs, among other provisions. The Letter Agreement does not change the terms of the A&R PSA, except as explicitly discussed in the letter.

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 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. For the years ended December 31, 2022 and 2021, the revenue requirements, which is comprised of the capacity charge, are approximately 87.3% and 92.1% 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 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.

Effective 2022, the base property tax amount for each year will be the prior year's actual property tax amount recorded on the Company's books, increased by 4%, and subject to further adjustments for any known and measurable changes for the current year. The capacity charge will be changed each year to reflect the new base year amount. Any differences between the base year property tax amount and the actual property tax amount recorded on the Company's books in each year will be deferred by the Company. The deferred amount, inclusive of the carrying charges, will be billed or credited to LIPA in the fourth month following the year being trued-up.

9. LEASES

The Company recognizes 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 classified as operating 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, 401(k), 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. The revenues earned from the contracts amounted to $496.1 million and $500.9 million for the years ended December 31, 2022 and December 31, 2021, respectively. These revenues comprise substantially all the revenue presented on the consolidated statements of operations.

10. 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,**	
	2022	2021	**2022**	2021
	(in thousands of dollars)			
NGUSA	**$ -**	$ -	**$ 4,519**	$ 4,468
NGUSA Service Company	**4,115**	1,467	**3,888**	3,831
National Grid Engineering Services, LLC	**1,232**	1,102	**229**	843
National Grid Electric Services, LLC	**-**	-	**96**	96
NG Generation Ventures LLC	**246**	246	**1,250**	500
Other Affiliates	**23**	39	**24**	23
TOTAL	**$ 5,616**	$ 2,854	**$ 10,006**	$ 9,761

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 Unregulated Money Pool and can both borrow and invest funds. Borrowings from the Unregulated Money Pool bear interest in accordance with the terms of the Unregulated Money Pool Agreement. As the Company fully participates in the Unregulated 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 Unregulated 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 Unregulated Money Pool, if necessary. The Company had short-term intercompany money pool investments of $177.3 million and $102.0 million as of

December 31, 2022 and 2021, respectively. The average interest rates for the intercompany money pool were 1.95% and 0.39% for the years ended December 31, 2022 and 2021, 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, 2022 and 2021, these charges were $256.4 million and $288.5 million, respectively.