# The Brooklyn Union Gas Company

Consolidated Financial Statements

For the years ended March 31, 2025, 2024, and 2023

**THE BROOKLYN UNION GAS COMPANY**

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

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Brooklyn Union Gas Company

## Opinion

We have audited the consolidated financial statements of The Brooklyn Union Gas Company (the "Company"), which comprise the consolidated balance sheets as of March 31, 2025 and 2024, and the related consolidated statements of operations, cash flows and changes in shareholders' equity for each of the three years in the period ended March 31, 2025, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2025 and 2024, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2025 in accordance with accounting principles generally accepted in the United States of America.

## Basis for Opinion

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

## Responsibilities of Management for the Financial Statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Deloitte & Touche LLP

June 20, 2025

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

| | Years Ended March 31, | | |
|---|---|---|---|
| | **2025** | 2024 | 2023 |
| **Operating revenues** | **$ 2,376,903** | $ 2,026,036 | $ 2,367,577 |
| **Operating expenses:** | | | |
| Purchased gas | **553,035** | 488,994 | 918,908 |
| Operations and maintenance | **810,050** | 623,317 | 524,771 |
| Depreciation and amortization | **204,650** | 166,086 | 152,543 |
| Other taxes | **399,864** | 324,046 | 315,435 |
| Total operating expenses | **1,967,599** | 1,602,443 | 1,911,657 |
| **Operating income** | **409,304** | 423,593 | 455,920 |
| **Other income and (deductions):** | | | |
| Interest on long-term debt | **(200,857)** | (162,538) | (137,924) |
| Other interest, including affiliate interest, net | **4,514** | (3,958) | (618) |
| Other income, net | **81,901** | 54,401 | 57,401 |
| Total other deductions, net | **(114,442)** | (112,095) | (81,141) |
| **Income before income taxes** | **294,862** | 311,498 | 374,779 |
| **Income tax expense** | **41,752** | 56,430 | 73,725 |
| **Net income** | **$ 253,110** | $ 255,068 | $ 301,054 |

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

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

| | Years Ended March 31, | | |
|---|---|---|---|
| | **2025** | 2024 | 2023 |
| **Operating activities:** | | | |
| Net income | **$ 253,110** | $ 255,068 | $ 301,054 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | **204,650** | 166,086 | 152,543 |
| Amortization of right-of-use asset | **411** | 432 | 16,825 |
| Accrued interest on tax reserves | **1,466** | 5,105 | 751 |
| Regulatory amortizations | **37,063** | (8,353) | (40,872) |
| Deferred income tax expense | **68,093** | 82,600 | 344,152 |
| Bad debt expense | **91,234** | 34,890 | (37,091) |
| Allowance for equity funds used during construction | **(28,919)** | (17,767) | (20,623) |
| Pension and postretirement expense (income), net | **5,200** | (1,227) | (3,094) |
| Other, net | **1,513** | 1,856 | 1,628 |
| Pension and postretirement benefits contributions, net | **(13,081)** | (2,325) | (9,924) |
| Environmental remediation payments | **(120,919)** | (82,320) | (72,755) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable, other receivables, and unbilled revenues, net | **(224,958)** | (54,166) | (20,600) |
| Accounts receivable from/payable to affiliates, net | **21,292** | (28,434) | (5,829) |
| Inventory | **53,913** | 48,611 | (100,664) |
| Regulatory assets and liabilities, (current) net | **(97,649)** | (32,064) | (64,578) |
| Regulatory assets and liabilities, (non-current) net | **73,703** | (839,204) | (157,272) |
| Derivative instruments | **(12,825)** | (9,914) | 35,260 |
| Prepaid and accrued taxes, net | **(47,816)** | 259,945 | (225,426) |
| Prepaid demand capacity contracts | **(9,600)** | (10,552) | (14,404) |
| Accounts payable and other liabilities | **16,252** | 50,654 | 20,241 |
| Environmental remediation costs | **(8,571)** | 838,663 | 196,360 |
| Lease liabilities | **(411)** | (432) | (26,469) |
| Other, net | **(5,512)** | (5,768) | (9,953) |
| Net cash provided by operating activities | **257,639** | 651,384 | 259,260 |
| **Investing activities:** | | | |
| Capital expenditures | **(1,021,897)** | (757,588) | (719,878) |
| Cost of removal | **(27,227)** | (36,494) | (20,036) |
| Proceeds from sale of assets | - | 47,228 | - |
| Intercompany money pool | **194,910** | (259,325) | 92,863 |
| Other, net | **-** | (597) | (1,948) |
| Net cash used in investing activities | **(854,214)** | (1,006,776) | (648,999) |
| **Financing activities:** | | | |
| Issuance of long-term debt | **604,980** | 400,000 | 800,000 |
| Payment of debt issuance costs | **(4,206)** | (1,962) | (2,866) |
| Repayment of term loan | **-** | - | (400,000) |
| Intercompany money pool | **-** | (21,045) | 21,045 |
| Net cash provided by financing activities | **600,774** | 376,993 | 418,179 |
| Net increase in cash, cash equivalents, restricted cash and special deposits | **4,199** | 21,601 | 28,440 |
| Cash, cash equivalents, restricted cash and special deposits, beginning of year | **71,552** | 49,951 | 21,511 |
| Cash, cash equivalents, restricted cash and special deposits, end of year | **$ 75,751** | $ 71,552 | $ 49,951 |
| **Supplemental disclosures:** | | | |
| Interest paid (net of amounts capitalized) | **$ (181,722)** | $ (151,497) | $ (130,001) |
| Income taxes (paid) refunded | **(18,163)** | 303,874 | 44,966 |
| **Significant non-cash items:** | | | |
| Capital-related accruals included in accounts payable and other | **68,048** | 84,888 | 56,945 |
| ROU assets obtained in exchange for new operating lease liabilities | **2,398** | - | 56,588 |
| Parent tax loss allocation | **2,087** | - | 17 |

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

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

| | March 31, | |
|---|---|---|
| | **2025** | 2024 |
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | **$ 24,267** | $ 13,102 |
| Restricted cash and special deposits | **51,484** | 58,450 |
| Accounts receivable, net | **651,825** | 522,150 |
| Accounts receivable from affiliates | **18,275** | 23,364 |
| Intercompany money pool | **343,621** | 538,531 |
| Unbilled revenues, net | **148,686** | 124,337 |
| Inventory | **51,139** | 105,052 |
| Prepaid taxes | **82,394** | 71,235 |
| Regulatory assets | **79,371** | 37,780 |
| Other, net | **46,551** | 49,892 |
| Total current assets | **1,497,613** | 1,543,893 |
| **Property, plant and equipment, net** | **9,387,509** | 8,534,331 |
| **Non-current assets:** | | |
| Regulatory assets | **3,030,238** | 3,412,847 |
| Goodwill | **1,451,141** | 1,451,141 |
| Postretirement benefits | **115,351** | 106,204 |
| Other, net | **100,861** | 87,074 |
| Total non-current assets | **4,697,591** | 5,057,266 |
| **Total assets** | **$ 15,582,713** | $ 15,135,490 |

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

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

| | March 31, | |
|---|---|---|
| | **2025** | 2024 |
| **LIABILITIES AND CAPITALIZATION** | | |
| **Current liabilities:** | | |
| Accounts payable and other | **$ 232,464** | $ 219,638 |
| Accounts payable to affiliates | **104,714** | 88,511 |
| Current portion of long-term debt | **500,000** | - |
| Taxes accrued | **18,114** | 39,677 |
| Regulatory liabilities | **31,298** | 87,356 |
| Environmental remediation costs | **174,961** | 201,581 |
| Other | **85,310** | 121,642 |
| Total current liabilities | **1,146,861** | 758,405 |
| **Non-current liabilities:** | | |
| Regulatory liabilities | **495,660** | 804,695 |
| Deferred income tax liabilities, net | **1,567,650** | 1,447,076 |
| Environmental remediation costs | **2,309,359** | 2,412,229 |
| Other | **244,715** | 251,846 |
| Total non-current liabilities | **4,617,384** | 4,915,846 |
| **Commitments and contingencies (Note 12)** | | |
| **Capitalization:** | | |
| Shareholders' equity | **5,882,482** | 5,627,285 |
| Long-term debt | **3,935,986** | 3,833,954 |
| **Total capitalization** | **9,818,468** | 9,461,239 |
| **Total liabilities and capitalization** | **$ 15,582,713** | $ 15,135,490 |

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

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

| | Common Stock | Cumulative Preferred Stock | Additional Paid-in Capital | Retained Earnings | Total |
|---|---|---|---|---|---|
| **Balance as of March 31, 2022** | $ - | $ - | $ **4,070,910** | $ **1,014,996** | $ **5,085,906** |
| Net income | - | - | - | 301,054 | 301,054 |
| Parent tax loss allocation | - | - | 17 | - | 17 |
| **Balance as of March 31, 2023** | $ - | $ - | $ **4,070,927** | $ **1,316,050** | $ **5,386,977** |
| Net income | - | - | - | 255,068 | 255,068 |
| Implementation of ASC 326, net of $5,648 tax benefit [1] | - | - | - | (14,760) | (14,760) |
| **Balance as of March 31, 2024** | $ - | $ - | $ **4,070,927** | $ **1,556,358** | $ **5,627,285** |
| Net income | - | - | - | 253,110 | 253,110 |
| Parent tax loss allocation | - | - | 2,087 | - | 2,087 |
| **Balance as of March 31, 2025** | $ **-** | $ **-** | $ **4,073,014** | $ **1,809,468** | $ **5,882,482** |

The Company had 100 shares of common stock authorized, issued and outstanding, with a par value of $0.01 per share and 1 share of preferred stock, authorized, issued and outstanding, with a par value of $1 per share as of March 31, 2025 and 2024.

[1] See Note 4, "*Allowance for Doubtful Accounts*" for additional information.

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

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

## 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

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

North East Transmission Co., Inc. ("NETCO"), a former participant in the Dominion Transmission pipeline, is a wholly-owned unregulated subsidiary of the Company.

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

The Company has evaluated subsequent events and transactions through June 20, 2025, the date of issuance of these consolidated financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the consolidated financial statements as of and for the year ended March 31, 2025, except as otherwise disclosed in Note 6, "*Rate Matters*".

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Use of Estimates

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

### Regulatory Accounting

The New York Public Service Commission ("NYPSC") regulates the rates the Company charges its customers. The rates charged to our customers are designed to collect the Company's costs to provide service, plus a return on investment. In certain cases, the rate actions of the NYPSC can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. In accordance with Accounting Standards Codification ("ASC") 980, "*Regulated Operations*," regulatory assets and liabilities are reflected on the balance sheets consistent with the treatment of the related costs in the ratemaking process.

### Revenue Recognition

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

**Income Taxes**

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

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

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

**Other Taxes**

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis.

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

**Cash and Cash Equivalents**

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

**Restricted Cash and Special Deposits**

Restricted cash consists of margin calls to the New York Mercantile Exchange (“NYMEX”) and collateral paid to the Company’s counterparties for outstanding commodity and financial derivative instruments, as well as cash held in an environmental remediation trust the Company consolidates. The restricted cash held by the trust can only be used by the trust to pay for environmental remediation expenses. See Note 11, “*Environmental Matters*” for further details.

**Accounts Receivable and Allowance for Doubtful Accounts**

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

The allowance for doubtful accounts is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, which takes into account historical collections, write-off experience, and management's assessment of collectability from customers, as appropriate. Management continuously assesses the collectability of receivables and adjusts estimates accordingly if circumstances change and such adjustments are reasonable and supportable based on actual experience, current conditions, and forward-looking information as well as future expectations. Receivable balances are written-off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated, and when such balances are deemed to be uncollectible.

**Inventory**

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

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

Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized into property, plant and equipment as used. There were no significant write-offs of obsolete inventory for the years ended March 31, 2025, 2024, or 2023.

The Company had gas in storage of $25.1 million and $82.3 million and materials and supplies of $26.0 million and $22.8 million as of March 31, 2025 and 2024, respectively.

**Fair Value Measurements**

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

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

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

**Property, Plant and Equipment**

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

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. The average composite rates for the years ended March 31, 2025, 2024, and 2023 were 2.0%, 1.9%, and 1.9%, respectively.

Depreciation expense includes a component for the estimated cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability or regulatory asset, as appropriate. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. See Note 5, "*Regulatory Assets and Liabilities*" for additional details.

*Allowance for Funds Used During Construction*

The Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. The equity component of AFUDC is reported in the accompanying consolidated statements of operations as non-cash income in other income, net. The debt component of AFUDC is reported as a non-cash offset to other interest, including affiliate interest, net. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base. The Company recorded AFUDC related to equity of $28.9 million, $17.8 million, and $20.6 million, and AFUDC related to debt of $14.6 million, $10.9 million, and $8.8 million, for the years ended March 31, 2025, 2024, and 2023, respectively. The average AFUDC rates for the years ended March 31, 2025, 2024, and 2023 were 6.7%, 6.5%, and 6.3%, respectively.

*Impairment of Long-Lived Assets*

The Company tests the impairment of long-lived assets when events or changes in circumstances indicate that the carrying amount of the asset (or asset group) may not be recoverable. If such an event is identified, the recoverability of an asset is determined by comparing its carrying value to the estimated undiscounted cash flows that the asset is expected to generate. If the comparison indicates that the carrying value is not recoverable, an impairment loss is recognized for the excess of the carrying value over the estimated fair value. The Company also considers whether there have been any abandonments or disallowances of recently completed plant, such that guidance provided by ASC 980 on regulated property, plant and equipment may apply. For the years ended March 31, 2025, 2024, and 2023, there were no impairment losses recognized for long-lived assets.

**Goodwill**

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

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

The Company performed its latest annual goodwill impairment test as of October 1, 2024, at which time the Company's estimated fair value significantly exceeded the carrying value. The Company did not recognize any goodwill impairment during the years ended March 31, 2025, 2024, or 2023.

**Asset Retirement Obligations**

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant and equipment, primarily associated with the Company's gas distribution and electric generation facilities. 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 at the credit adjusted risk free rate.

Accretion and depreciation expenses for the Company are deferred as part of the Company's asset retirement obligation regulatory asset. As the Company is rate-regulated, both the depreciation and accretion costs associated with the Company's asset retirement obligation are recorded as increases to regulatory assets on the balance sheets.

The Company does not recognize liabilities for asset retirement obligations for which the fair value cannot be reasonably estimated. Due to the indeterminate removal date, the fair value of the associated liabilities on certain transmission, distribution and other assets cannot currently be estimated, and no amounts are recognized on the consolidated financial statements.

**Employee Benefits**

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

**New and Recent Accounting Guidance**

**Accounting Guidance Not Yet Adopted**

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

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

The Company will adopt this standard for annual periods effective April 1, 2025.

**Reclassifications**

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

### 3. REVENUE

The following table presents, for the years ended March 31, 2025, 2024 and 2023, revenue from contracts with customers, as well as additional revenue from sources other than contracts with customers, disaggregated by major source:

| | Years ended March 31, | | |
|---|---|---|---|
| | **2025** | 2024 | 2023 |
| | | (in thousands of dollars) | |
| Revenue from contracts with customers: | | | |
| Gas distribution | **$ 2,290,948** | $ 1,975,575 | $ 2,196,826 |
| Off system sales | **61,967** | 64,470 | 213,656 |
| Total revenue from contracts with customers | **2,352,915** | 2,040,045 | 2,410,482 |
| Revenue from alternative revenue programs | **20,776** | (15,679) | (43,225) |
| Other revenue | **3,212** | 1,670 | 320 |
| Total operating revenues | **$ 2,376,903** | $ 2,026,036 | $ 2,367,577 |

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

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

Distribution revenue also includes estimated unbilled amounts, which represent the estimated amounts due from retail customers for natural gas provided to customers by the Company, but not yet billed. Unbilled revenues are determined based on estimated unbilled sales volumes for the respective customer classes and then applying the applicable tariff rate to those volumes. Actual amounts billed to customers when the meter readings occur, may be different from the estimated amounts.

Certain customers have the option to obtain natural gas from other suppliers. In those circumstances, revenue is only recognized for providing delivery of the commodity to the customer.

*Off System Sales ("OSS"):* Represents direct sales of gas to participants in the wholesale natural gas marketplace, which occur after customers' demands are satisfied. The performance obligation related to these off system sales is to deliver a quantity of gas at the delivery point which represents a single performance obligation that is satisfied over time.

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

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

## 4. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Receivables are recorded at amortized cost, net of a credit loss allowance for doubtful accounts. The allowance primarily relates to trade receivables from utility customers (both billed and unbilled), as well as amounts receivable from various other counterparties such as governmental agencies, municipalities, and other utilities. The Company recorded bad debt expense of $80.8 million, $34.9 million, and $(47.2) million for the years ended March 31, 2025, 2024, and 2023, respectively, within operation and maintenance expenses in the accompanying consolidated statements of operations. For the years ended March 31, 2025, 2024, and 2023, bad debt expense reflects the impact of the Phase 1 and 2 Arrears Reduction programs. See Note 6, "*Rate Matters*" for additional details. The activity in the allowance for doubtful accounts for the year ended March 31, 2025 is as follows:

| | **Year Ended March 31, 2025** *(in thousands of dollars)* | | |
|---|---|---|---|
| | **Utility Accounts Receivable** | **Non-utility Accounts Receivable** | **Total Allowance** |
| Beginning balance as of April 1, 2024 | **$ 74,705** | **$ 26,242** | **$ 100,947** |
| Credit loss expense (benefit) | **73,244** | **(1,428)** | **71,816** |
| Write-offs | **(37,942)** | **(998)** | **(38,940)** |
| Recoveries | **7,481** | **201** | **7,682** |
| **Ending balance as of March 31, 2025** | **$ 117,488** | **$ 24,017** | **$ 141,505** |

The activity in the allowance for doubtful accounts for the year ended March 31, 2024 is as follows:

| | **Year Ended March 31, 2024** *(in thousands of dollars)* | | |
|---|---|---|---|
| | Utility Accounts Receivable | Non-utility Accounts Receivable | Total Allowance |
| Beginning balance as of April 1, 2023 | $ 78,170 | $ 10,846 | $ 89,016 |
| Impact of adoption of ASC Topic 326 on April 1, 2023 | 5,053 | 15,355 | 20,408 |
| Credit loss expense | 19,316 | 312 | 19,628 |
| Write-offs | (36,454) | (367) | (36,821) |
| Recoveries | 8,620 | 96 | 8,716 |
| Ending balance as of March 31, 2024 | $ 74,705 | $ 26,242 | $ 100,947 |

## 5. REGULATORY ASSETS AND LIABILITIES

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

| | March 31, 2025 | March 31, 2024 |
|---|---|---|
| | *(in thousands of dollars)* | |
| **Regulatory assets** | | |
| Current: | | |
| Carrying charges | **$ 10,276** | $ 91 |
| Capital tracker | **3,319** | 17,156 |
| Demand capacity surcharge mechanism | **3,458** | 8,240 |
| Derivative instruments | **-** | 7,071 |
| Energy efficiency | **4,266** | 83 |
| Facilities system surcharge | **6,081** | 3,553 |
| Gas costs adjustment | **47,029** | - |
| Other | **4,942** | 1,586 |
| Total | **79,371** | 37,780 |
| Non-current: | | |
| Arrears reduction | **77,662** | 97,963 |
| Environmental response costs | **2,688,679** | 2,785,152 |
| Exogenous costs | **301** | 101,801 |
| Postretirement benefits | **13,651** | 187,006 |
| Rate plan net regulatory asset | **105,889** | - |
| Other | **144,056** | 240,925 |
| Total | **3,030,238** | 3,412,847 |
| **Regulatory liabilities** | | |
| Current: | | |
| Carrying charges | **7,237** | 804 |
| Derivative instruments | **5,754** | - |
| Energy efficiency | **11,174** | 10,790 |
| Gas costs adjustment | **-** | 39,796 |
| Rate adjustment mechanisms | **3,794** | 1,823 |
| Revenue decoupling mechanism | **3,339** | 33,628 |
| Other | **-** | 515 |
| Total | **31,298** | 87,356 |
| Non-current: | | |
| Carrying charges | **14,551** | 81,266 |
| Environmental response costs | **101,413** | 100,811 |
| Postretirement benefits | **43,562** | 142,065 |
| Regulatory tax liability, net | **231,362** | 283,843 |
| Other | **104,772** | 196,710 |
| Total | **$ 495,660** | $ 804,695 |

Regulatory assets associated with future financial obligations that were deferred in accordance with orders issued by the NYPSC do not earn a return until such time a cash outlay has been made.

The Company recovers carrying charges related to regulatory assets where there has been a cash outlay. These carrying charges include an interest component, recognized as a component of regulatory assets, associated with the portion of the regulatory assets deemed to be financed with debt. These carrying charges also include an equity return component, which is an allowance for earnings on shareholders' investment. This equity return component will be recovered through future rates, but is not recognized for financial reporting purposes. The equity return component not recognized in the financial statements as of March 31, 2025 and 2024 was $143.4 million and $136.8 million, respectively.

**Arrears reduction:** This regulatory asset balance represents the deferral, net of recoveries, of the Arrears Reduction Program ("ARP") for Phase 1 and Phase 2. The NYPSC authorized recovery of the Phase 1 and Phase 2 EAP ARP ratepayer funded portion and associated carrying charges over three and half years and eleven years, respectively, for the amount capitalized as a regulatory asset through a surcharge effectuated by a tariff filing.

**Capital tracker**: During the twelve months ended March 31, 2024 ("Stayout Period"), the previous rate case included a provision that allowed for the deferral of the incremental revenue requirement over the allowance in base rates for the net utility plant and depreciation expense reconciliation mechanism (capped at forecast levels). The regulatory asset represents the Stayout Period incremental capital tracker revenue requirement which the NYPSC approved recovery through a surcharge over the twelve months beginning September 1, 2023, subject to not earning over an 8.8% return on equity ("ROE"). The current rate case allows for the continuation of the net utility plant and depreciation capital tracker as a downward only mechanism during the term of the rate plan.

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

**Demand capacity surcharge mechanism:** The Company recovers costs associated with incremental NYPSC approved demand response, energy efficiency, and Long-Term Capacity Projects through the demand capacity surcharge mechanism. Under the current rate plan, the demand capacity surcharge mechanism will be eliminated effective July 1, 2025.

**Derivative instruments:** The Company evaluates open commodity derivative instruments for regulatory deferral by determining if they are probable of recovery from, or refund to, customers through future rates. As of March 31, 2025 and 2024, all derivative contracts were subject to regulatory deferral. Derivative instruments are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs.

**Energy efficiency**: Under the current rate plan, the Company reconciles the actual NYPSC approved energy efficiency costs to the energy efficiency costs recovered in both base rates and the incremental energy efficiency surcharge. At the end of the term of the rate plan the Company will have deferred any cumulative unspent energy efficiency funds. The incremental energy efficiency surcharge allows the Company to recover any difference between the amount of energy efficiency costs reflected in rates and the energy efficiency budgets approved by the NYPSC and incremental energy efficiency costs approved by the NYPSC in the future. Also implemented was the demand response costs and non-labor demand response operation and maintenance cost ("DROM") surcharge, which allows the Company to recover non-labor operations and maintenance costs associated with their distribution level demand response programs on an annual lag.

**Environmental response costs:** The regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at former manufactured gas plant ("MGP") sites and related facilities. The regulatory liability represents the excess of amounts received in rates over the Company's actual site investigation and remediation ("SIR") costs. Under the current rate plan, the rate allowance for environmental remediation costs does not include those expenditures expected to be settled beyond the term of the rate plan. The corresponding regulatory asset balance representing the expected future recovery of these expenditures does not earn a return. The recovery period is to be determined in future rate plans approved by the NYPSC.

**Exogenous costs**: Under the current rate plan, the Company is allowed to seek deferral treatment of certain exogenous costs, which are defined as incremental effects on costs, revenue or revenue requirements resulting from any externally imposed accounting change, legislative, court or regulatory change that imposes new or modifies existing obligations or any change in federal, state, or local rates, laws or regulations governing income, revenue sales, or franchise requirements that exceed three percent of pre-tax income in any given rate year in which the change first occurs. If the Company meets the requirements of the exogenous clause then it is authorized to implement a surcharge, limited to the annual recovery of 2 percent of its prior year's actual operating revenues, to recover the deferred costs through the Rate Plan rate adjustment mechanism ("RAM").

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

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

**Postretirement benefits:** The regulatory asset represents the Company's unamortized, non-cash accrual of net pension actuarial gains and losses in addition to actual costs associated with Company's pension plans in excess of amounts received in rates that are to be collected in future periods. The regulatory liability represents the Company's unamortized, non-cash accrual of net Postretirement Benefits Other than Pensions ("PBOP") actuarial gains and losses in addition to excess amounts received in rates over actual costs of the Company's PBOP plans that are to be passed back in future periods. The regulatory balance does not earn a return and is excluded from the rate base. The recovery period is to be determined in future rate plans or other orders issued by the NYPSC.

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

**Rate plan net regulatory asset:** Pursuant to the current rate case, the Company is to amortize a balance of $117.7 million over ten years effective April 1, 2024. The net regulatory asset balance consists primarily of existing regulatory asset balances for the postretirement benefits, exogenous costs, and capital trackers.

**Regulatory tax liability, net:** Represents over-recovered federal and state deferred taxes of the Company primarily as a result of regulatory flow through accounting treatment, state income tax rate changes, and excess federal deferred taxes as a result of the Tax Cuts and Jobs Act of 2017 ("Tax Act"). Under the current rate plan, the protected excess deferred income taxes are amortized using the Average Rate Assumption Method ("ARAM") and the unprotected excess deferred income taxes are amortized over a 5-year amortization period. The revenue requirement reflects the amortization of $32.9 million in each rate year.

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

## 6. RATE MATTERS

### General Rate Case

On April 9, 2024, the Department of Public Service Staff ("DPS"), the Company and KeySpan Gas East Corporation (the "New York Gas Companies" or the "Companies") and other parties to the settlement filed a Joint Proposal ("JP") for a three-year rate plan beginning April 1, 2024 and ending March 31, 2027. On August 15, 2024, the NYPSC approved and adopted the JP and supporting schedules with limited additional requirements. To reduce rate volatility to customers over the term of the rate plan, the planned rate increases have been implemented on a levelized percentage basis, at an annual total bill increase of 10.5% for the Company and 9.4% for KeySpan Gas East Corporation for each of the three rate years. After taking into account the impact of levelization, the JP results in increases in gas delivery revenues for the Company of approximately $256.9 million in Rate Year 1, $287.5 million in Rate Year 2, and $320.1 million in Rate Year 3. The Company's revenue requirement includes the amortization of a net regulatory asset balance totaling $195.5 million over a ten-year period. The rate plans include an earnings sharing mechanism, where the Companies will share a portion of any earnings in excess of 9.85% with customers. The settlement is based upon a 9.35% ROE and a ratemaking capital structure that reflects a common equity component of 48% for the New York Gas Companies.

Pursuant to the JP, the Company recorded the Make Whole provision ("MWP") during the second quarter of fiscal year 2025. The MWP is intended to keep the Company in the same financial position it would have been in had rates been effective April 1, 2024.

### Arrears Reduction Program

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

On January 19, 2023, the NYPSC issued an order authorizing the Phase 2 Arears Reduction Program ("Phase 2 Order"). The Phase 2 program provided approximately $82.2 million of one-time bill credits, to eligible customers who did not receive relief under the Phase 1 program. On February 21, 2023, in accordance with the Phase 2 Order, National Grid submitted a compliance filing and requested a proposed uncollectible expense reconciliation mechanism in exchange for a future adjustment of the Phase 2 program customer surcharge. The uncollectible expense reconciliation mechanism was included in the JP and approved by the NYPSC.

## 7. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes property, plant and equipment at cost and operating lease right-of-use ("ROU") assets, along with accumulated depreciation and amortization:

| | March 31, | |
|---|---|---|
| | **2025** | 2024 |
| | *(in thousands of dollars)* | |
| Plant and machinery | **$ 9,865,254** | $ 8,985,776 |
| Motor vehicles and equipment | **3,416** | 5,051 |
| Land and buildings | **282,846** | 254,678 |
| Assets in construction | **822,742** | 694,061 |
| Software and other intangibles | **132,013** | 132,013 |
| Operating lease ROU assets | **59,801** | 57,403 |
| Total property, plant and equipment | **11,166,072** | 10,128,982 |
| Accumulated depreciation and amortization | **(1,776,945)** | (1,593,444) |
| Accumulated amortization – Operating lease ROU assets | **(1,618)** | (1,207) |
| Property, plant and equipment, net | **$ 9,387,509** | $ 8,534,331 |

## 8. EMPLOYEE BENEFITS

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

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

*Pension Plans*

The Qualified Pension Plans are defined benefit pension plans which provide union employees, as well as nonunion employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory retirement programs provide additional pension benefits to certain executives and for eligible participants covers compensation levels in excess of the Internal Revenue Service ("IRS") limits. During the years ended March 31, 2025, 2024 and 2023, the Company made contributions of approximately $1.9 million, $1.8 million, and $9.5 million, respectively, to the Qualified Pension Plans. The Company does not expect to contribute to the Qualified Pension Plans during the year ending March 31, 2026.

Benefit payments to Pension Plan participants for the years ended March 31, 2025, 2024, and 2023 were approximately $40.9 million, $60.0 million, and $70.6 million, respectively. Benefit payments for the years ended March 31, 2024 and 2023 included payments for an annuity contract purchase.

*PBOP Plans*

The PBOP plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements, and in most cases retirees must contribute to the cost of their healthcare coverage. During the years ended March 31, 2025, 2024, and 2023, the Company made contributions of $9.2 million, $0.6 million, and $0.8 million, respectively, to the PBOP Plans. Company contributions for the year ended March 31, 2025 included a nonrecurring contribution. The Company does not expect to contribute to the PBOP Plans during the year ending March 31, 2026.

Gross benefit payments to PBOP plan participants for the years ended March 31, 2025, 2024, and 2023 were $15.9 million, $13.3 million, and $11.7 million, respectively.

**Net Periodic Benefit Costs**

The Company's net periodic pension cost for the years ended March 31, 2025, 2024, and 2023 were $4.6 million, $7.1 million, and $5.1 million, respectively. This included non-service pension costs (benefits) for the years ended March 31, 2025 and 2024 of ($0.7) million and ($1.0) million, respectively.

The Company's net periodic PBOP benefit for the years ended March 31, 2025, 2024, and 2023 were ($4.7) million, ($7.5) million, and ($6.6) million, respectively. This included non-service PBOP costs (benefits) for the years ended March 31, 2025 and 2024 of ($7.3) million and ($9.8) million, respectively.

**Amounts Recognized in Regulatory Assets/Liabilities**

The following tables summarize the Company's changes in actuarial gains/losses and prior service costs recognized in regulatory assets/liabilities for the years ended March 31, 2025, 2024, and 2023:

| | **Pension Plans** | | |
|---|---|---|---|
| | **March 31,** | | |
| | **2025** | 2024 | 2023 |
| | | *(in thousands of dollars)* | |
| Net actuarial loss | **$ 3,984** | $ 4,415 | $ 76,541 |
| Amortization of net actuarial loss | **(13,165)** | (13,194) | (10,737) |
| Amortization of prior service cost, net | **-** | - | (9) |
| Total | **$ (9,181)** | $ (8,779) | $ 65,795 |
| Change in regulatory assets or liabilities | **(9,181)** | (8,779) | 65,795 |
| Total | **$ (9,181)** | $ (8,779) | $ 65,795 |

| | PBOP Plans | | |
|---|---|---|---|
| | March 31, | | |
| | **2025** | 2024 | 2023 |
| | *(in thousands of dollars)* | | |
| Net actuarial loss | **$ 9,166** | $ 2,826 | $ 12,729 |
| Amortization of net actuarial gain | **4,030** | 5,702 | 4,584 |
| Total | **$ 13,196** | $ 8,528 | $ 17,313 |
| Change in regulatory assets or liabilities | **13,196** | 8,528 | 17,313 |
| Total | **$ 13,196** | $ 8,528 | $ 17,313 |

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

The following tables summarize the Company's amounts in regulatory assets/liabilities on the balance sheets that have not yet been recognized as components of net actuarial gain/loss as of March 31, 2025, 2024, and 2023:

| | Pension Plans | | |
|---|---|---|---|
| | March 31, | | |
| | **2025** | 2024 | 2023 |
| | *(in thousands of dollars)* | | |
| Net actuarial loss | **$ 13,488** | $ 22,669 | $ 31,448 |
| Prior service cost | **3** | 3 | 3 |
| Total | **$ 13,491** | $ 22,672 | $ 31,451 |
| Included in regulatory assets | **13,491** | 22,672 | 31,451 |
| Total | **$ 13,491** | $ 22,672 | $ 31,451 |

| | PBOP Plans | | |
|---|---|---|---|
| | March 31, | | |
| | **2025** | 2024 | 2023 |
| | *(in thousands of dollars)* | | |
| Net actuarial gain | **$ (24,995)** | $ (38,191) | $ (46,719) |
| Prior service credit | **(4)** | (4) | (4) |
| Total | **$ (24,999)** | $ (38,195) | $ (46,723) |
| Included in regulatory liabilities | **(24,999)** | (38,195) | (46,723) |
| Total | **$ (24,999)** | $ (38,195) | $ (46,723) |

**Amounts Recognized on the Balance Sheets**

The following table summarizes the portion of the funded status that is recognized on the Company's balance sheets as of March 31, 2025 and 2024:

| | Pension Plans | | PBOP Plans | |
|---|---|---|---|---|
| | March 31, | | March 31, | |
| | **2025** | 2024 | **2025** | 2024 |
| | *(in thousands of dollars)* | | | |
| Projected benefit obligation | **$ (680,027)** | $ (688,811) | **$ (220,399)** | $ (216,423) |
| Allocated fair value of assets | **696,919** | 699,240 | **318,858** | 312,198 |
| Funded status | **$ 16,892** | $ 10,429 | **$ 98,459** | $ 95,775 |
| | | | | |
| Non-current assets | **$ 16,892** | $ 10,429 | **$ 98,459** | $ 95,775 |
| Total | **$ 16,892** | $ 10,429 | **$ 98,459** | $ 95,775 |

For the year ended March 31, 2025, the net actuarial loss for Pension was primarily driven by actual asset returns that were less than expected and demographic experience losses related to salary increases that were higher than expected, partially offset by an increase in the discount rate. The net actuarial loss for PBOP was driven by an increase in the prescription drug trend assumption, partially offset by an increase in the discount rate and favorable claims experience. For the year ended March 31, 2024, the net actuarial loss for Pension was primarily driven by actual asset performance less than expected, as well as demographic census data losses related to compensation, partially offset by an increase in discount rate and slight changes in the retirement assumption tables resulting from a recent experience study. The net actuarial loss for the PBOP was driven by actual asset performance less than expected, as well as losses related to actual post-65 prescription drug claims experience, partially offset by an increase in discount rate and savings recognized from a Pharmacy Benefit Manager market check completed for the Company's contract. For the year ended March 31, 2023, the net actuarial loss for the Pension and PBOP plans were primarily driven by asset losses due to returns that were less than expected. These losses were partially offset by the increase in the discount rate, slight changes to the withdrawal assumption resulting from the recent experience study, and savings resulting from a new Medicare Advantage contract for PBOP.

**Expected Benefit Payments**

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2025 (amounts for PBOP Plans are shown net of employer group waiver plan subsidies expected):

| *(in thousands of dollars)*<br>Years Ended March 31, | Pension Plans | PBOP Plans |
|---|---|---|
| 2026 | $ 44,833 | $ 11,772 |
| 2027 | 46,735 | 12,319 |
| 2028 | 48,350 | 12,788 |
| 2029 | 49,893 | 13,196 |
| 2030 | 51,026 | 13,474 |
| 2031-2035 | 263,422 | 69,339 |
| Total | $ 504,259 | $ 132,888 |

**Assumptions Used for Employee Benefits Accounting**

| | Pension Plans | | |
|---|---|---|---|
| | Years Ended March 31, | | |
| | **2025** | 2024 | 2023 |
| **Benefit Obligations:** | | | |
| Discount rate | **5.50%** | 5.15% | 4.85% |
| Rate of compensation increase (nonunion) | **4.30%** | 4.30% | 4.30% |
| Rate of compensation increase (union) | **5.20%** | 5.20% | 5.20% |
| Weighted average cash balance interest crediting rate | **5.10%** | 4.28% | 4.40% |
| **Net Periodic Benefit Costs:** | | | |
| Discount rate | **5.15%** | 4.85% | 3.65% |
| Rate of compensation increase (nonunion) | **4.30%** | 4.30% | 4.30% |
| Rate of compensation increase (union) | **5.20%** | 5.20% | 5.20% |
| Expected return on plan assets | **6.75%** | 6.50% | 5.00% |
| Weighted average cash balance interest crediting rate | **4.40%** | 4.40% | 3.75% |

| | PBOP Plans | | |
|---|---|---|---|
| | Years Ended March 31, | | |
| | **2025** | 2024 | 2023 |
| **Benefit Obligations:** | | | |
| Discount rate | **5.50%** | 5.15% | 4.85% |
| **Net Periodic Benefit Costs:** | | | |
| Discount rate | **5.15%** | 4.85% | 3.65% |
| Expected return on plan assets | **6.00%-6.25%** | 6.25%-6.75% | 5.00%-5.50% |

The Company selects its discount rate assumption based upon rates of return on highly rated corporate bond yields in the marketplace as of each measurement date. The Company uses high quality corporate bond yields and the expected future cash flows from the Company retirement plans to determine the weighted average discount rate assumption.

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

**Assumed Health Cost Trend Rate**

| | Years Ended March 31, | |
|---|---|---|
| | **2025** | 2024 |
| Health care cost trend rate assumed for next year | | |
| Pre 65 | **6.00%** | 6.20% |
| Post 65 | **5.00%** | 5.10% |
| Prescription | **9.00%** | 8.00% |
| Rate to which the cost trend is assumed to decline (ultimate) | **4.50%** | 4.50% |
| Year that rate reaches ultimate trend | | |
| Pre 65 | **2031** | 2031 |
| Post 65 | **2031** | 2031 |
| Prescription | **2033** | 2033 |

**Plan Assets**

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

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

The RPC has established and reviews at least annually the Investment Policy Statement ("IPS"), which sets forth the guidelines for how plan assets are to be invested. The IPS contains a strategic asset allocation for each plan, which is intended to meet the objectives of the Plans by diversifying their funds across asset classes, investment styles and fund managers. An asset/liability study is conducted periodically to determine whether the current strategic asset allocation continues to represent the appropriate balance of expected risk and reward for the plan to meet expected liabilities. Each study considers the investment risk of the asset allocation and determines the optimal mix of assets for the plan. The target asset allocation for fiscal year end 2025 reflects the results of such a pension study conducted and implemented in fiscal year 2025. As a result of that asset liability analysis, the asset mix for the Pension Plans were changed to further reduce investment risk given the increased funded status of the plans and to better hedge the respective plan liabilities. The Non-Union PBOP Plan asset liability study was conducted in fiscal year 2024. As a result of that study, the RPC approved changes to the KeySpan and Niagara Mohawk Non-Union PBOP asset allocation effective in fiscal year 2024. The last Union PBOP study was conducted in fiscal year 2023.

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

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

The target asset allocations for the benefit plans as of March 31, 2025 and 2024 are as follows:

| | **Pension Plans** | | **Union PBOP Plans** | | **Nonunion PBOP Plans** | |
|---|---|---|---|---|---|---|
| | **March 31,** | | **March 31,** | | **March 31,** | |
| | **2025** | 2024 | **2025** | 2024 | **2025** | 2024 |
| Equity | **7%** | 13% | **15%** | 15% | **65%** | 65% |
| Diversified alternatives | **2%** | 4% | **5%** | 5% | **0%** | 0% |
| Fixed income securities | **70%** | 60% | **80%** | 80% | **35%** | 35% |
| Private equity | **11%** | 12% | **0%** | 0% | **0%** | 0% |
| Real estate | **4%** | 5% | **0%** | 0% | **0%** | 0% |
| Infrastructure | **6%** | 6% | **0%** | 0% | **0%** | 0% |
| | **100%** | 100% | **100%** | 100% | **100%** | 100% |

**Fair Value Measurements**

During the years ended March 31, 2025 and 2024, certain PBOP trusts related to multiple NGUSA plans were consolidated. The following tables provide the fair value measurements amounts for the pension and PBOP assets at the trust level (includes all trusts applicable to plans the Company participates in):

| | March 31, 2025 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Not categorized | Total |
| | *(in thousands of dollars)* | | | |
| **Pension assets:** | | | | |
| Equity | $ 133 | $ - | $ 223,974 | $ 224,107 |
| Diversified alternatives | - | - | 49,508 | 49,508 |
| Corporate bonds | - | 1,368,979 | 302,761 | 1,671,740 |
| Government securities | 9,783 | 832,914 | 408,070 | 1,250,767 |
| Infrastructure | - | - | 231,229 | 231,229 |
| Private equity | - | - | 436,439 | 436,439 |
| Real estate | - | - | 146,424 | 146,424 |
| Total assets | $ 9,916 | $ 2,201,893 | $ 1,798,405 | $ 4,010,214 |
| Pending transactions | | | | (132,722) |
| Total net assets | | | | $ 3,877,492 |
| | | | | |
| **PBOP assets:** | | | | |
| Equity | $ - | $ - | $ 502,905 | $ 502,905 |
| Diversified alternatives | 133,413 | - | - | 133,413 |
| Corporate bonds | - | 1,747,882 | 55,001 | 1,802,883 |
| Government securities | 50,251 | 418,815 | - | 469,066 |
| Private equity | - | - | 25 | 25 |
| Insurance contracts | - | - | 168,560 | 168,560 |
| Total assets | $ 183,664 | $ 2,166,697 | $ 726,491 | $ 3,076,852 |
| Pending transactions | | | | 28,894 |
| Total net assets | | | | $ 3,105,746 |

| | March 31, 2024 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Not categorized | Total |
| | *(in thousands of dollars)* | | | |
| **Pension assets:** | | | | |
| Equity | $ 93,283 | $ - | $ 484,506 | $ 577,789 |
| Diversified alternatives | 48,954 | - | 163,329 | 212,283 |
| Corporate bonds | - | 1,355,457 | 278,499 | 1,633,956 |
| Government securities | 2,213 | 359,537 | 379,594 | 741,344 |
| Infrastructure | - | - | 213,884 | 213,884 |
| Private equity | - | - | 431,469 | 431,469 |
| Real estate | - | - | 172,697 | 172,697 |
| Total assets | $ 144,450 | $ 1,714,994 | $ 2,213,978 | $ 3,983,422 |
| Pending transactions | | | | (99,945) |
| Total net assets | | | | $ 3,883,477 |
| | | | | |
| **PBOP assets:** | | | | |
| Equity | $ - | $ - | $ 282,235 | $ 282,235 |
| Diversified alternatives | 46,313 | - | 4,591 | 50,904 |
| Corporate bonds | - | 709,777 | 52,088 | 761,865 |
| Government securities | 31,051 | 211,808 | - | 242,859 |
| Private equity | - | - | 121 | 121 |
| Insurance contracts | - | - | 160,400 | 160,400 |
| Total assets | $ 77,364 | $ 921,585 | $ 499,435 | $ 1,498,384 |
| Pending transactions | | | | 13,054 |
| Total net assets | | | | $ 1,511,438 |

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

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

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

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

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

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

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

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

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

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

**Pending transactions:** These are short-term cash transactions that are expected to settle within a few days of the measurement date.

**Defined Contribution Plan**

NGUSA has defined contribution retirement plans that cover substantially all employees. For the years ended March 31, 2025, 2024, and 2023, the Company recognized an expense in the accompanying statements of operations of $3.5 million, $3.3 million, and $3.1 million, respectively, for matching contributions.

## 9. CAPITALIZATION

Total capitalization for the Company at March 31, 2025 and 2024 is as follows:

| | | | March 31, | |
|---|---|---|---|---|
| | | | **2025** | 2024 |
| **Total shareholders' equity** | | | **$ 5,882,482** | $ 5,627,285 |
| **Long-term debt:** | Interest Rate | Maturity Date | | |
| *Unsecured Notes:* | | | | |
| Senior Note | 3.41% | March 10, 2026 | **500,000** | 500,000 |
| Senior Note | 4.63% | August 5, 2027 | **400,000** | 400,000 |
| Senior Note | 3.87% | March 4, 2029 | **550,000** | 550,000 |
| Senior Note | 4.87% | August 5, 2032 | **400,000** | 400,000 |
| Senior Note | 6.39% | September 15, 2033 | **400,000** | 400,000 |
| Senior Note | 6.39% | September 15, 2033 | **150,000** | - |
| Senior Note | 4.50% | March 10, 2046 | **500,000** | 500,000 |
| Senior Note | 4.27% | March 15, 2048 | **650,000** | 650,000 |
| Senior Note | 4.49% | March 4, 2049 | **450,000** | 450,000 |
| Senior Note | 6.42% | July 18, 2054 | **450,000** | - |
| Total debt | | | **4,450,000** | 3,850,000 |
| Unamortized debt premium, net | | | **4,701** | - |
| Unamortized debt issuance costs | | | **(18,715)** | (16,046) |
| Total debt less unamortized costs | | | **4,435,986** | 3,833,954 |
| Current portion of long-term debt | | | **500,000** | - |
| Total long-term debt | | | **3,935,986** | 3,833,954 |
| **Total capitalization** | | | **$ 9,818,468** | $ 9,461,239 |

The aggregate maturities of long-term debt for the years subsequent to March 31, 2025 are as follows:

| *(in thousands of dollars)* <br> **March 31,** | **Maturities of Long-Term Debt** |
|---|---|
| 2026 | $ 500,000 |
| 2027 | - |
| 2028 | 400,000 |
| 2029 | 550,000 |
| 2030 | - |
| Thereafter | 3,000,000 |
| Total | $ 4,450,000 |

The Company's debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the Company's debt and may restrict the Company's ability to draw upon its facilities or access the capital markets. As of March 31, 2025, and 2024, the Company was in compliance with all such covenants.

### Debt Authorizations

On June 17, 2022, the NYPSC authorized the Company to issue up to $1.8 billion of new long-term debt securities, with the authorization valid for a period beginning on the effective date of the commission's order and ending on March 31, 2025. Under this most recent authorization, the Company has issued $1.8 billion and $1.2 billion of long-term debt as of March 31, 2025 and 2024, respectively. A new petition for the right to issue long-term debt securities was filed with the NYPSC on May 9, 2025.

### Dividend Restrictions

Pursuant to the NYPSC's orders, the ability of the Company to pay dividends to NGUSA is conditioned upon maintenance of a utility capital structure with debt not exceeding 56% of total utility capitalization less goodwill. As of March 31, 2025, and 2024, the Company was in compliance with the utility capital structure required by the NYPSC. In accordance with the NYPSC order approving the acquisition of KeySpan Corporation, the Company is permitted to declare dividends in an amount not to exceed retained earnings accumulated since the date of acquisition plus unappropriated retained earnings, unappropriated undistributed earnings and accumulated other comprehensive income existing immediately prior to the date of acquisition.

### Preferred Stock

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

## 10. INCOME TAXES

### Components of Income Tax Expense

| | Years Ended March 31, | | |
|---|---|---|---|
| | **2025** | 2024 | 2023 |
| | | *(in thousands of dollars)* | |
| Current tax expense (benefit): | | | |
| Federal | **$ (18,825)** | $ (5,302) | $ (203,063) |
| State | **(7,516)** | (20,868) | (67,364) |
| Total current tax benefit | **(26,341)** | (26,170) | (270,427) |
| Deferred tax expense (benefit): | | | |
| Federal | **35,917** | 33,659 | 242,365 |
| State | **32,176** | 48,941 | 101,787 |
| Total deferred tax expense | **68,093** | 82,600 | 344,152 |
| Total income tax expense | **$ 41,752** | $ 56,430 | $ 73,725 |

**Statutory Rate Reconciliation**

The Company's effective tax rates for the years ended March 31, 2025, 2024, and 2023 were 14.2%, 18.1%, and 19.7%, respectively. The following table presents a reconciliation of income tax expense (benefit) at the federal statutory tax rate of 21.0% to the actual tax expense:

| | Years Ended March 31, | | |
|---|---|---|---|
| | **2025** | 2024 | 2023 |
| | | *(in thousands of dollars)* | |
| Computed tax | **$ 61,921** | $ 65,415 | $ 78,704 |
| Change in computed taxes resulting from: | | | |
| State income tax, net of federal benefit | **19,482** | 22,177 | 27,194 |
| Amortization of regulatory tax liability, net | **(38,324)** | (31,562) | (32,232) |
| Audit and related reserve movements | **(747)** | 329 | 394 |
| Other items | **(580)** | 71 | (335) |
| Total changes | **(20,169)** | (8,985) | (4,979) |
| Total income tax expense | **$ 41,752** | $ 56,430 | $ 73,725 |

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

**Inflation Reduction Act**

The Inflation Reduction Act ("IRA"), enacted in August of 2022, imposes a 15% corporate alternative minimum tax ("CAMT") on the "adjusted financial statement income" of certain large corporations that qualify as an "applicable corporation" for tax years beginning after December 31, 2022. Once a corporation qualifies as an applicable corporation, it remains one for all future taxable years. National Grid meets the qualifications of an applicable corporation and is therefore subject to CAMT beginning with the fiscal year ending March 31, 2024. Any CAMT amount paid will generate a CAMT credit carryforward that has no expiration period and can be claimed against regular income tax in the future.

**Deferred Tax Components**

| | March 31, | | | |
|---|---|---|---|---|
| | **2025** | | 2024 | |
| | *(in thousands of dollars)* | | | |
| **Deferred tax assets:** | | | | |
| Corporate alternative minimum tax credit | **$** | **47,058** | $ | 25,565 |
| Environmental remediation costs | | **687,548** | | 723,385 |
| Net operating losses | | **57,733** | | 32,623 |
| Regulatory liabilities | | **145,542** | | 243,709 |
| Other items | | **91,479** | | 85,063 |
| Total deferred tax assets | | **1,029,360** | | 1,110,345 |
| **Deferred tax liabilities:** | | | | |
| Property-related differences | | **1,703,022** | | 1,573,051 |
| Regulatory assets | | **860,600** | | 954,978 |
| Other items | | **33,388** | | 29,392 |
| Total deferred tax liabilities | | **2,597,010** | | 2,557,421 |
| **Deferred income tax liabilities, net** | **$** | **1,567,650** | $ | 1,447,076 |

**Net Operating Losses**

The amounts and expiration dates of the Company's net operating losses carryforward as of March 31, 2025 are as follows:

| | Carryforward Amount | | Expiration Period |
|---|---|---|---|
| | *(in thousands of dollars)* | | |
| Federal | $ | 151,524 | Indefinite |
| New York State | $ | 754,047 | 2035-2045 |

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

**Status of Income Tax Examinations**

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

| Jurisdiction | Tax Year |
|---|---|
| Federal | March 31, 2022 |
| 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 statements of operations. As of March 31, 2025 and 2024, the Company has accrued for interest related to unrecognized tax benefits of $9.9 million and $8.4 million, respectively. During the years ended March 31, 2025, 2024 and 2023, the Company recorded interest income of $1.5 million, $5.1 million and $0.7 million, respectively. No tax penalties were recognized during the years ended March 31, 2025, 2024 and 2023.

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

## 11. ENVIRONMENTAL MATTERS

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

The Company has identified numerous MGP sites and related facilities, which were owned or operated by the Company or its predecessors. These former sites, some of which are no longer owned by the Company, have been identified to the NYPSC and the New York State Department of Environmental Conservation ("DEC") for inclusion on appropriate site inventories. Administrative Orders on Consent ("AOC") or Voluntary Cleanup Agreements have been executed with the DEC to address the investigation and remediation activities associated with certain sites.

The Company estimated the remaining costs of environmental remediation activities were $2.5 billion and $2.6 billion as of March 31, 2025 and 2024, respectively. These liabilities are expected to be settled over approximately 57 years, and these undiscounted amounts have been recorded as estimated liabilities on the consolidated balance sheets. However, remediation costs for each site may be materially higher or lower than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered.

Through rate orders, the NYPSC has provided for the recovery of SIR costs. Accordingly, as of March 31, 2025 and 2024, the Company has recorded net environmental regulatory assets of $2.6 billion and $2.7 billion, respectively.

During the year ended March 31, 2025, the Company received new information from environmental regulators concerning the design and remediation work required at several sites. Through ongoing technical scope discussions with the regulators concerning their expectations for these sites, the Company revised the anticipated scope of remediation work to be performed. Accordingly, the Company recorded a decrease to the environmental obligation for these sites of $58.1 million, reflecting estimates prepared by third-party engineers for the revised scope of remediation work to be performed. After recording an offsetting decrease in regulatory assets relating to environmental remediation, there was no impact to the net assets of the Company. Discussions with regulators will continue and final selection of technologies and remedial actions required will be made based on the results of field studies. Depending on the final selection of technologies and remedial actions required, there could be a material change to the reserve, which would have a corresponding offsetting change in regulatory assets due to regulatory recovery of environmental remediation costs.

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

The Company has a grantor interest in an environmental remediation trust established to manage and administer funds contributed towards the cleanup effort for environmental remediation. The Company has a controlling financial interest in this trust and therefore consolidates the assets and liabilities of the trust, which mainly consists of cash held by the trust, which usage is restricted for the purpose of remediation efforts, and a lease asset and liability related to a property the trust leases for site staging requirements as part of the remediation efforts.

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

## 12. COMMITMENTS AND CONTINGENCIES

### Purchase Commitments

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

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2025 are summarized in the table below:

| *(in thousands of dollars)* March 31, | Gas Purchases | Capital Expenditures |
|---|---|---|
| 2026 | $ 330,315 | $ 75,913 |
| 2027 | 303,723 | 41,158 |
| 2028 | 275,243 | 8,326 |
| 2029 | 184,350 | 5,287 |
| 2030 | 170,268 | - |
| Thereafter | 404,034 | - |
| Total | $ 1,667,933 | $ 130,684 |

### Financial Guarantees

The Company is a guarantor of a lease agreement as part of its participation in a grantor trust established to manage and administer funds contributed towards cleanup efforts for environmental remediation. The trust maintains all obligations for the payment of rent, insurance and property taxes for the leased property. In the unlikely event that the trust was to default on required payments or be dissolved, the Company would become responsible for those lease obligations. Total lease obligations (undiscounted) over the remaining 12 years are approximately $69.0 million.

### Legal Matters

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

On June 17, 2021, five former employees of National Grid USA Service Company, Inc. in the downstate New York facilities department were arrested on federal charges alleging fraud and bribery. The five former employees subsequently pleaded guilty to the charges, pursuant to plea agreements. NGUSA was deemed a victim of the crimes. On June 23, 2021, based on the US Attorney's announcement, the New York Public Service Commission ("NY PSC") issued an order commencing a proceeding to examine the potential impacts of the employee misconduct on the capital and operations and maintenance expenditures of National Grid's downstate New York gas companies.

Over the past three years, National Grid has fully cooperated with the NYPSC's investigation, which was resolved through a settlement that was approved by the NYPSC on December 19, 2024. In the interest of ensuring that the Companies' customers were not financially impacted by the criminal conduct, the Companies agreed to defer for the benefit of customers $20 million of revenues previously collected in rates. As of March 31, 2025, the Company and KeySpan Gas East have recorded regulatory liabilities of $13 million and $7 million, respectively, for their share of the settlement.

### Other Litigation

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

## 13. RELATED PARTY TRANSACTIONS

### Accounts Receivable from and Accounts Payable to Affiliates

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

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

| | Accounts Receivable from Affiliates | | Accounts Payable to Affiliates | |
|---|---|---|---|---|
| | March 31, | | March 31, | |
| | **2025** | 2024 | **2025** | 2024 |
| | *(in thousands of dollars)* | | | |
| KeySpan Gas East Corporation | **$ 1,927** | $ 90 | **$ 591** | $ 4,059 |
| NGUSA | **-** | 5,432 | **64,071** | 54,893 |
| NGUSA Service Company | **15,492** | 16,730 | **37,181** | 28,068 |
| Other | **856** | 1,112 | **2,871** | 1,491 |
| Total | **$ 18,275** | $ 23,364 | **$ 104,714** | $ 88,511 |

### Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool in which it participates. The Company is a participant in the Regulated Money Pool, except for NETCO, which participates in the Unregulated Money Pool, and can both borrow and invest funds. Borrowings from the Regulated Money Pool and investments in Unregulated Money Pool bear interest in accordance with the terms of the Regulated and Unregulated Money Pool Agreements. As the Company fully participates in the Regulated and Unregulated Money Pools rather than settling intercompany charges with cash, all changes in the intercompany money pool balance are reflected as investing or financing activities in the accompanying consolidated statements of cash flows. For the purpose of presentation in the 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 and Unregulated Money Pools are funded by operating funds from participants in the applicable pool. NGUSA has the ability to borrow up to $5 billion from National Grid plc for working capital needs including funding of the Money Pools, if necessary. As of March 31, 2025, the Company had short-term regulated and unregulated intercompany money pool investments of $343.6 million, including NETCO unregulated short-term intercompany money pool investment of $304.7 million. As of March 31, 2024, the Company had short-term regulated and unregulated intercompany money pool investments of $538.5 million, including NETCO unregulated short-term intercompany money pool investment of $290.8 million. The average interest rates for the intercompany money pool were 5.1%, 5.2%, and 2.9% for the years ended March 31, 2025, 2024, and 2023, respectively. Additionally, NGUSA had committed revolving credit facilities of approximately $6.8 billion. The facilities are due to mature beyond May 2027, with an annual extension option potentially taking this to June

2028. As of March 31, 2025, these facilities have not been drawn against and can be used to fund the money pool.

**Service Company Charges**

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

Charges from the service companies of NGUSA to the Company are mostly related to traditional administrative support functions. For the years ended March 31, 2025, 2024, and 2023, costs allocated to the Company were $711.6 million, $629.0 million, and $594.1 million, respectively.