

**New York State Electric & Gas Corporation  
Rochester Gas and Electric Corporation**

**Pre-File Rate Case  
Request for Information**

**Requesting Party:** DPS Staff

**Request No.:** NYRC-0055 (DPS-55 Pre-Filed) SUPP 2

**Date of Request:** February 14, 2025

**Response Due Date:** June 30, 2025

**Date of Reply:** June 30, 2025

**SUPP 1 Date of Reply:** February 13, 2026

**SUPP 2 Date of Reply:** February 19, 2026

**Witness:** Michael Panichi

**Panel:** ROE and Capital Structure

**Subject:** Rate of Return

**Question:**

Financial Reports -

Provide the following for the company and all parent, holding, and service companies:

- a) The most recent shareholder's report;
- b) The latest credit reports from all credit reporting agencies;
- c) The latest presentations made to credit rating agencies;
- d) The latest investor presentation; and
- e) Equity analyst reports within the past three months.

**Response:**

- a) The most recent shareholder reports are found in Confidential Attachment 1, Attachment 2, and Attachment 3.
- b) The latest credit reports from all three agencies are found in Attachments 4-6.
- c) The latest presentation made to credit agencies is found in Confidential Attachment 7.
- d) Avangrid, NYSEG, and RG&E haven't had a recent investor presentation as all three companies are privately held.
- e) Avangrid, NYSEG, and RG&E haven't had equity analyst reports in the past three months as all three companies are privately held.

**Supplemental 1 Response:**

- b) Please see the Companies' response to NYRC-1399-UIU-022-033 SUPP 1 and

Attachments 1 and 2 to that supplemental response.

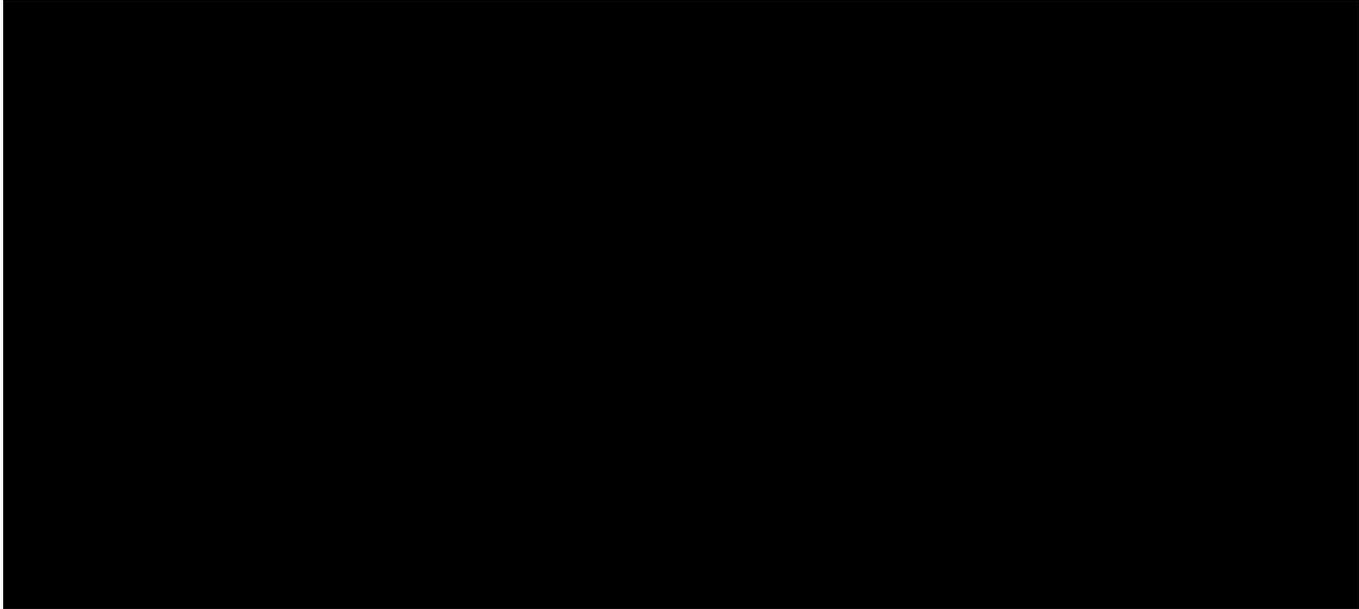
**Supplemental 2 Response:**

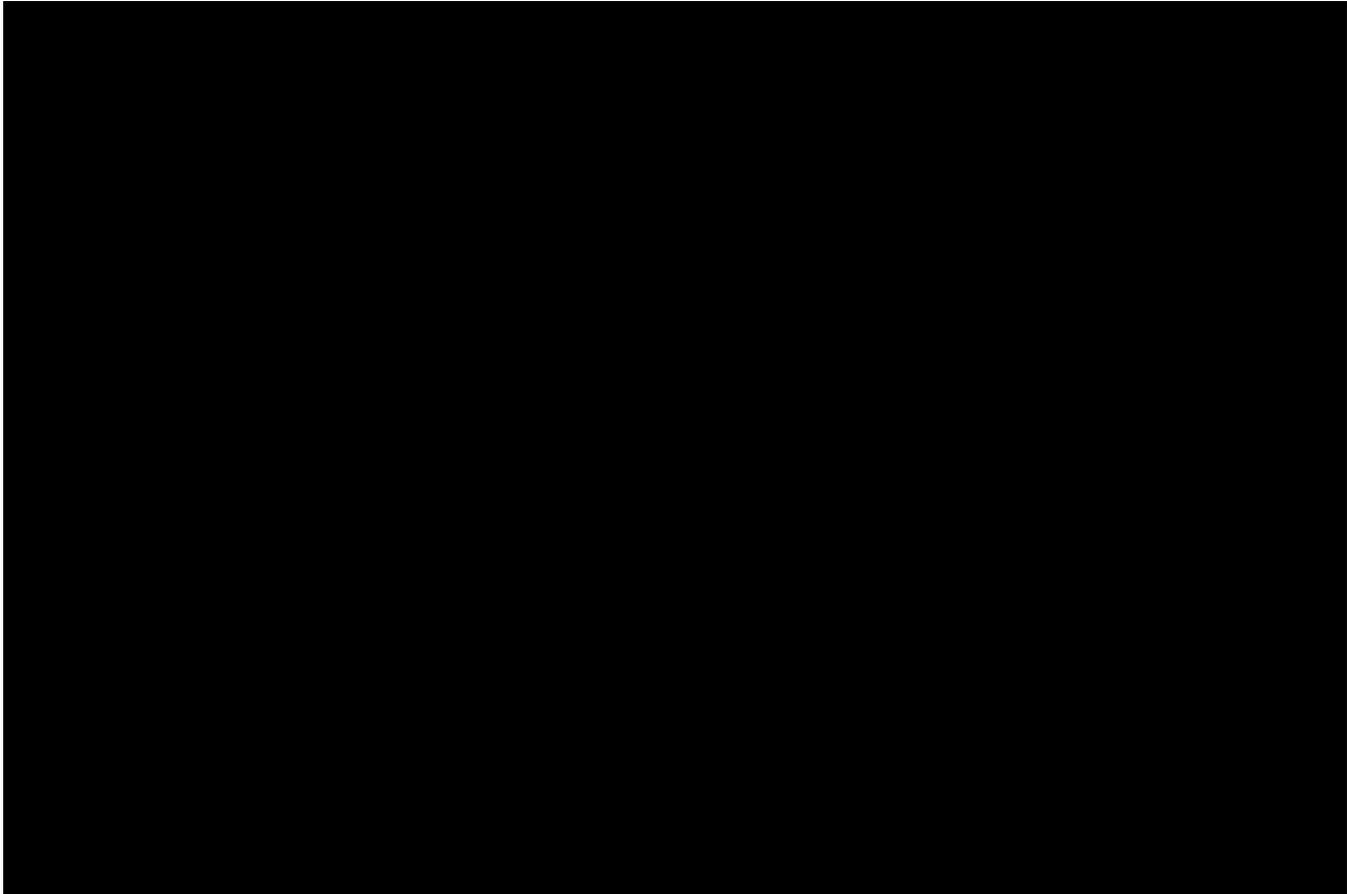
- b) Please see the Companies' response to NYRC-1399-UIU-022-033 SUPP 2 and Attachment 1 through Attachment 6 to that supplemental response.

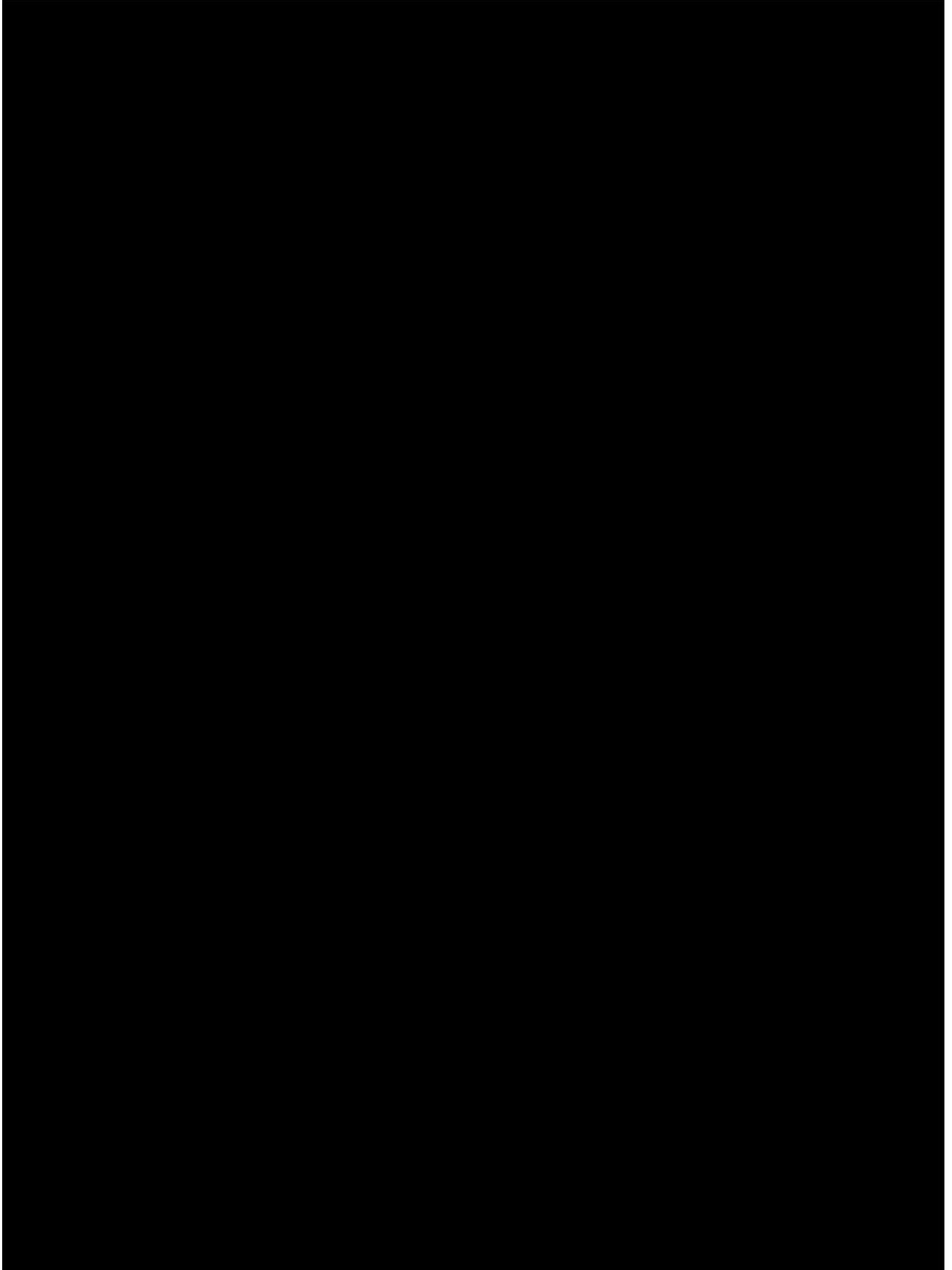


**Avangrid, Inc.**  
**Consolidated Financial Statements**  
**For the Years Ended December 31, 2024 and 2023**

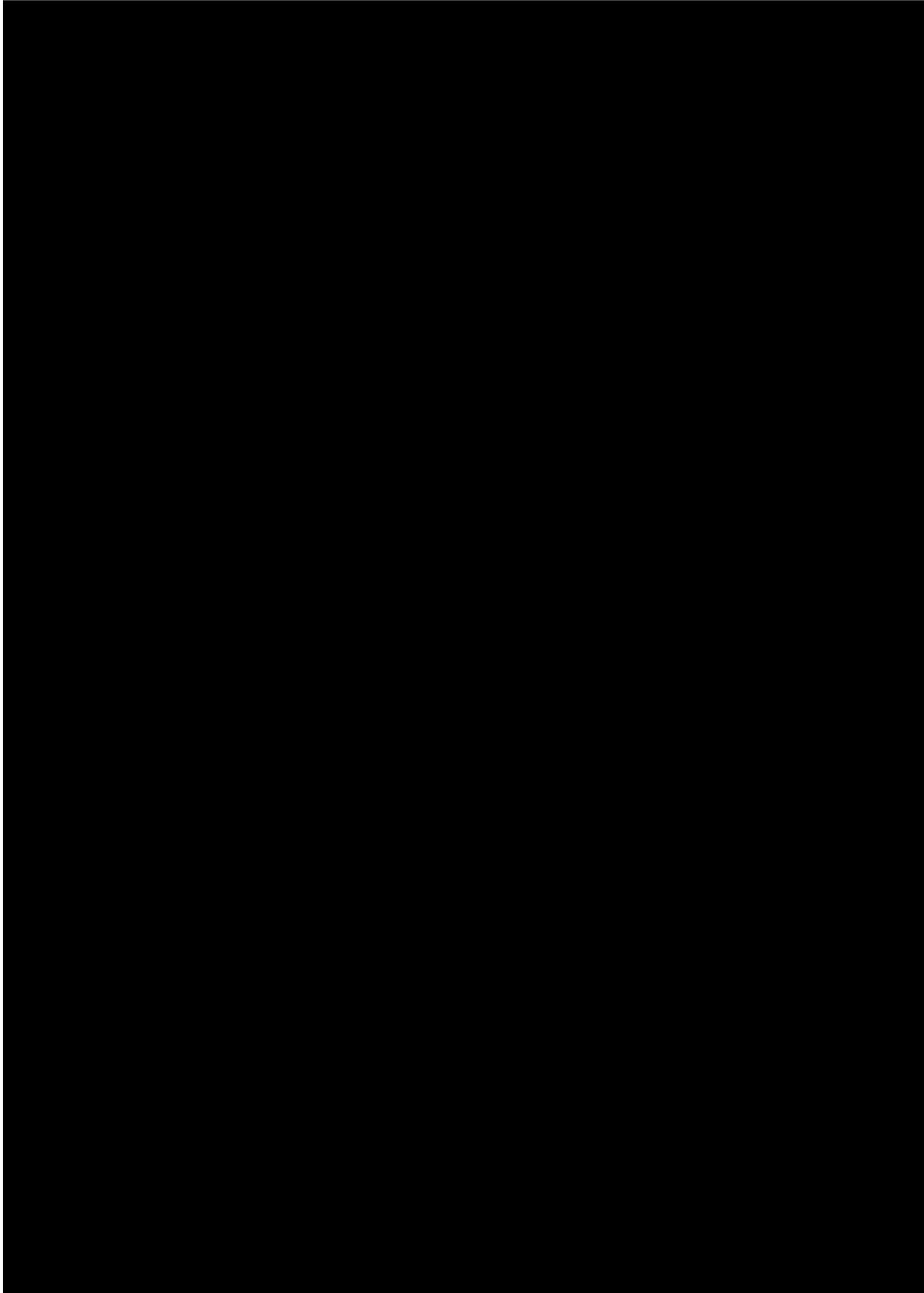
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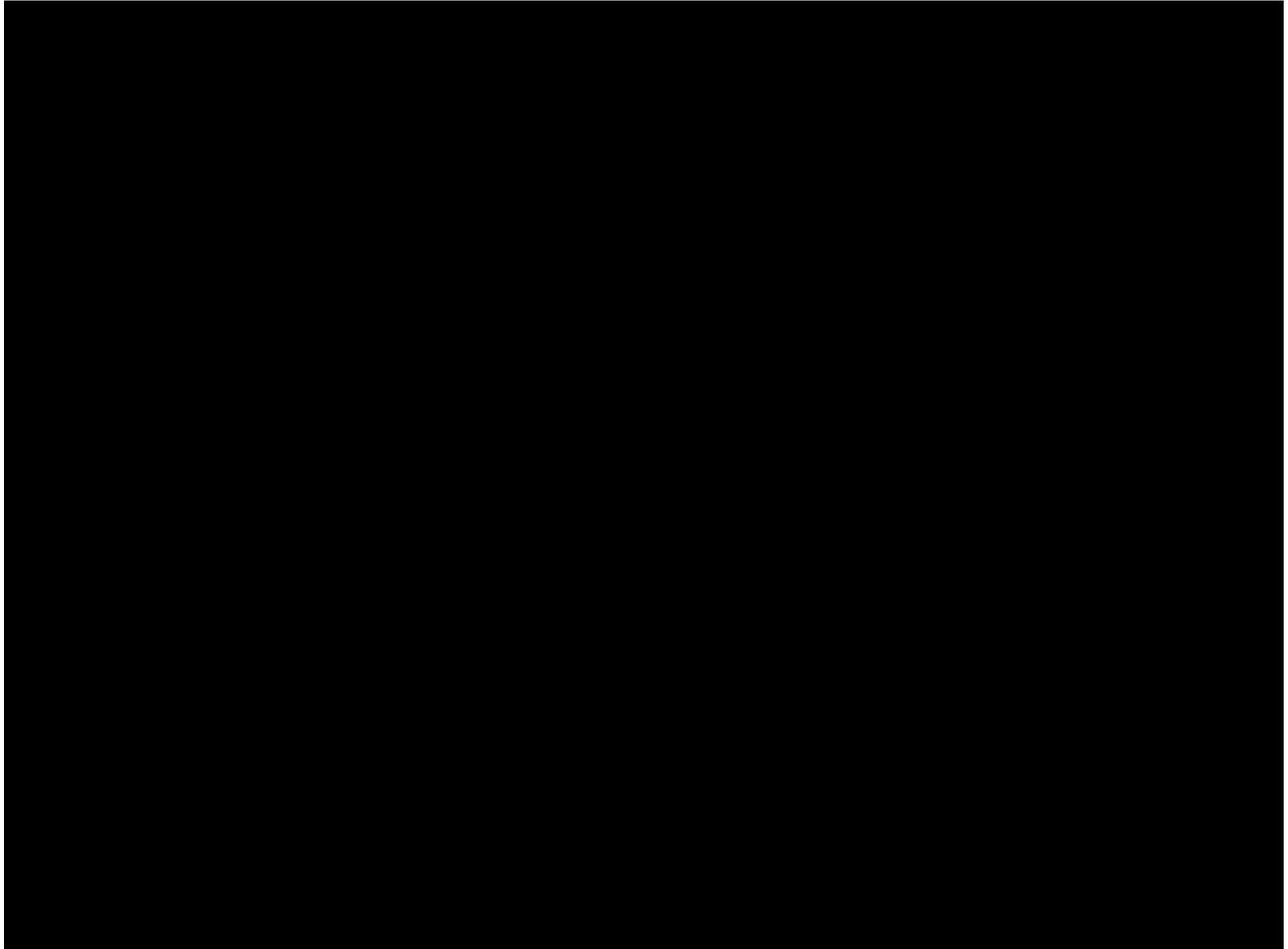


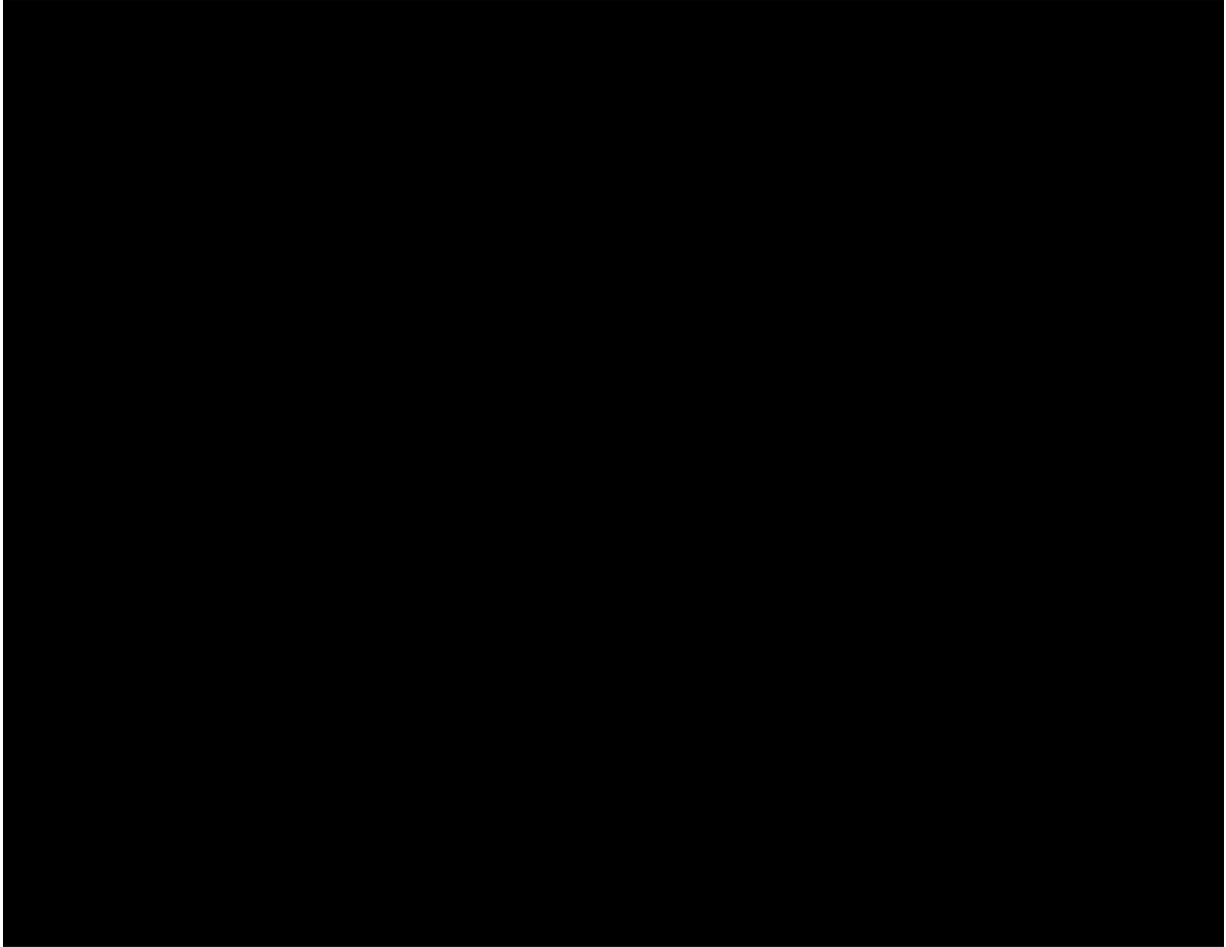


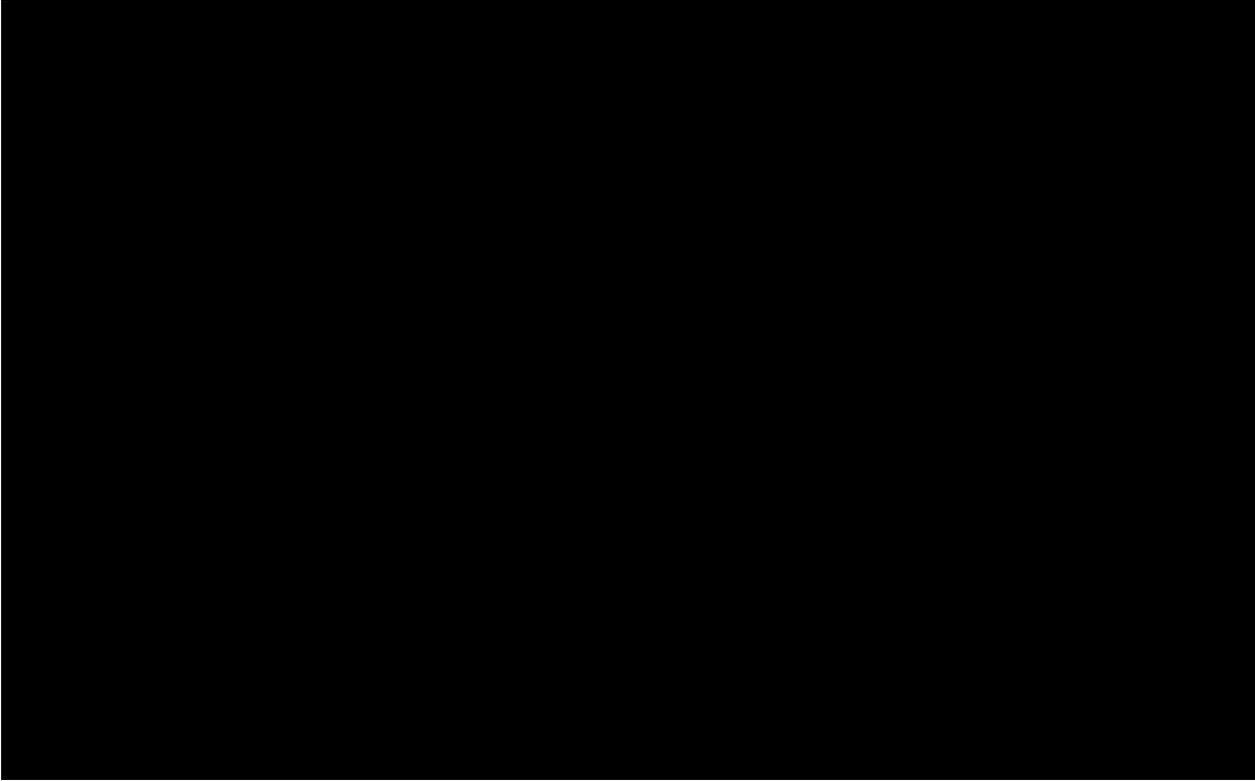




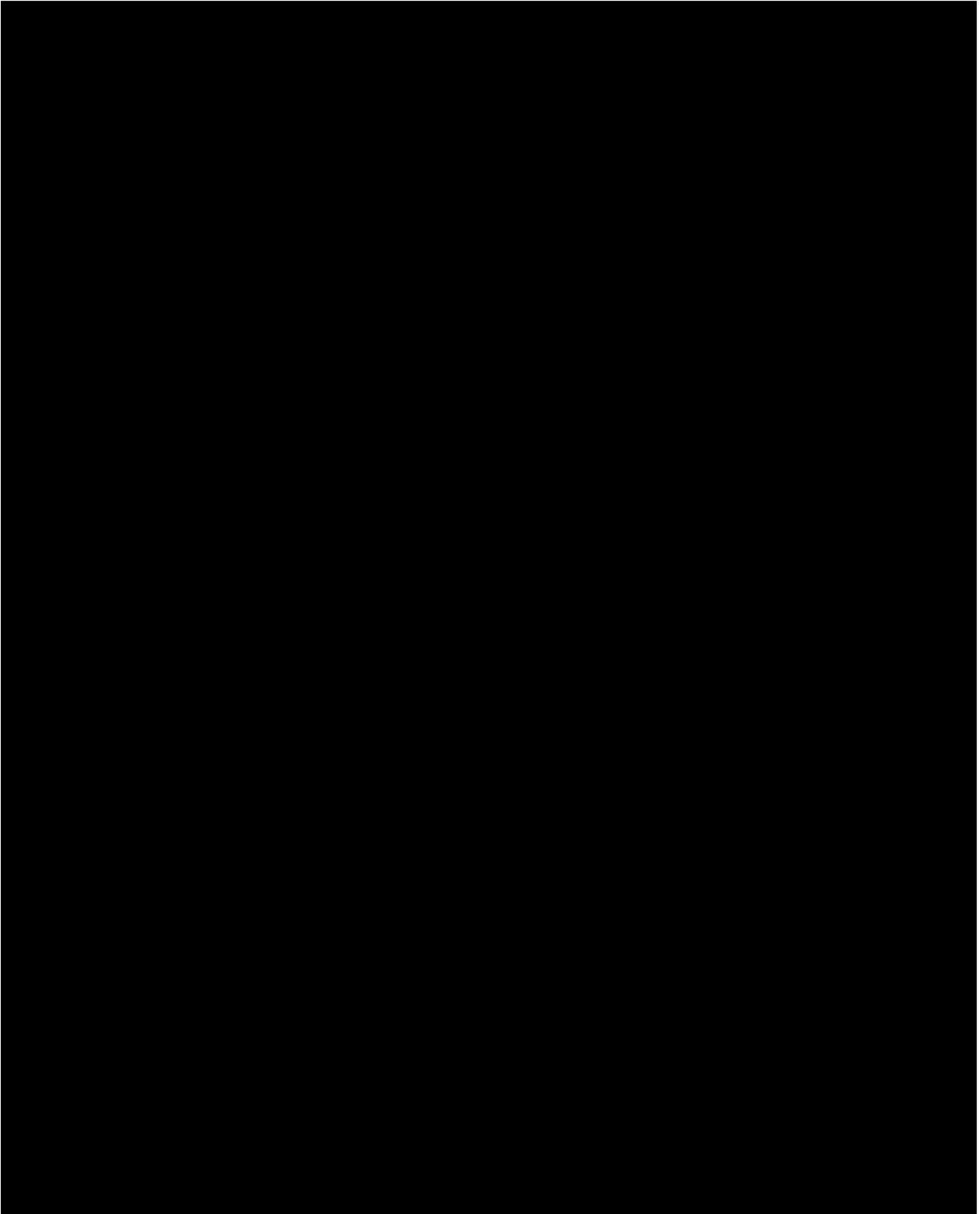


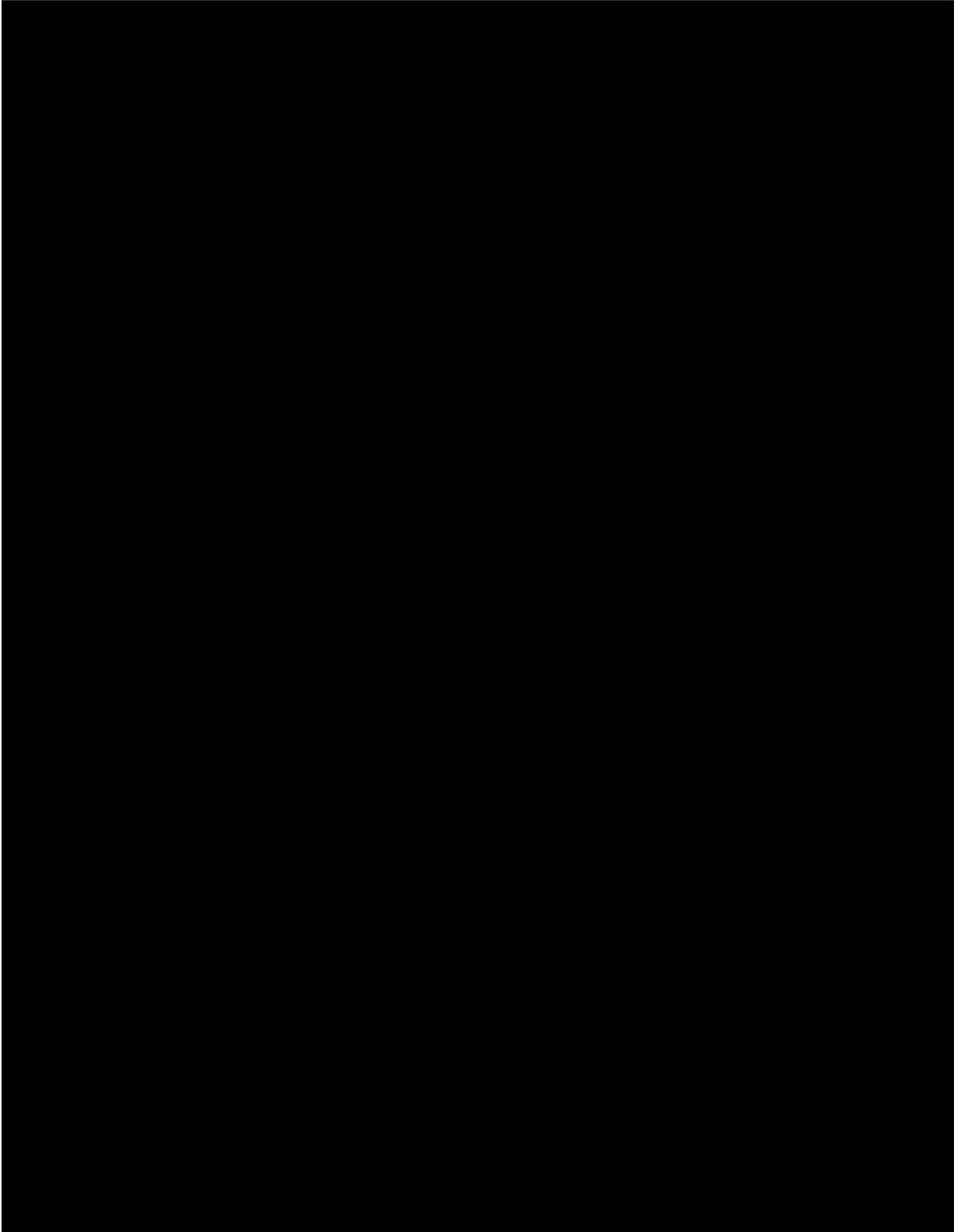


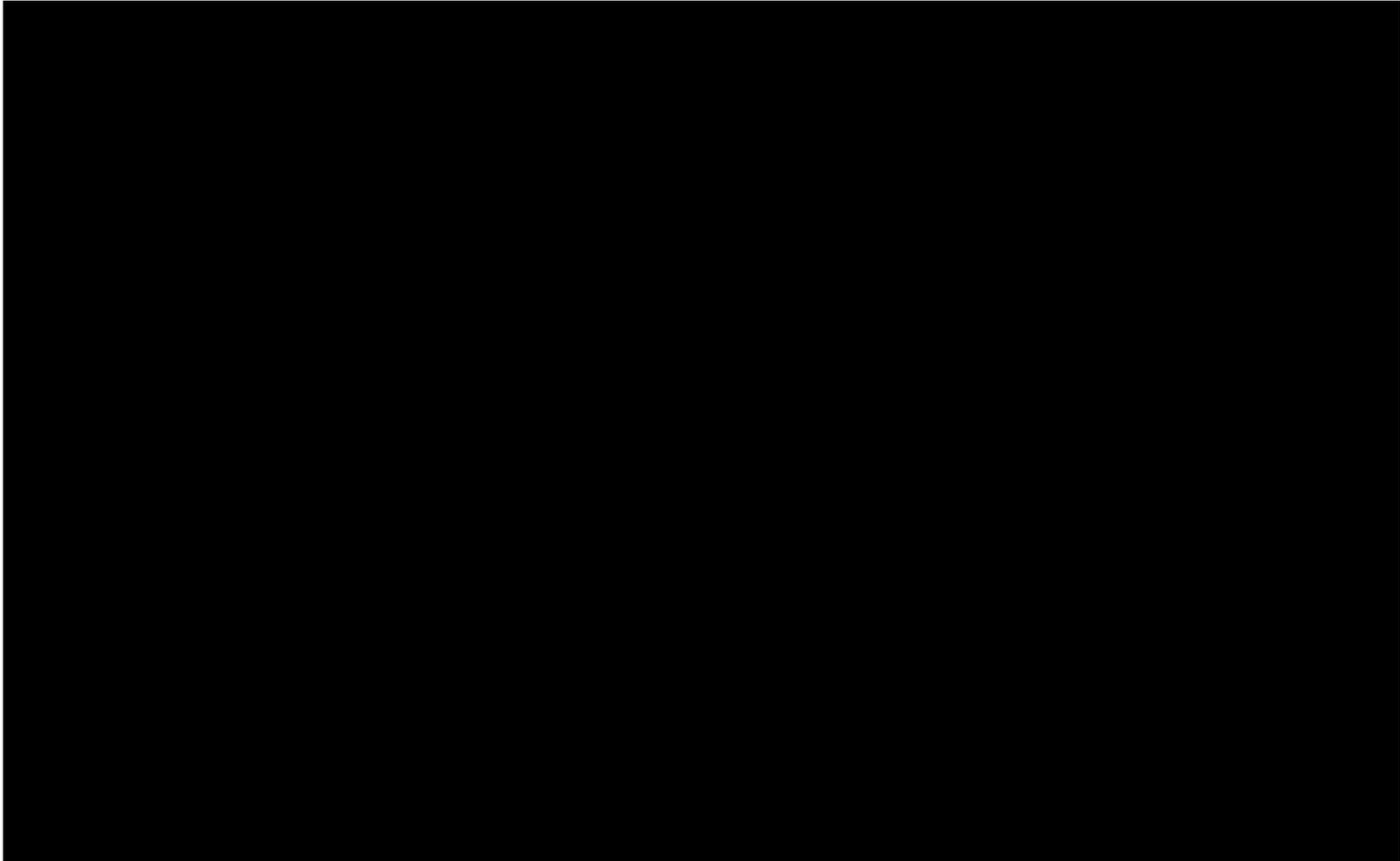


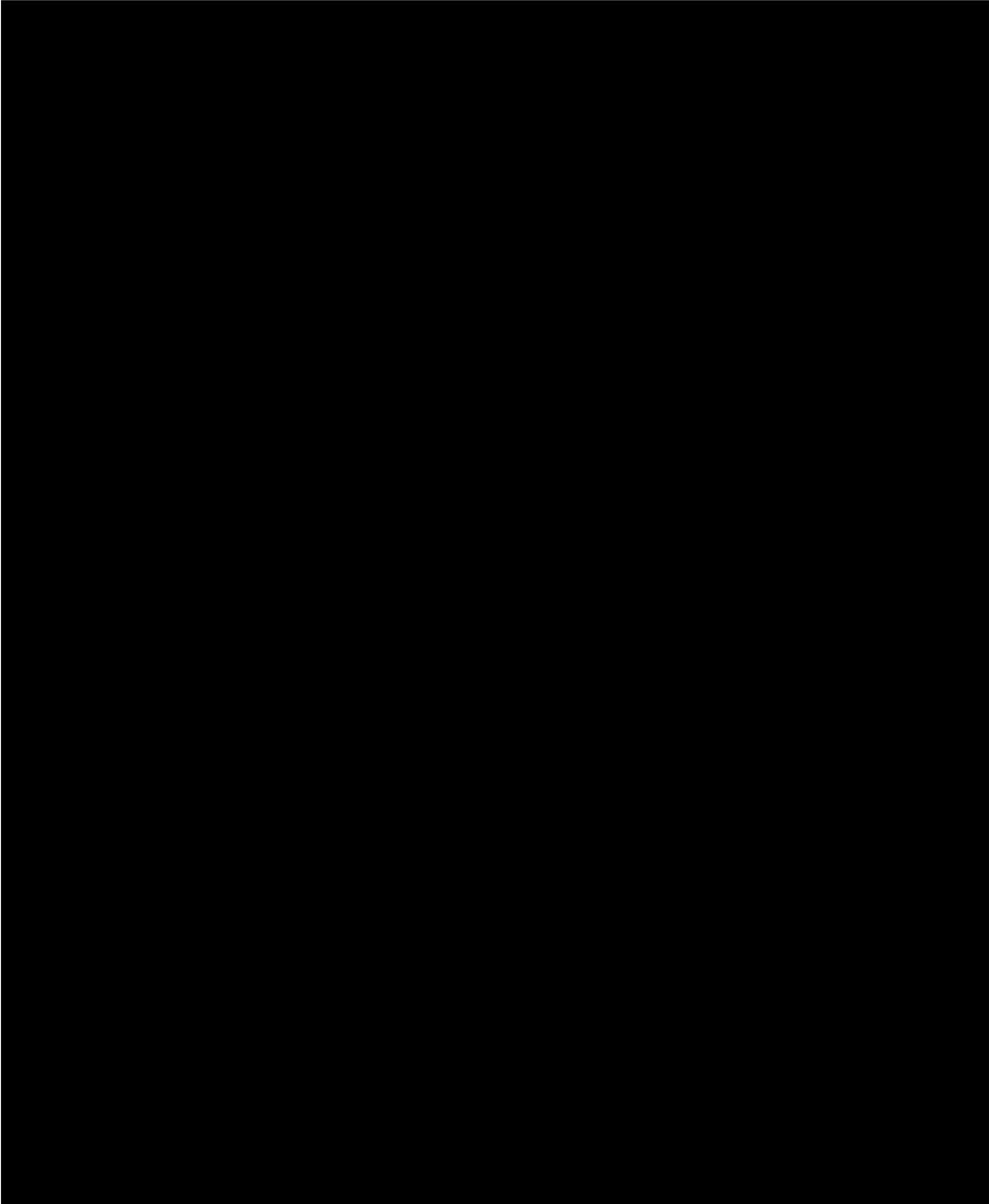


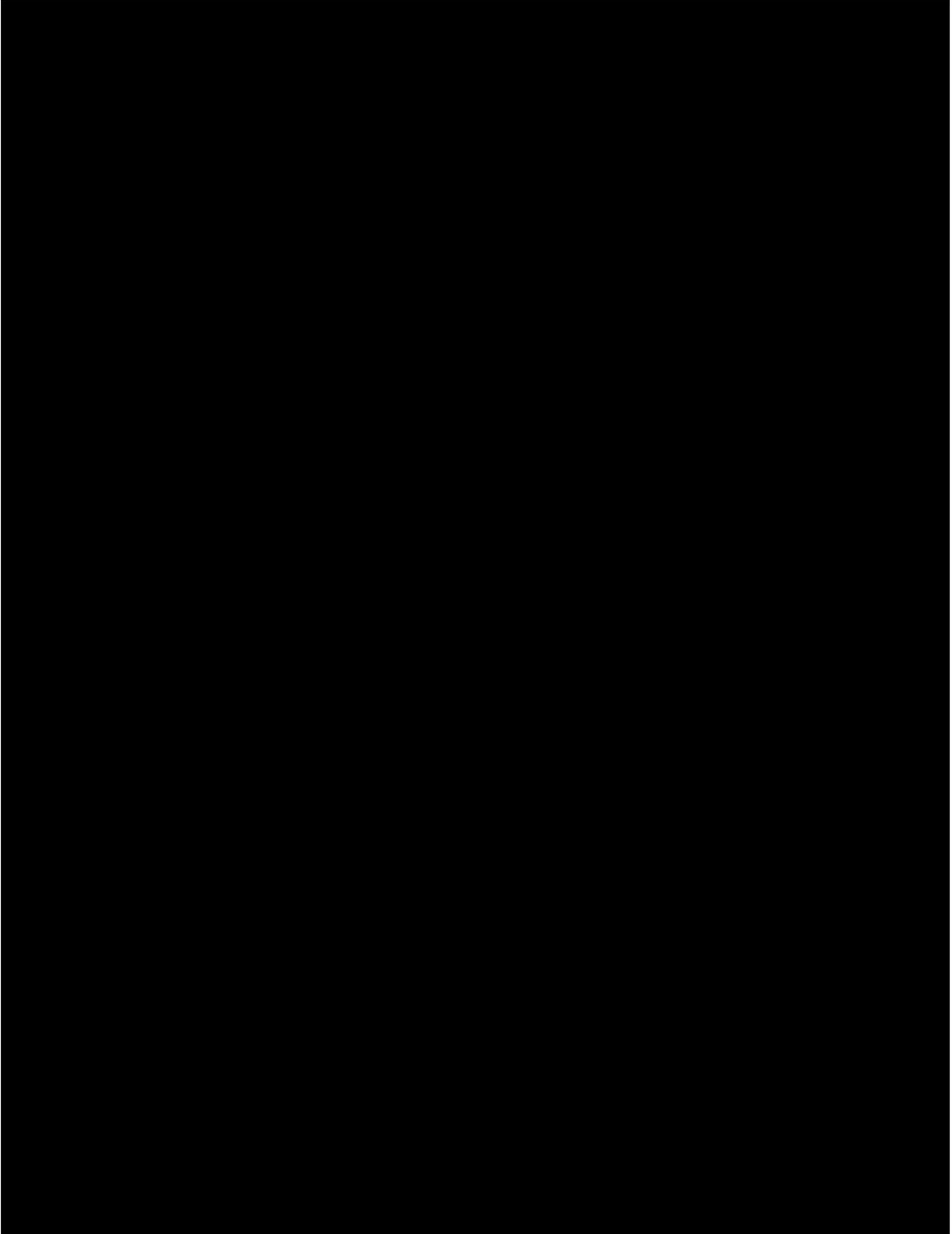


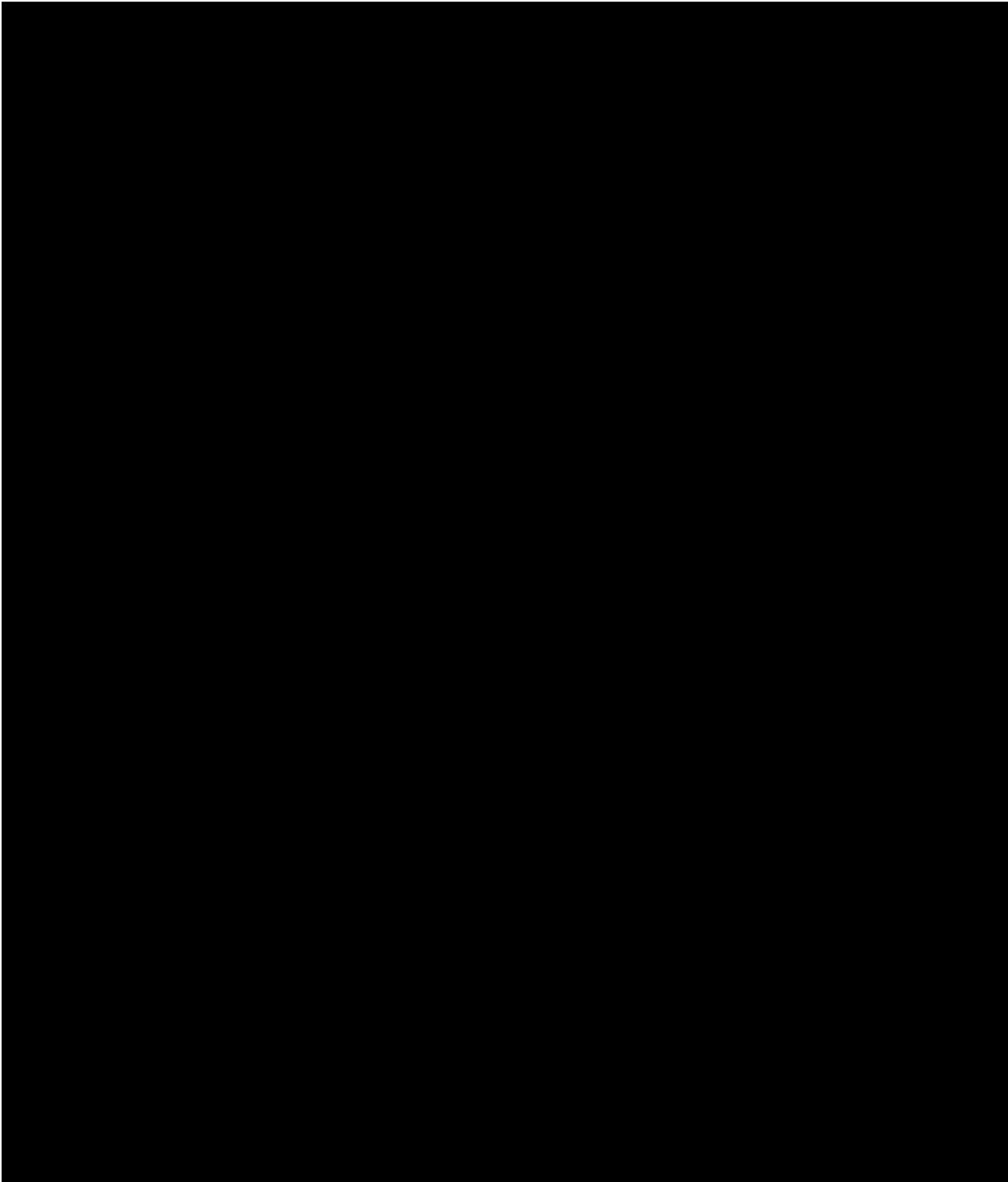


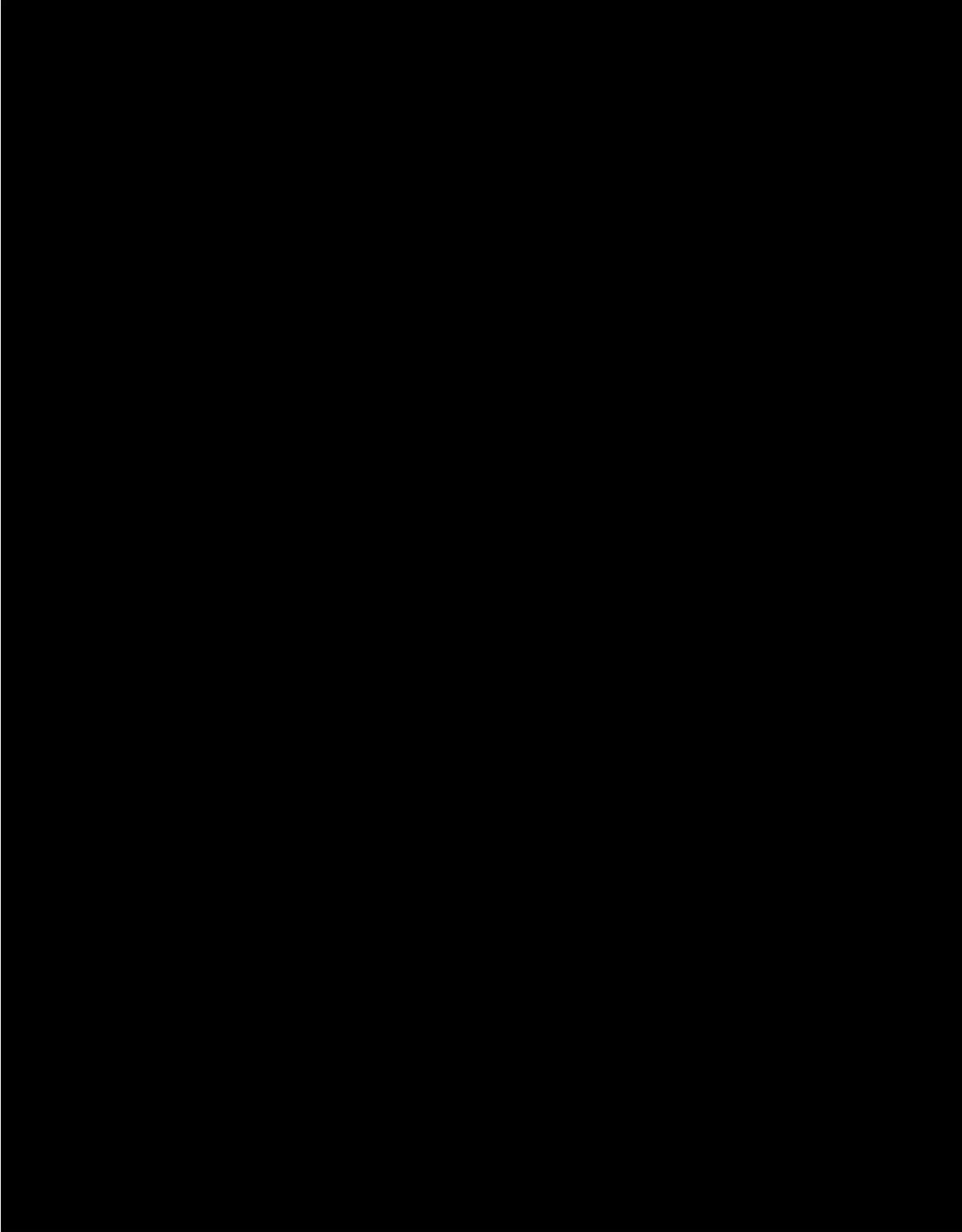


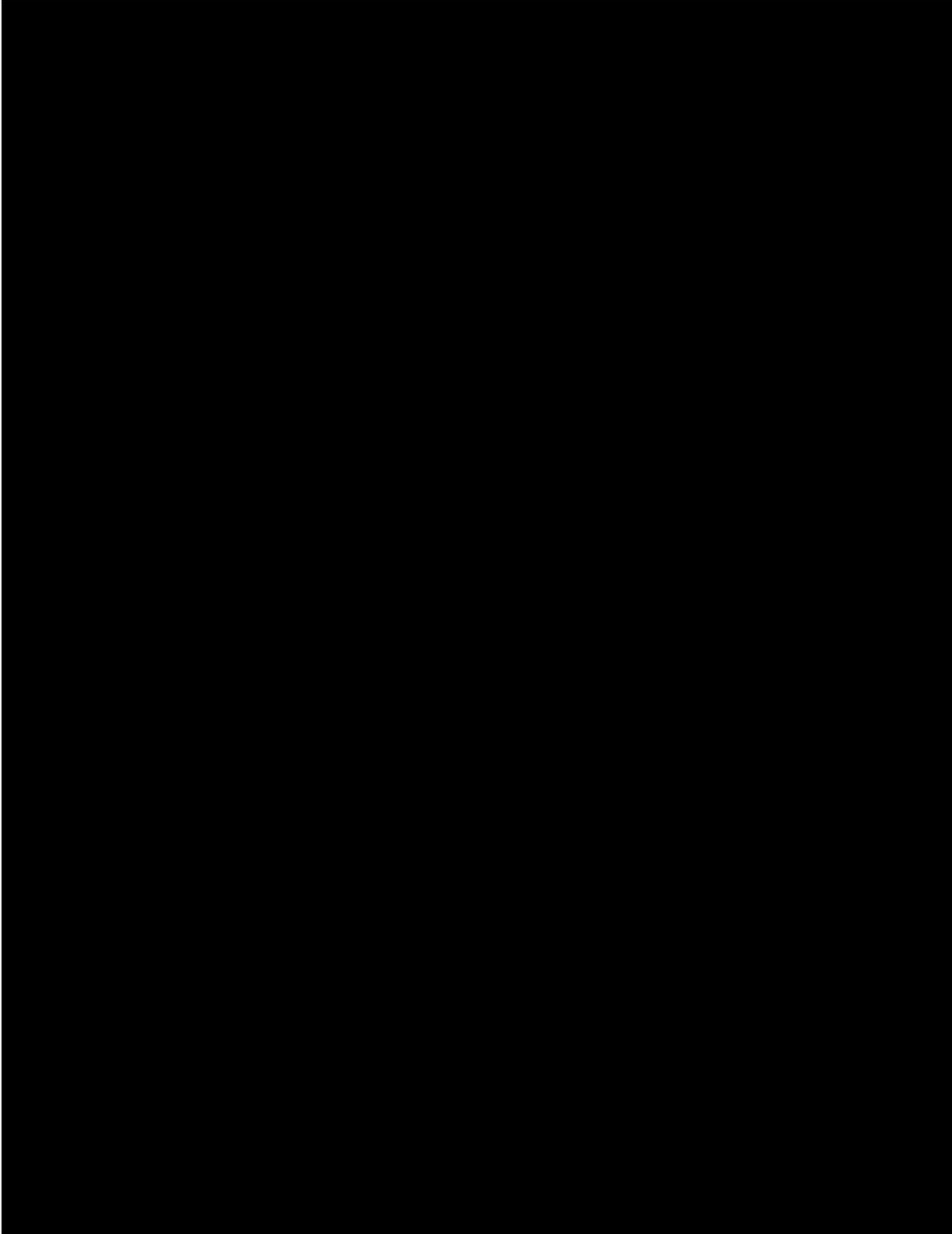


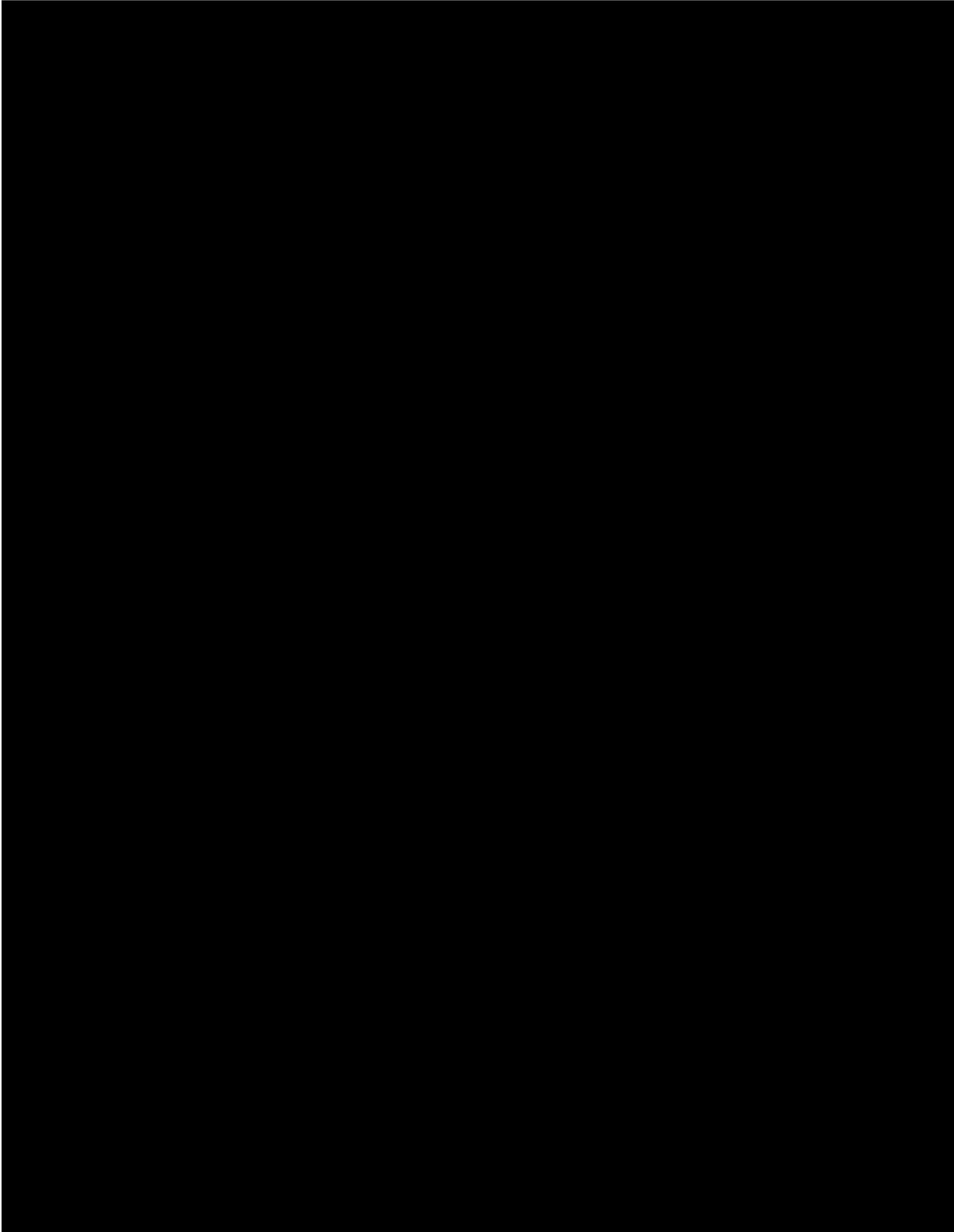


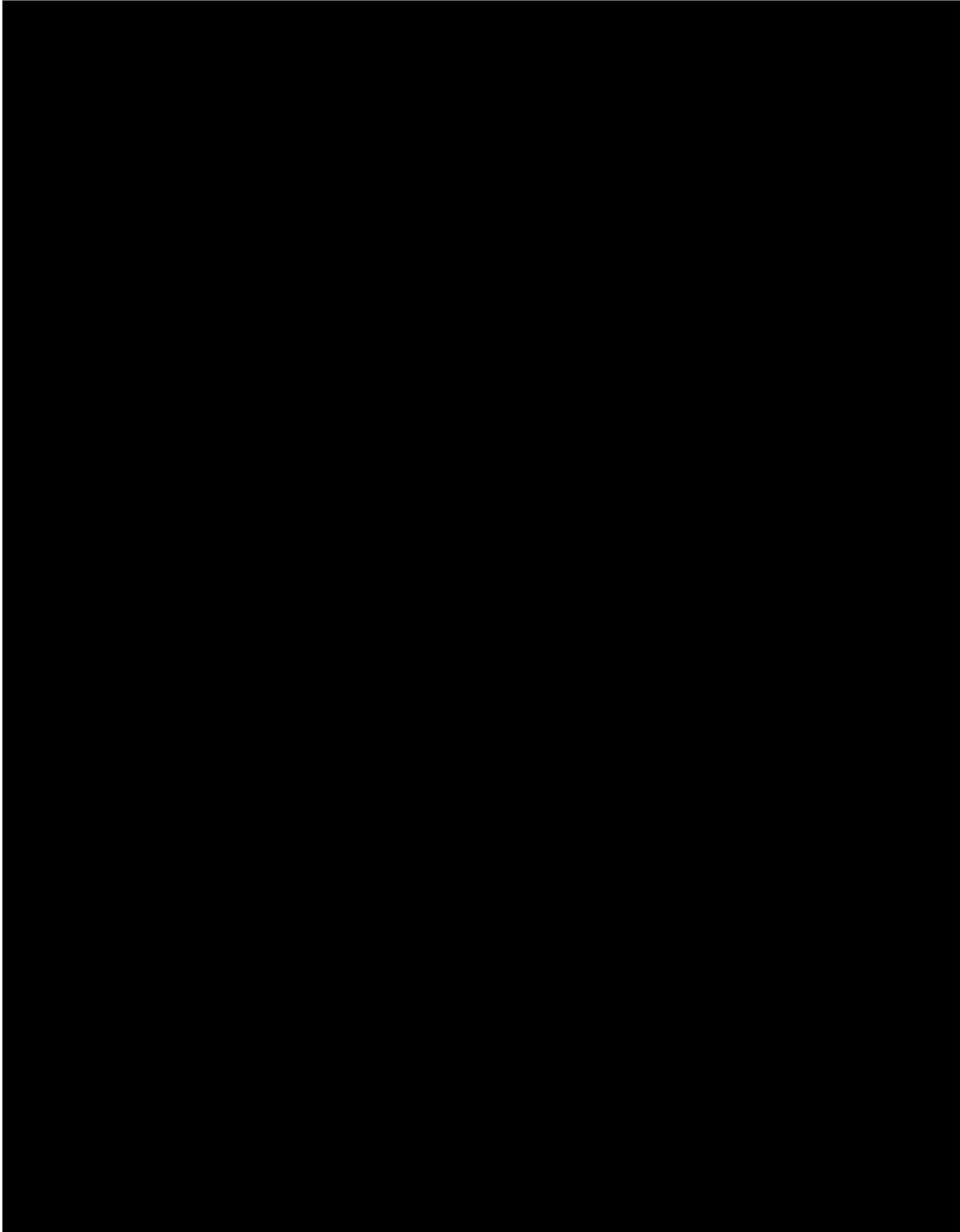


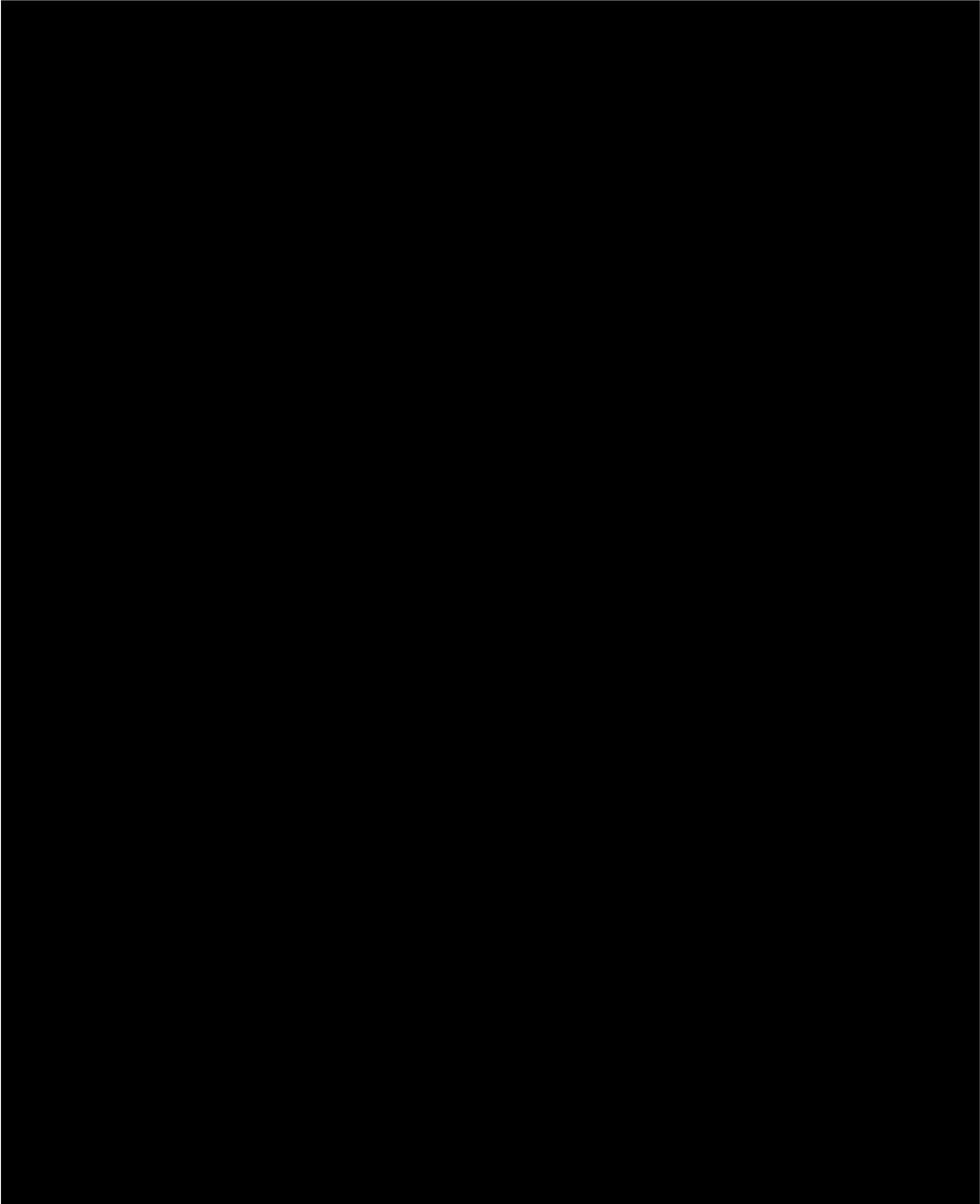


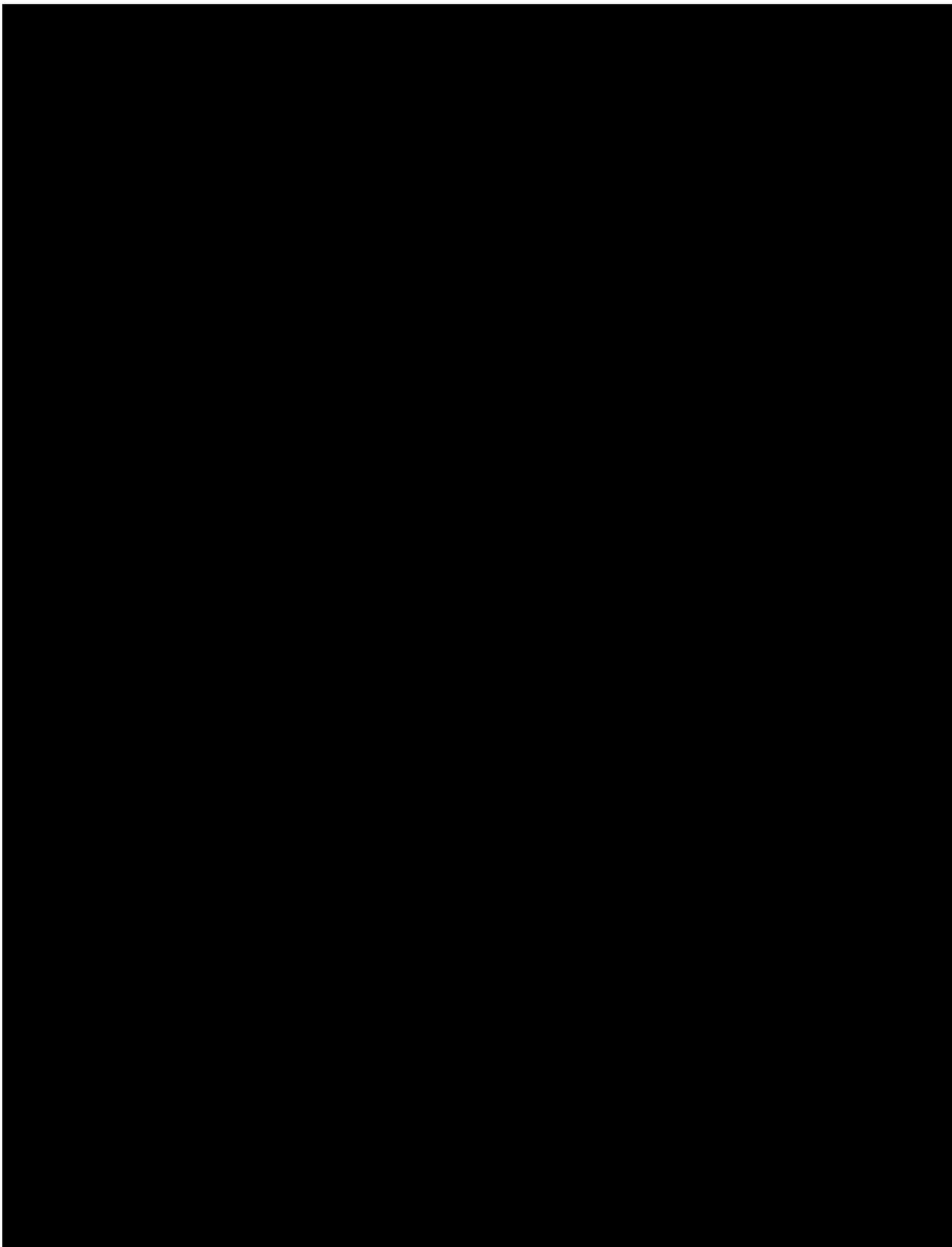


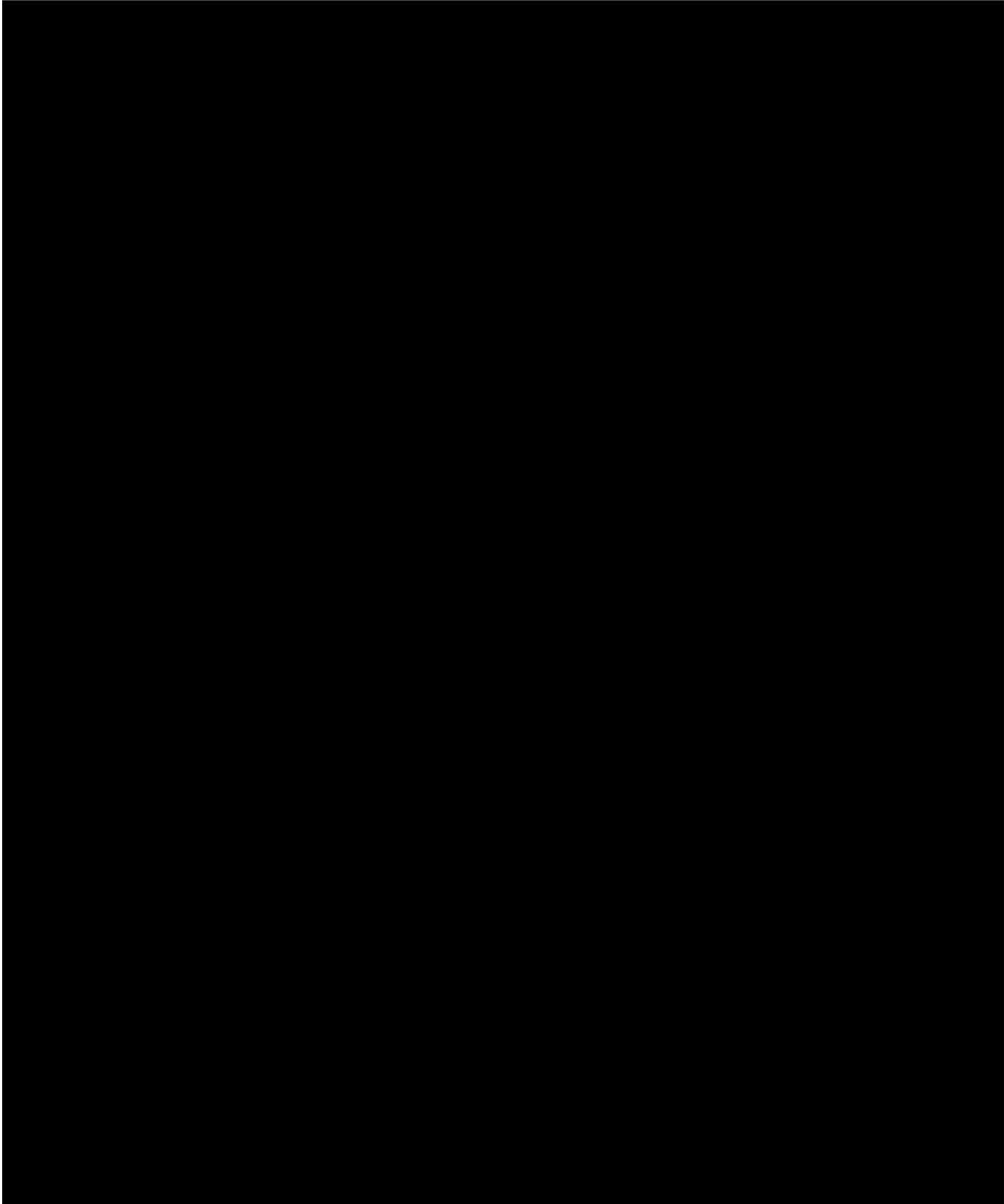


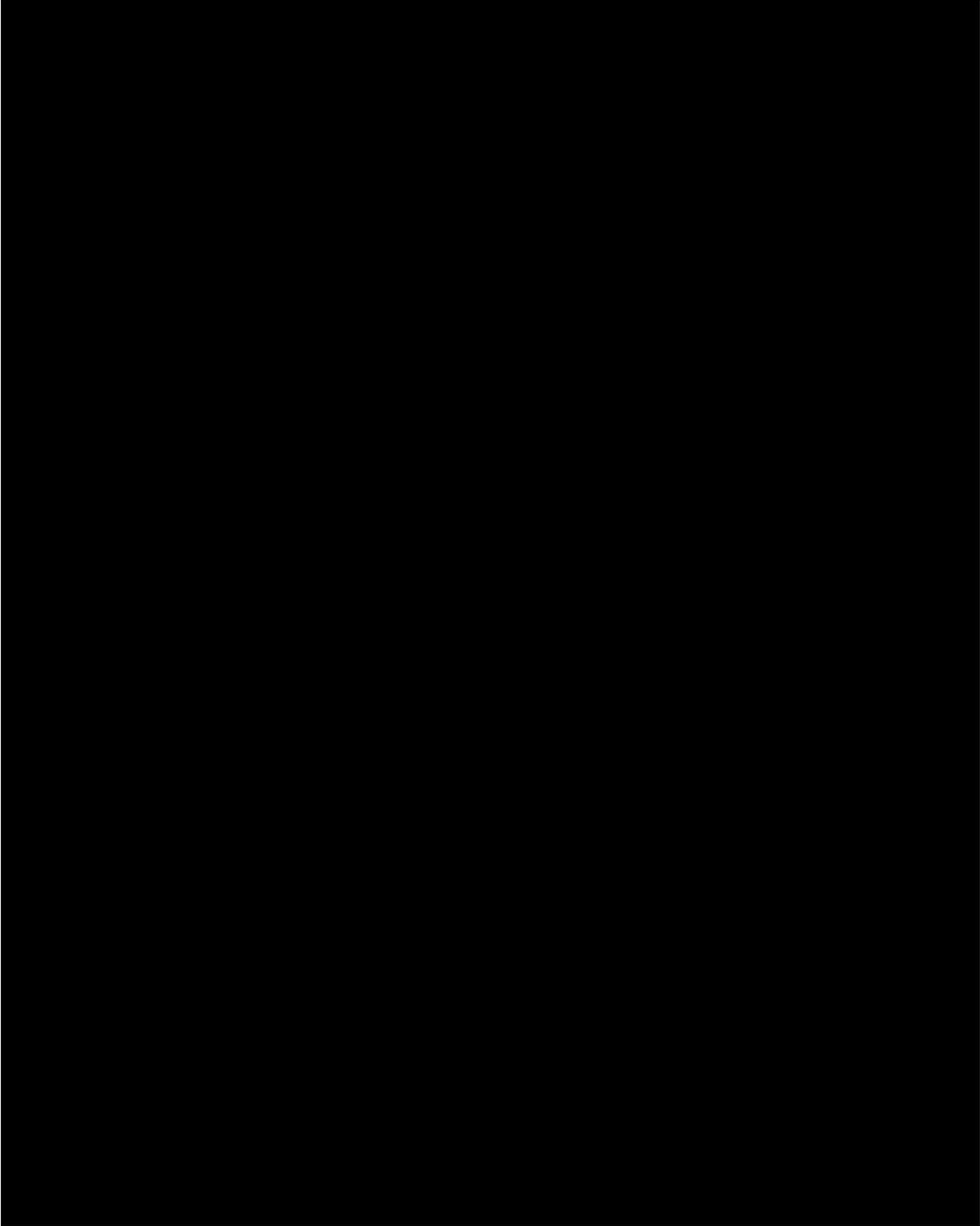


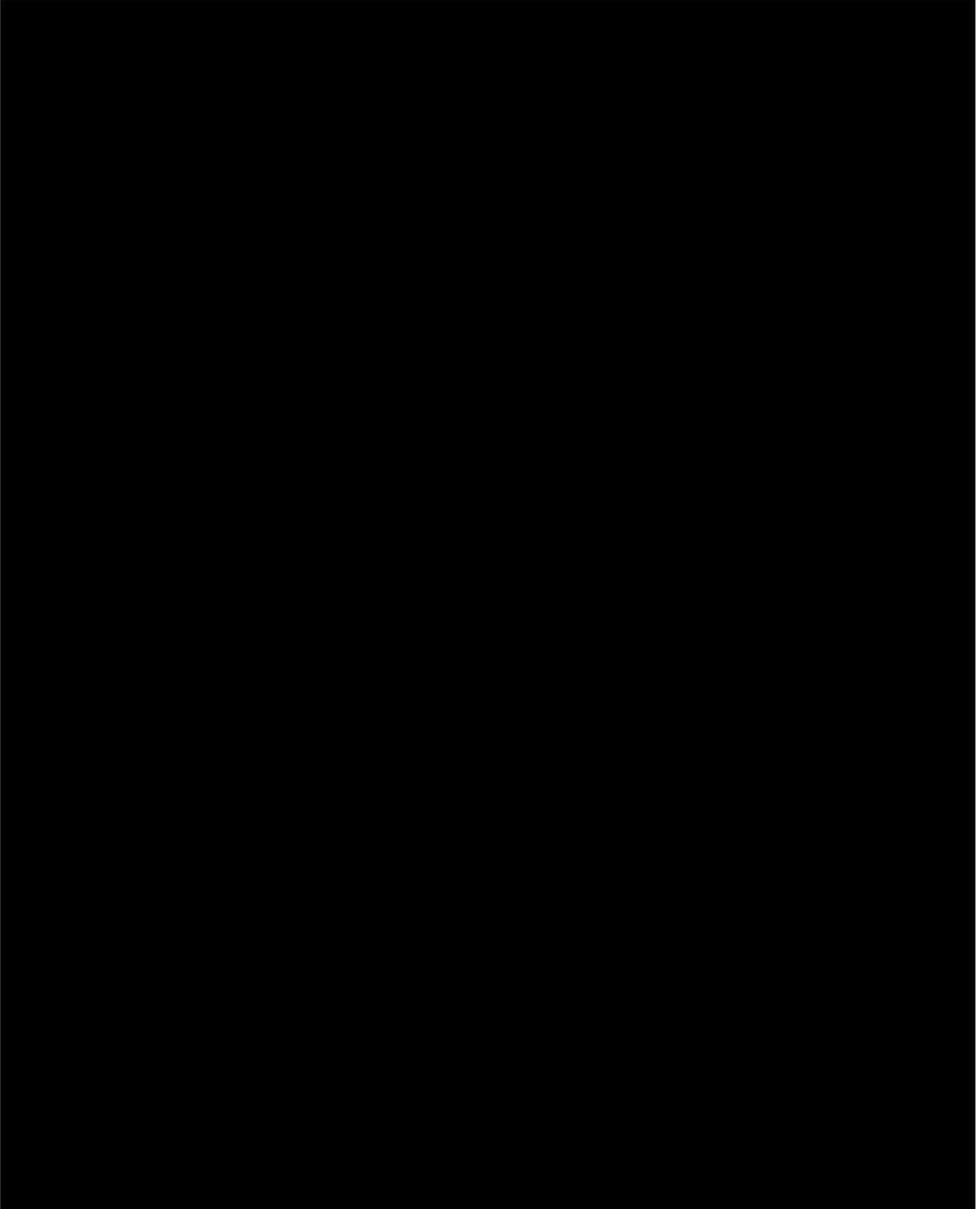


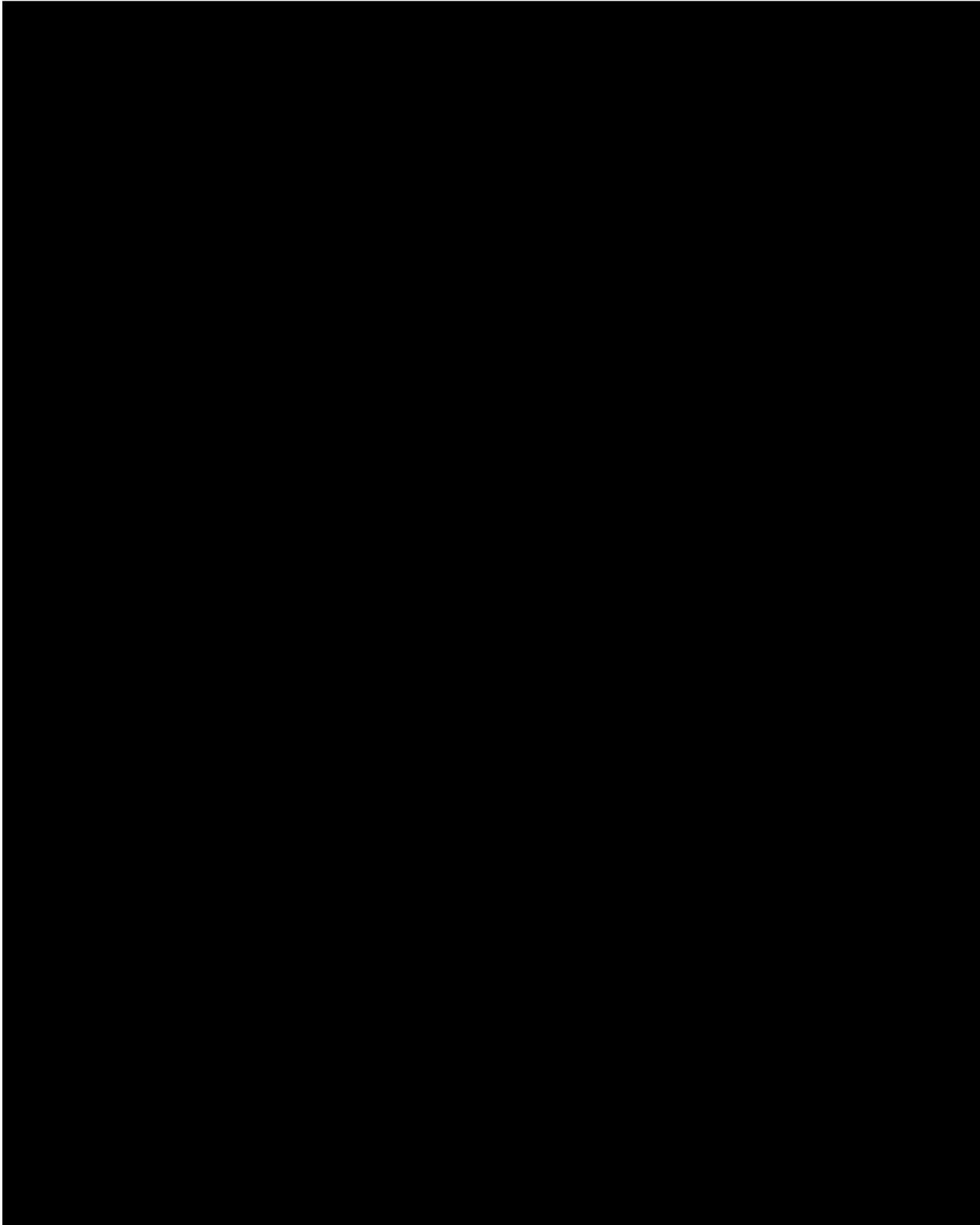


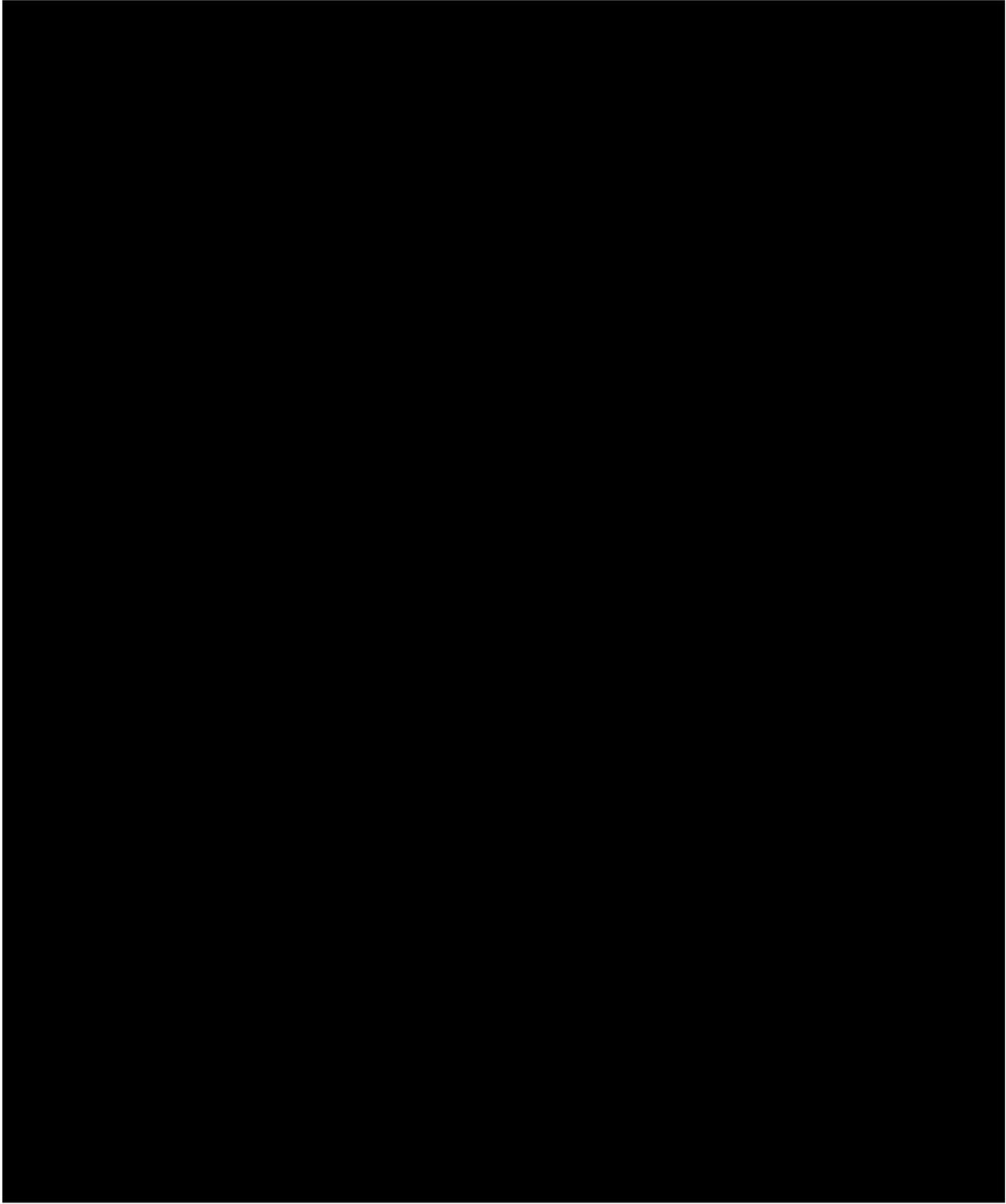


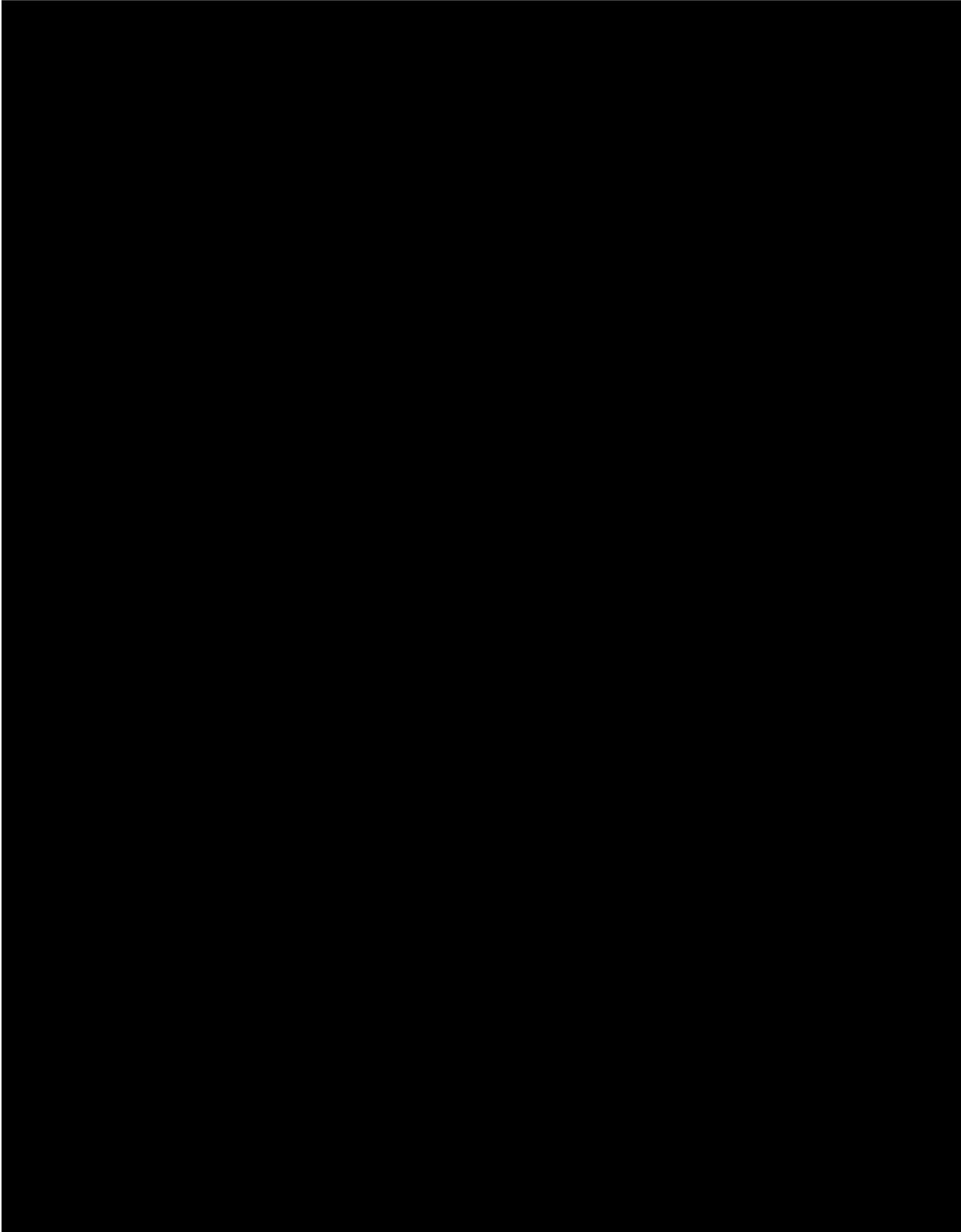


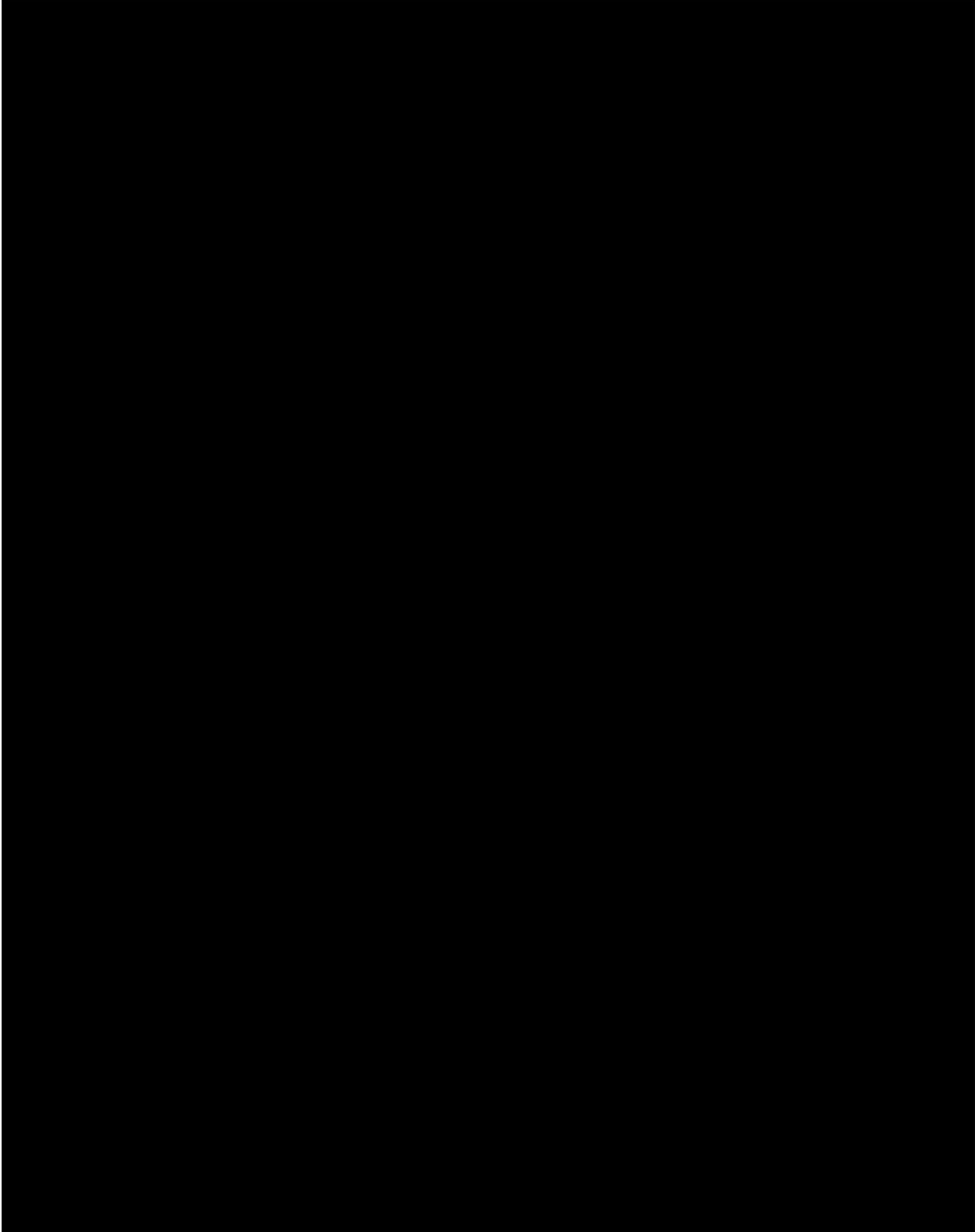


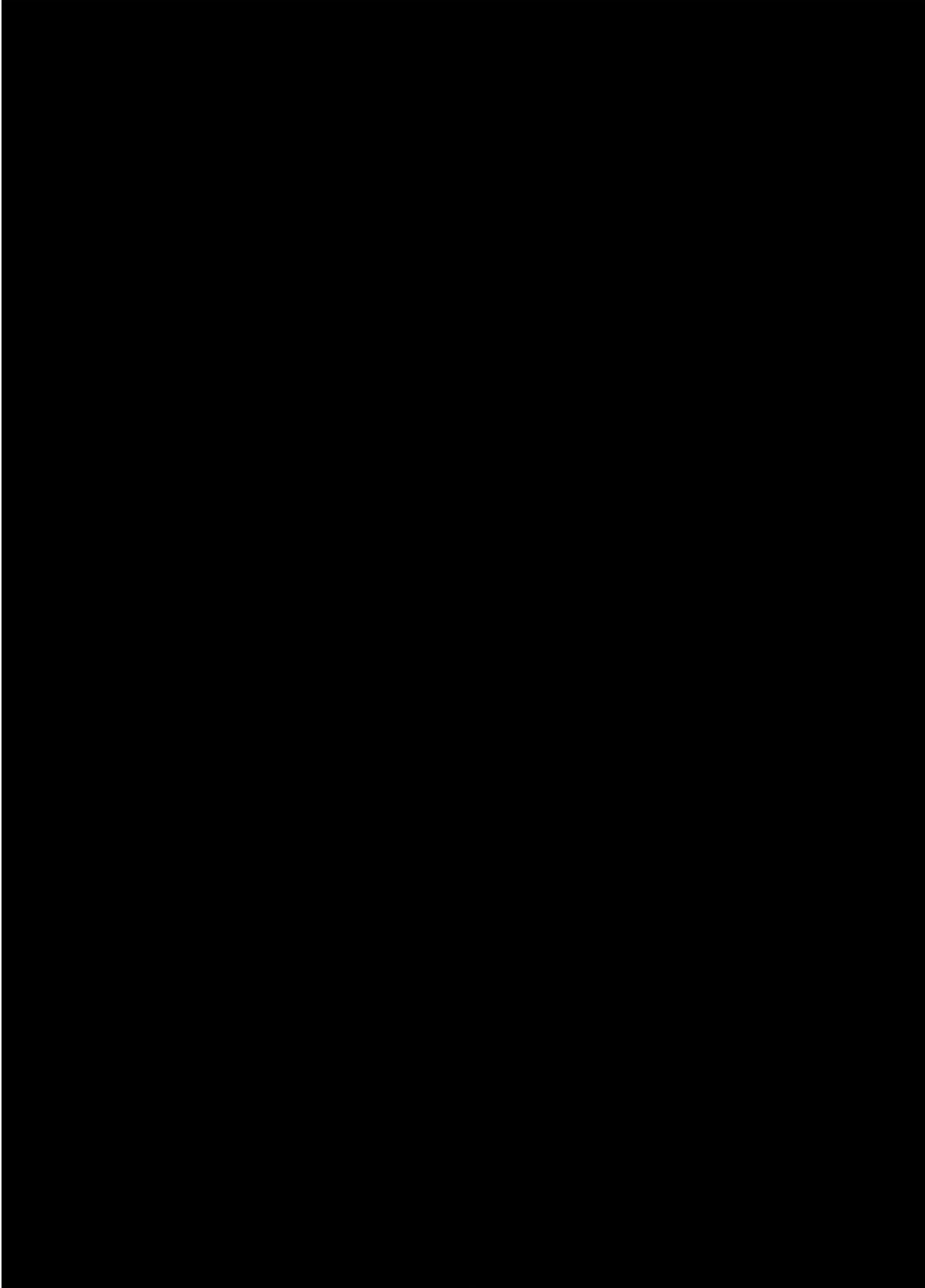


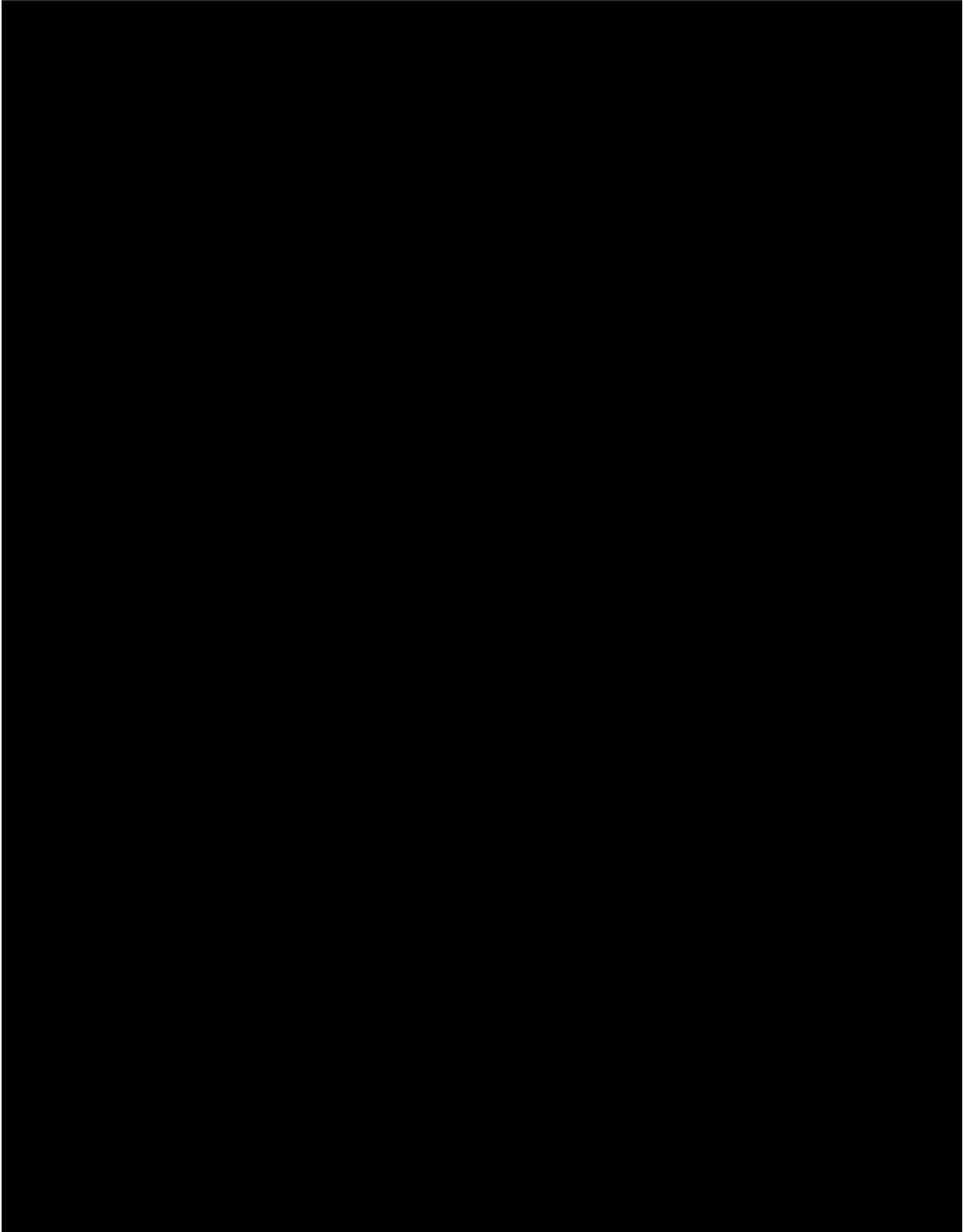


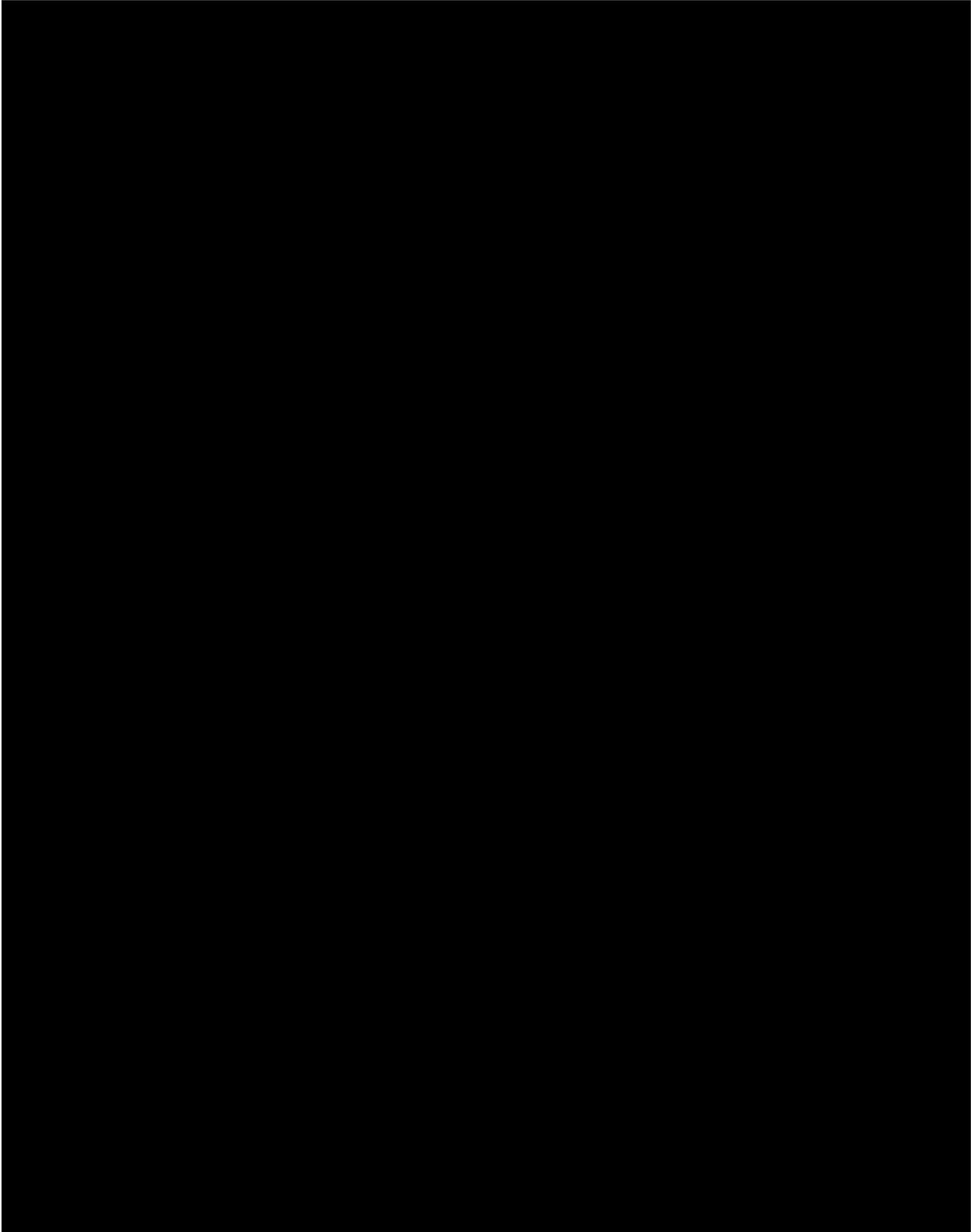




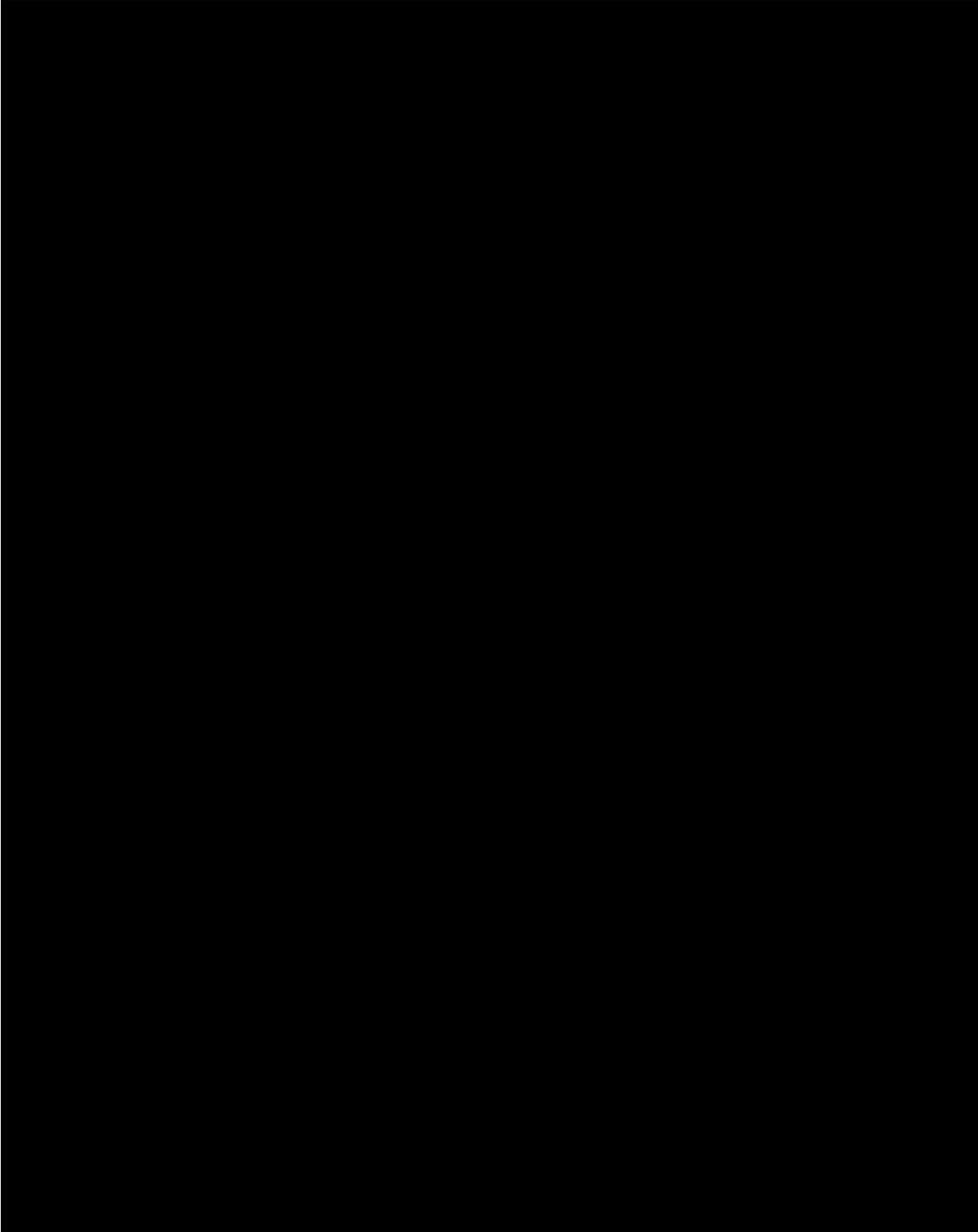


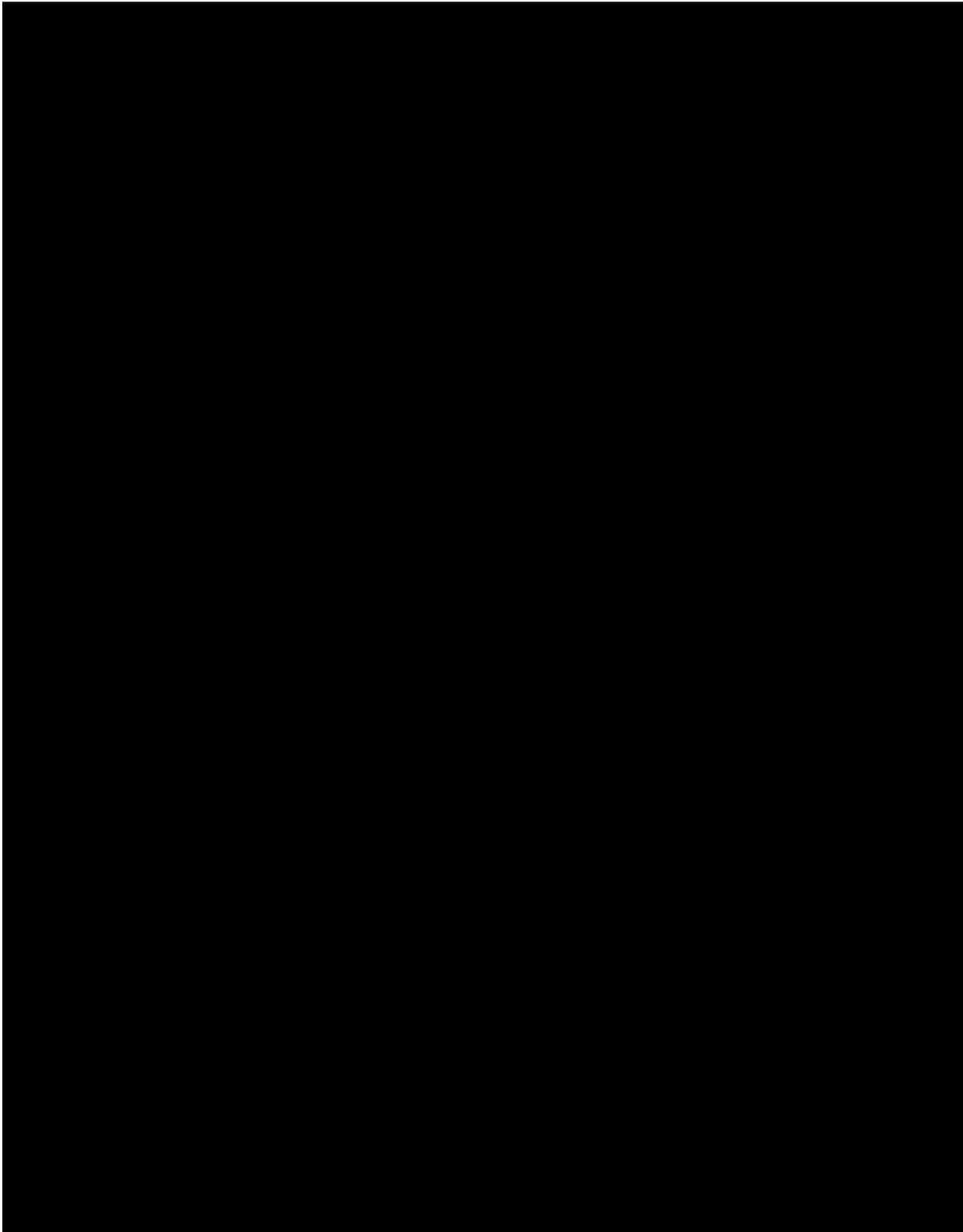


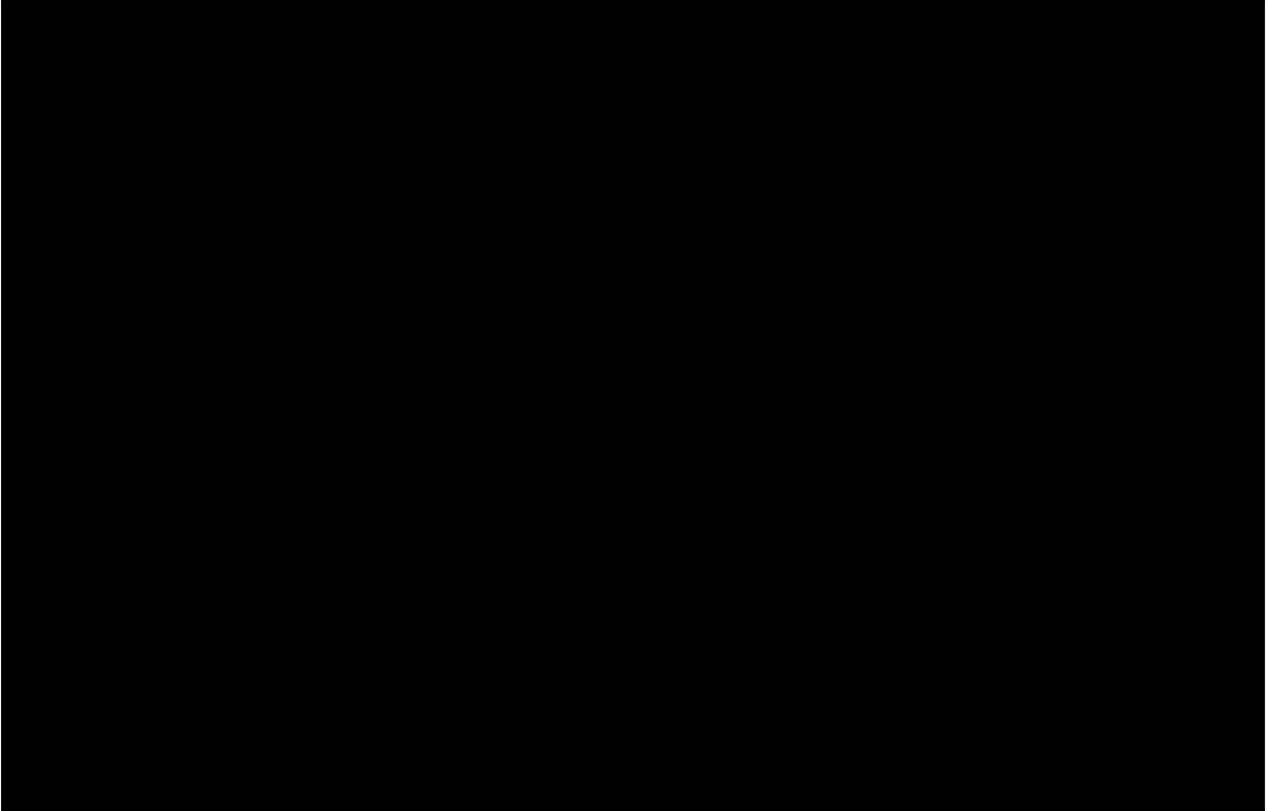


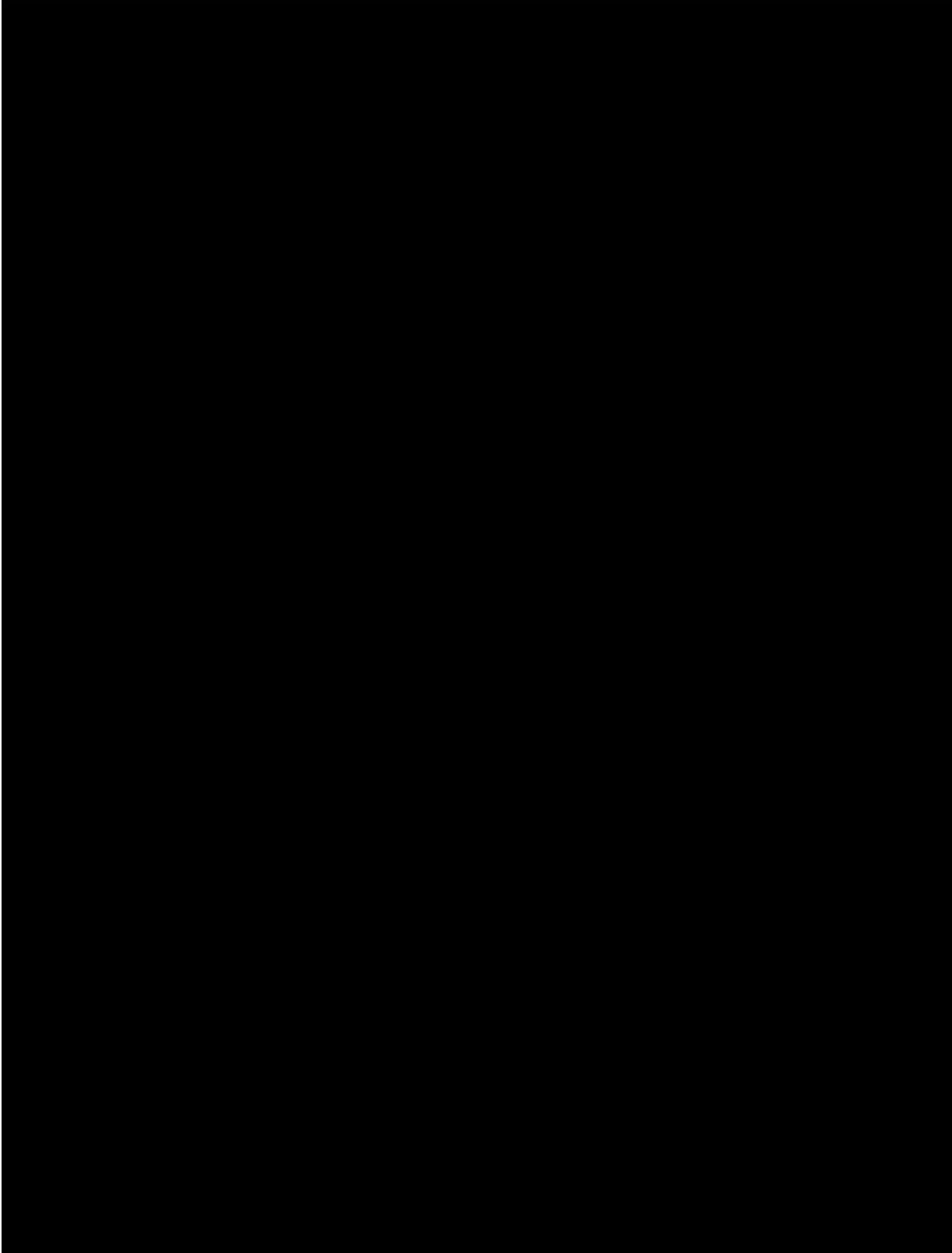


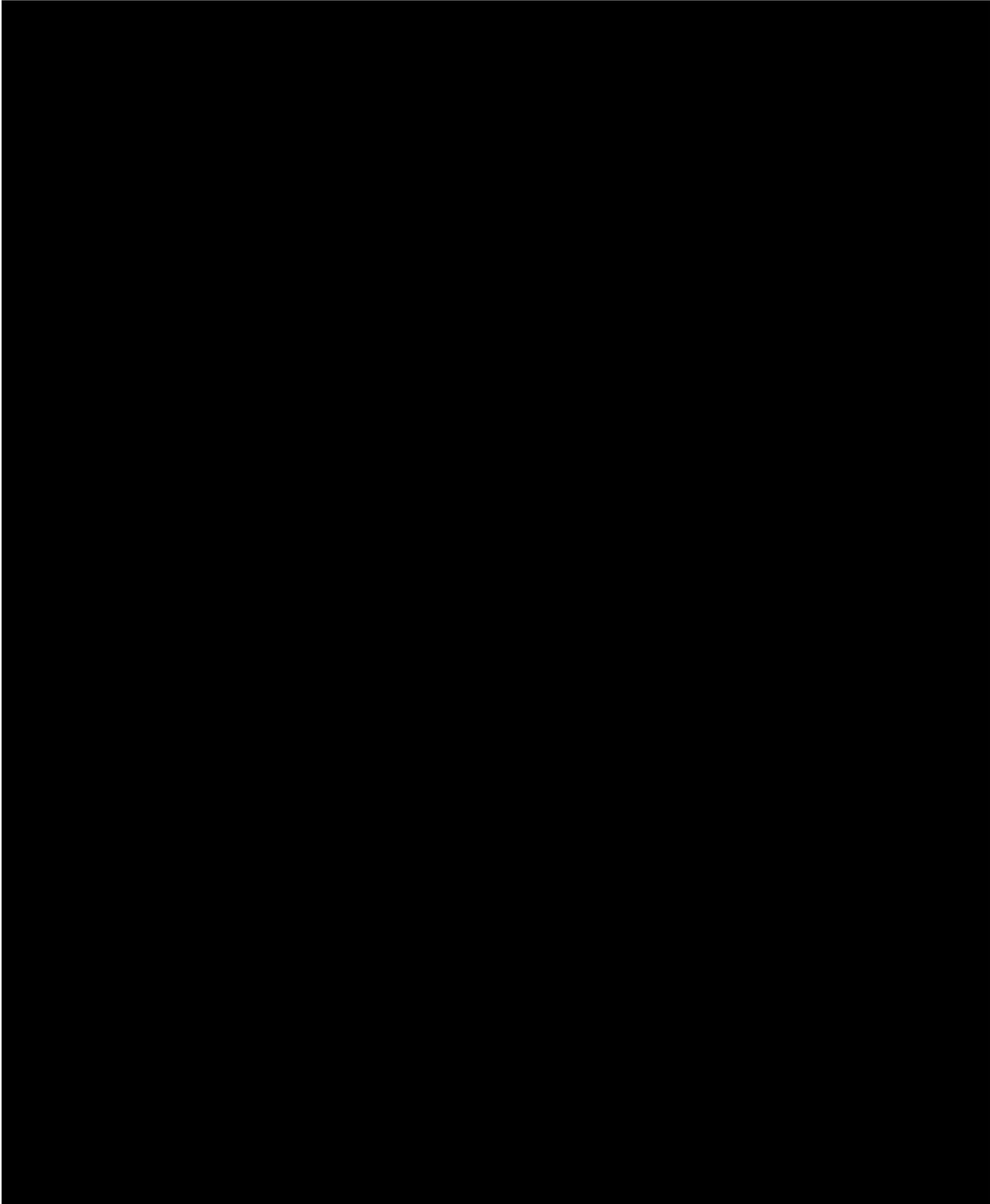


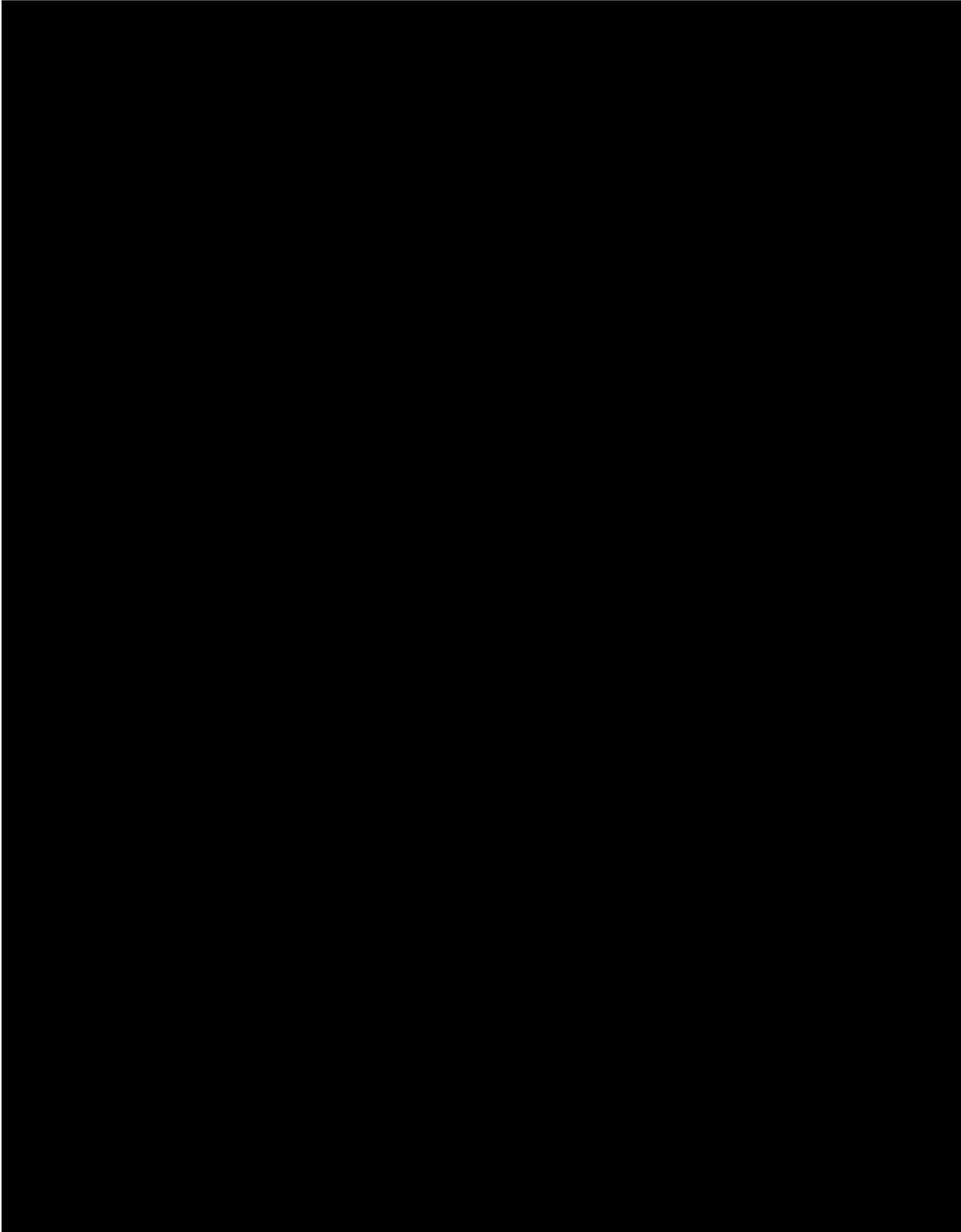


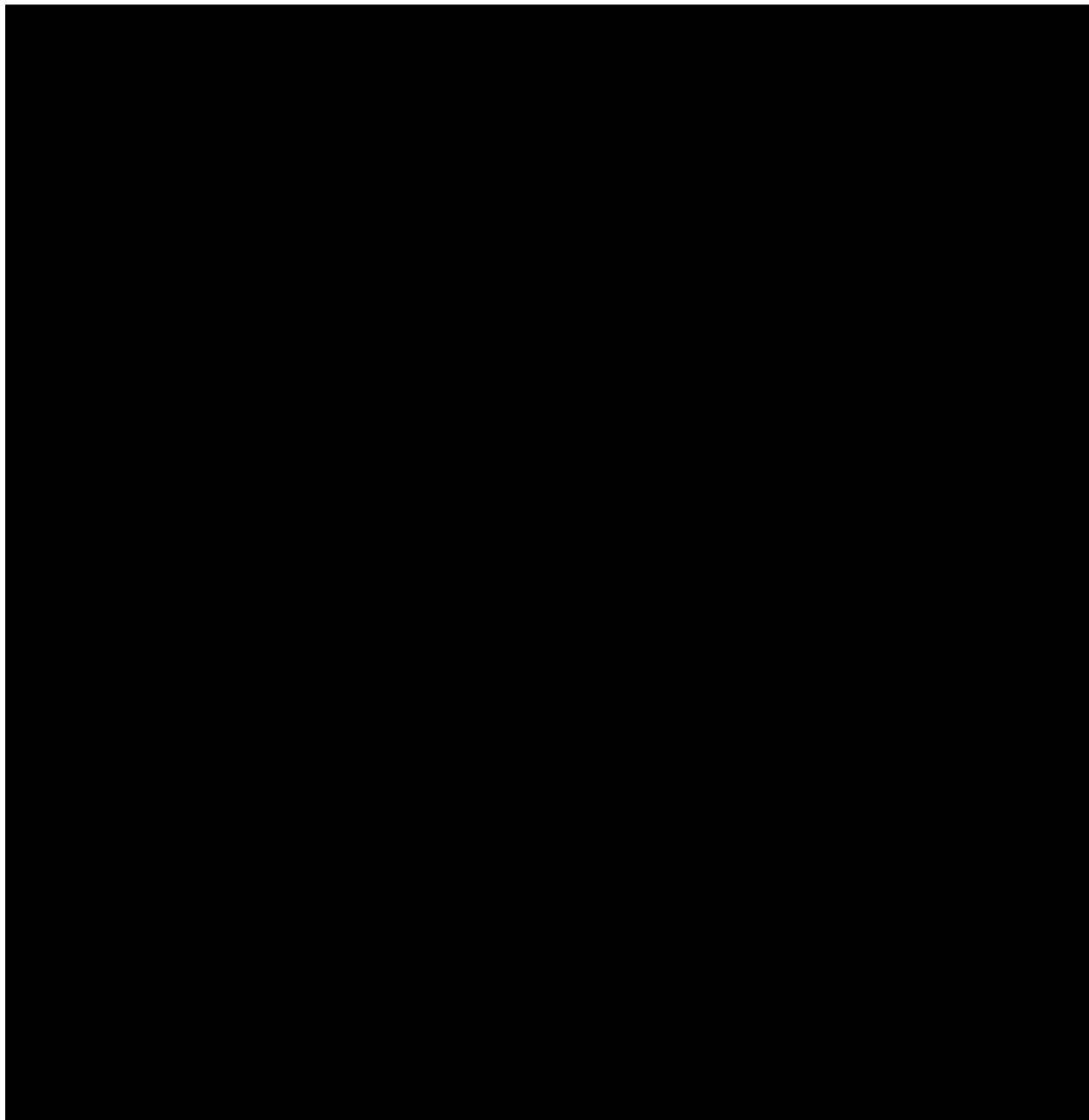


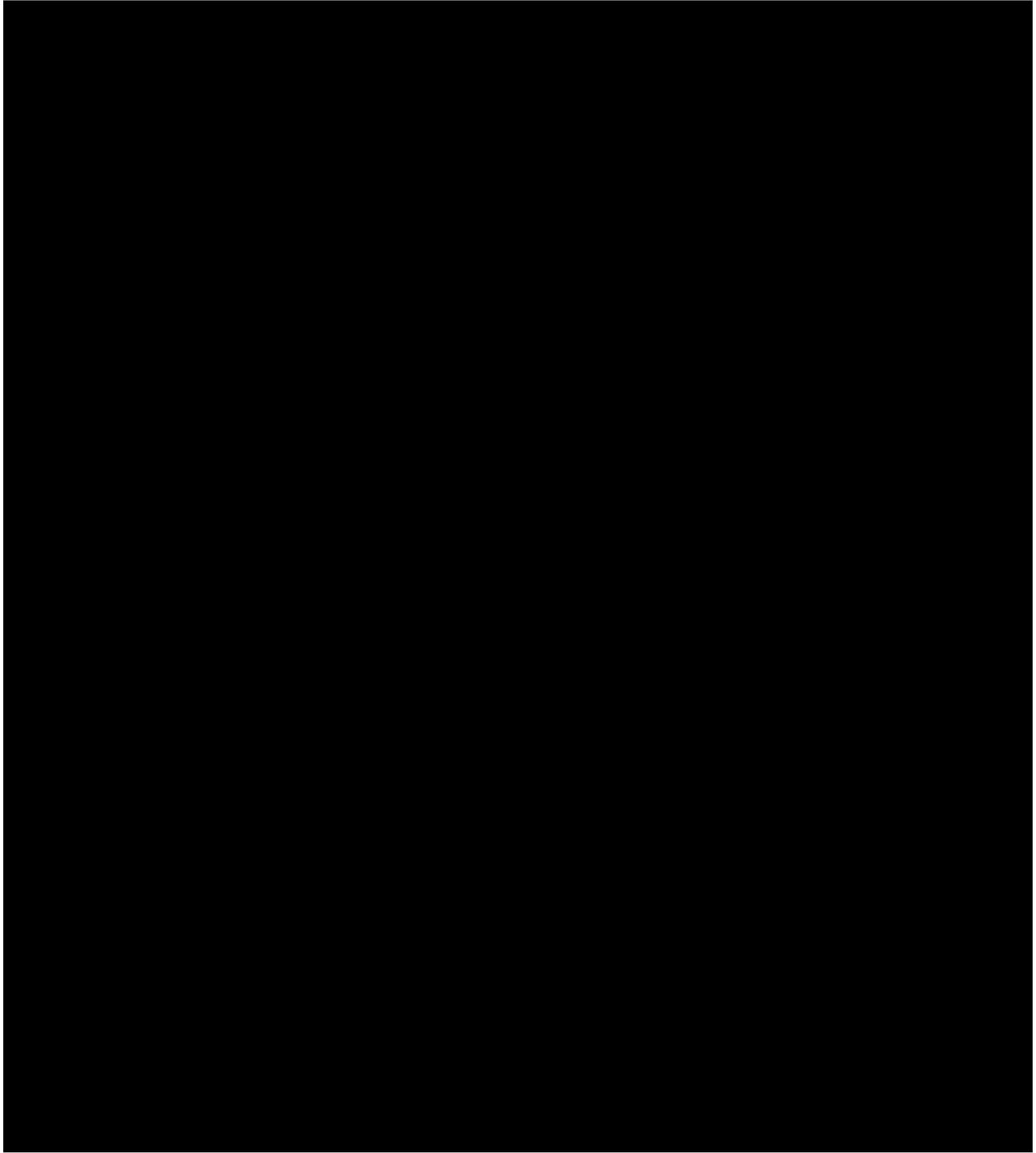


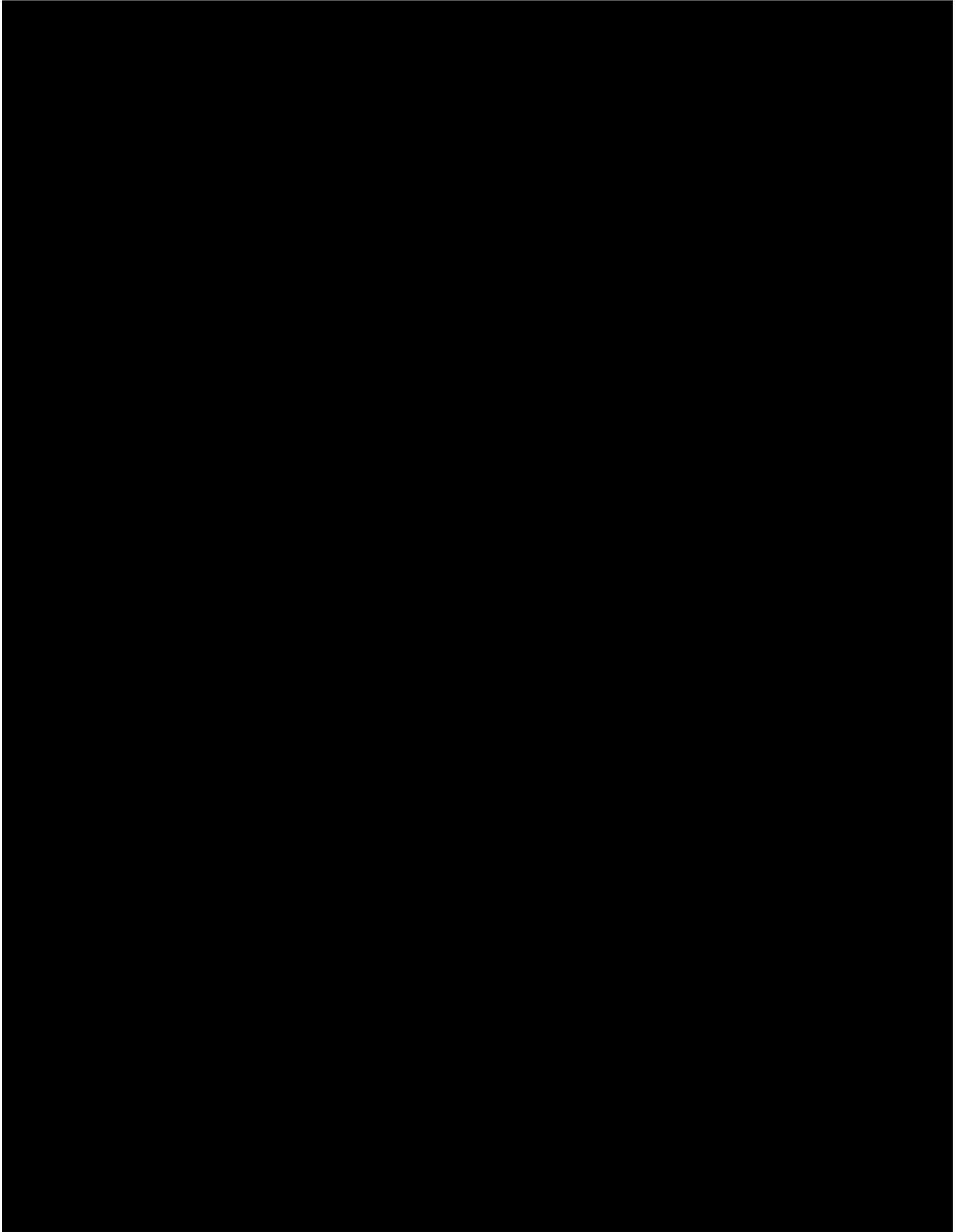


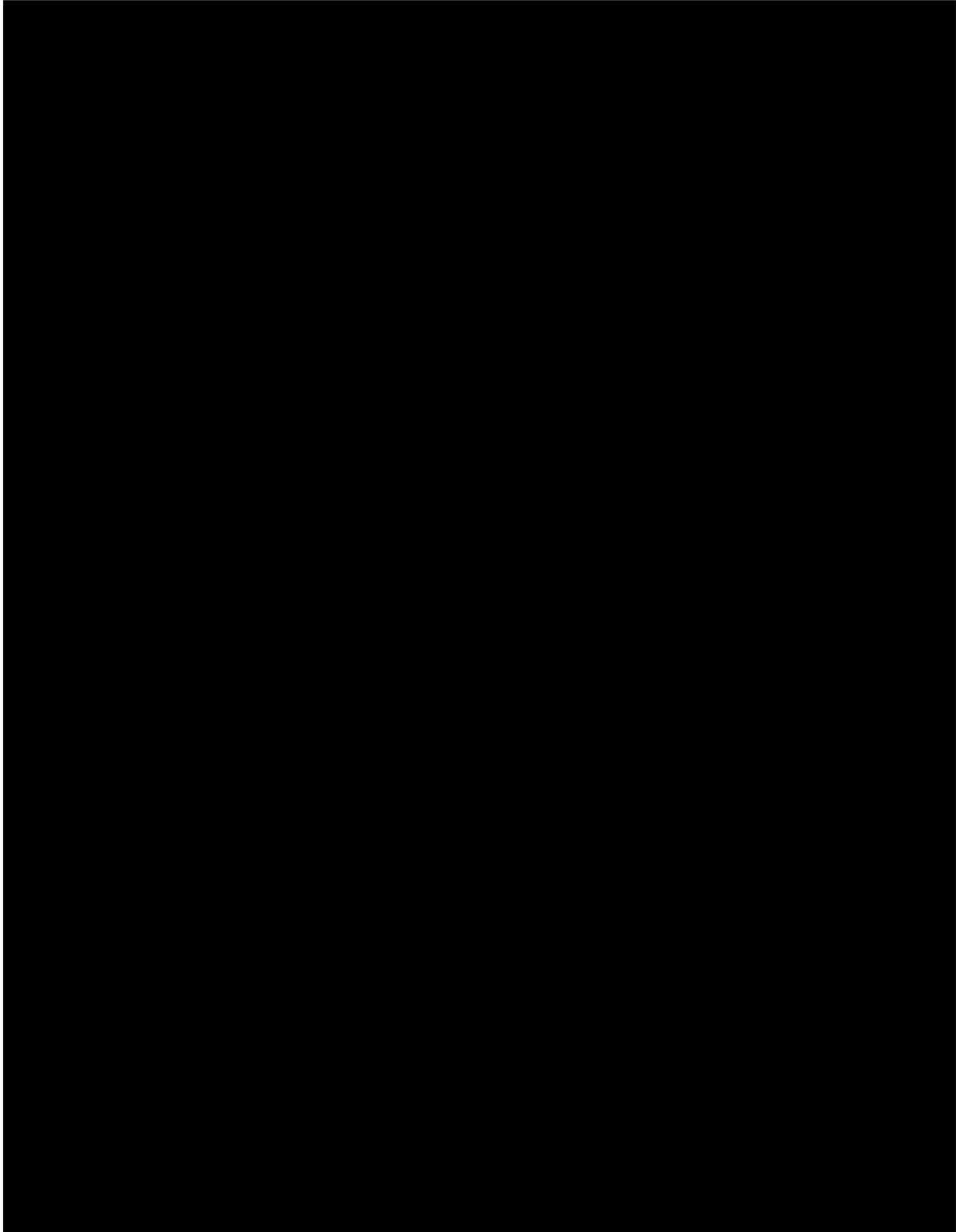


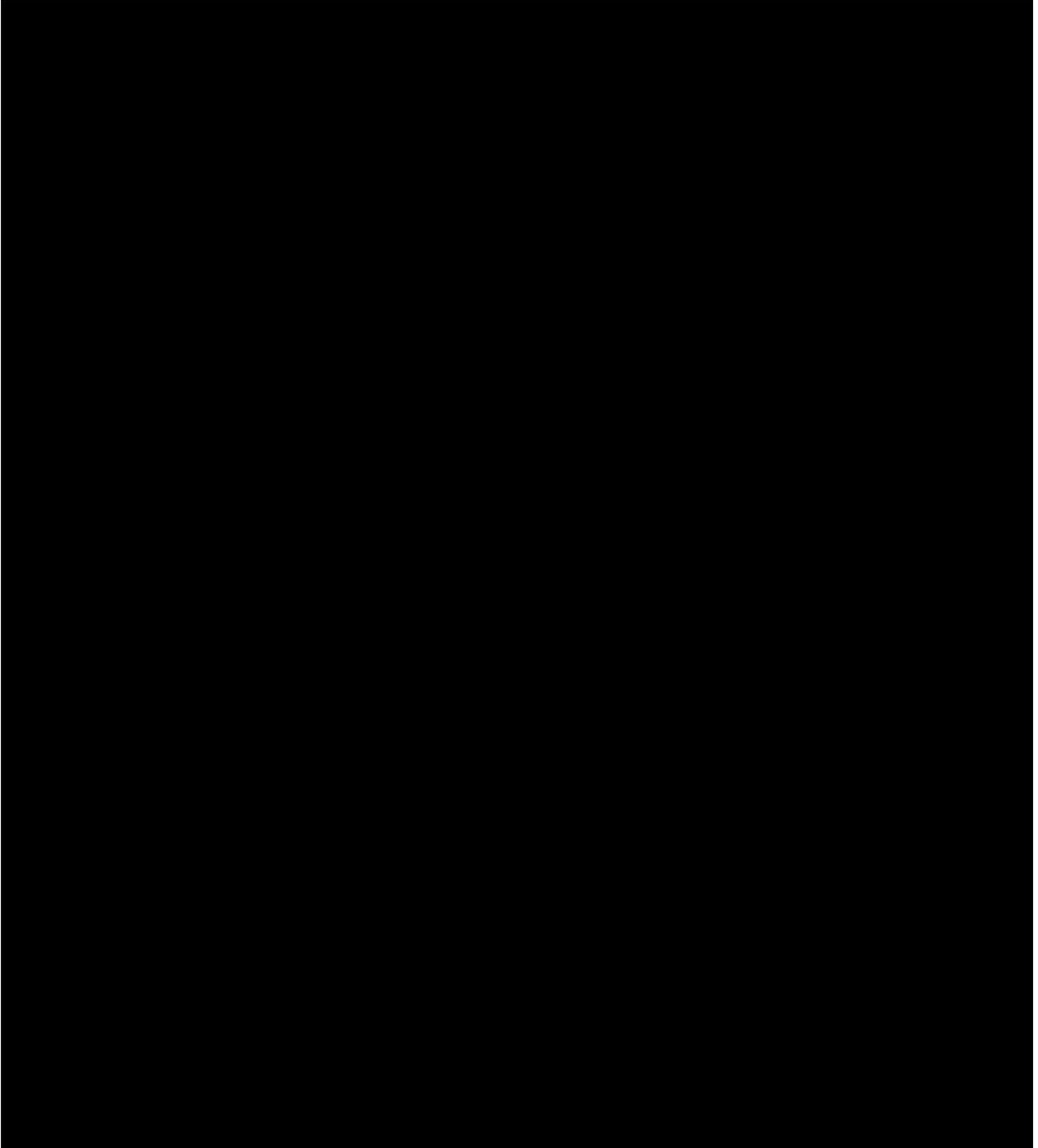




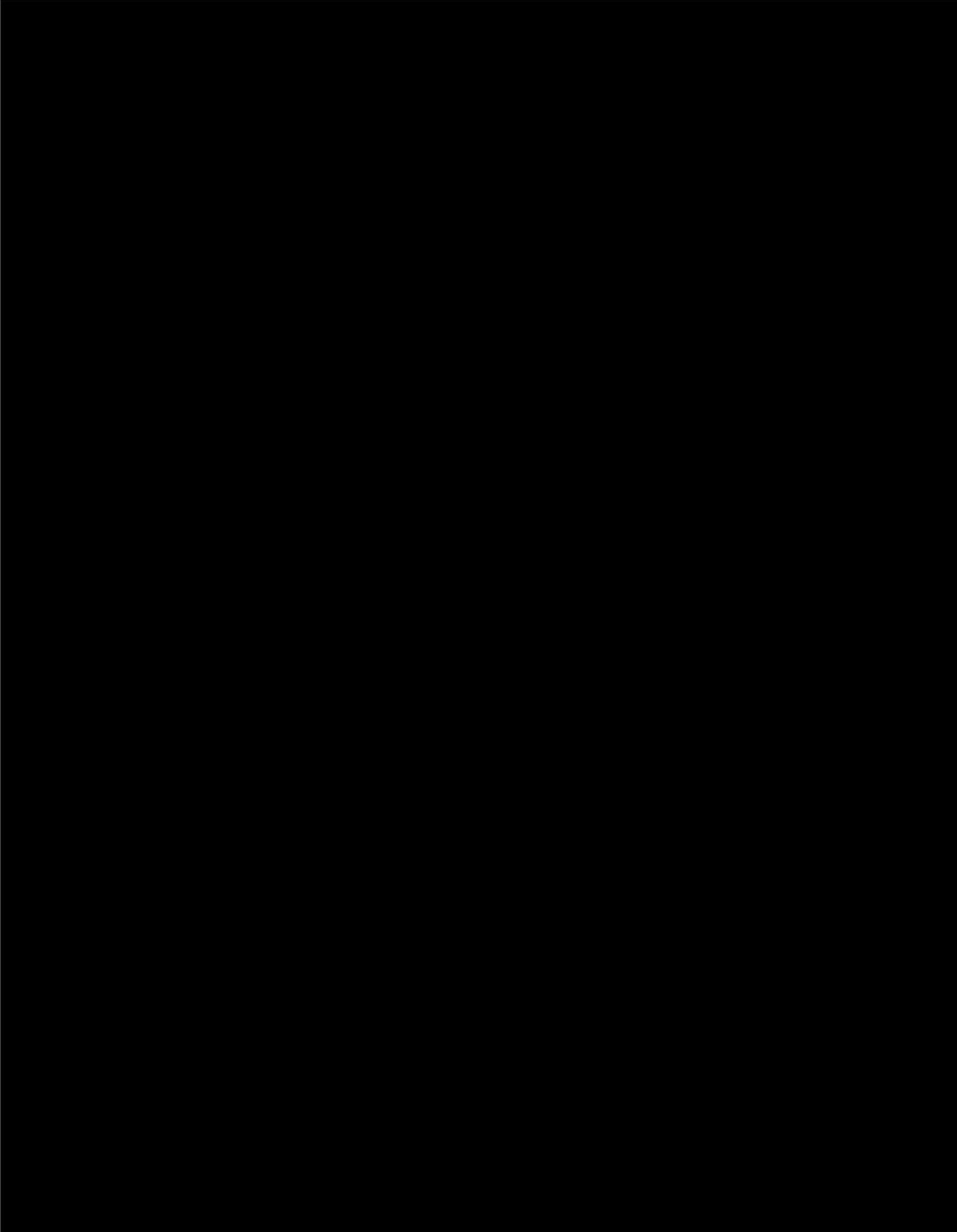


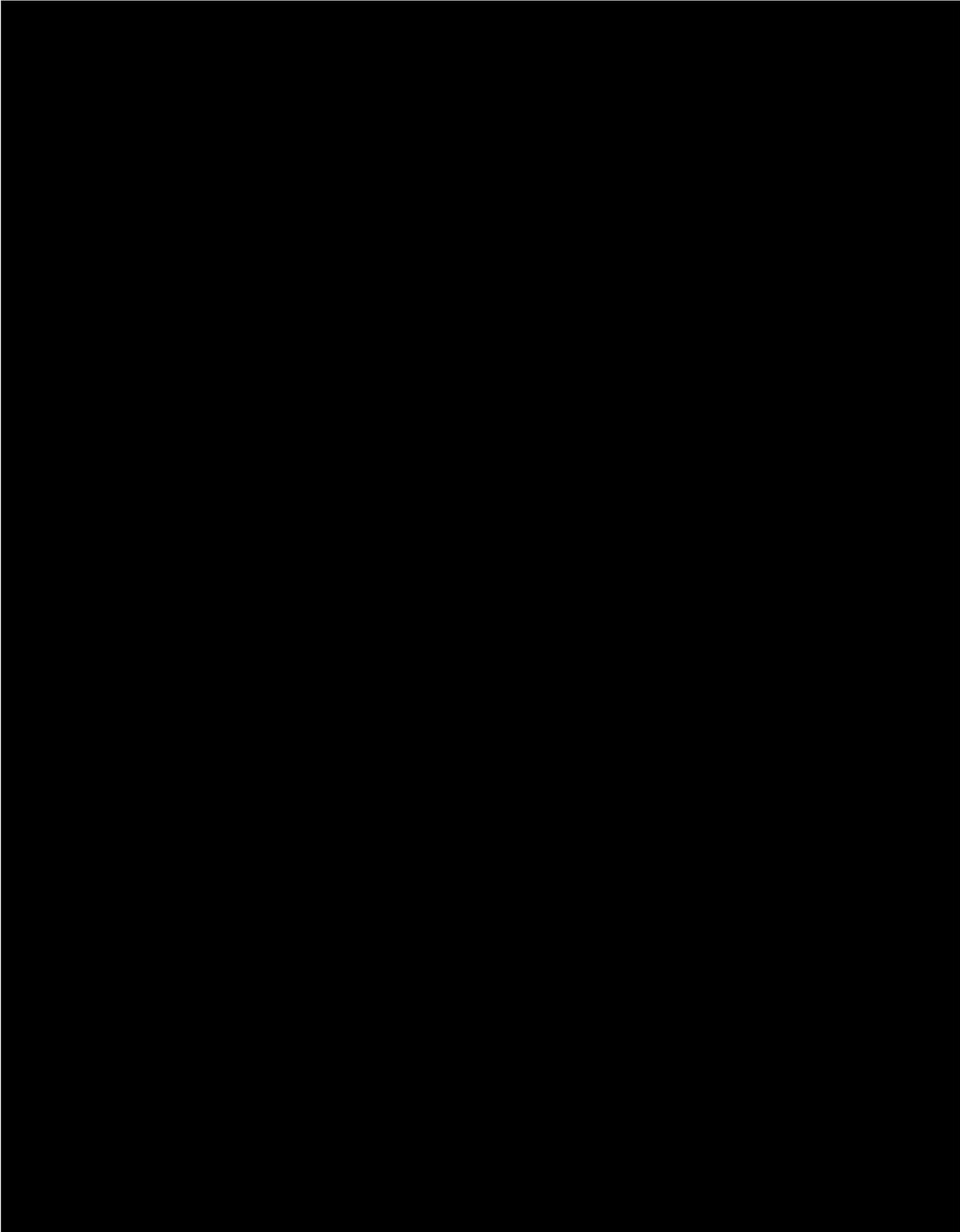


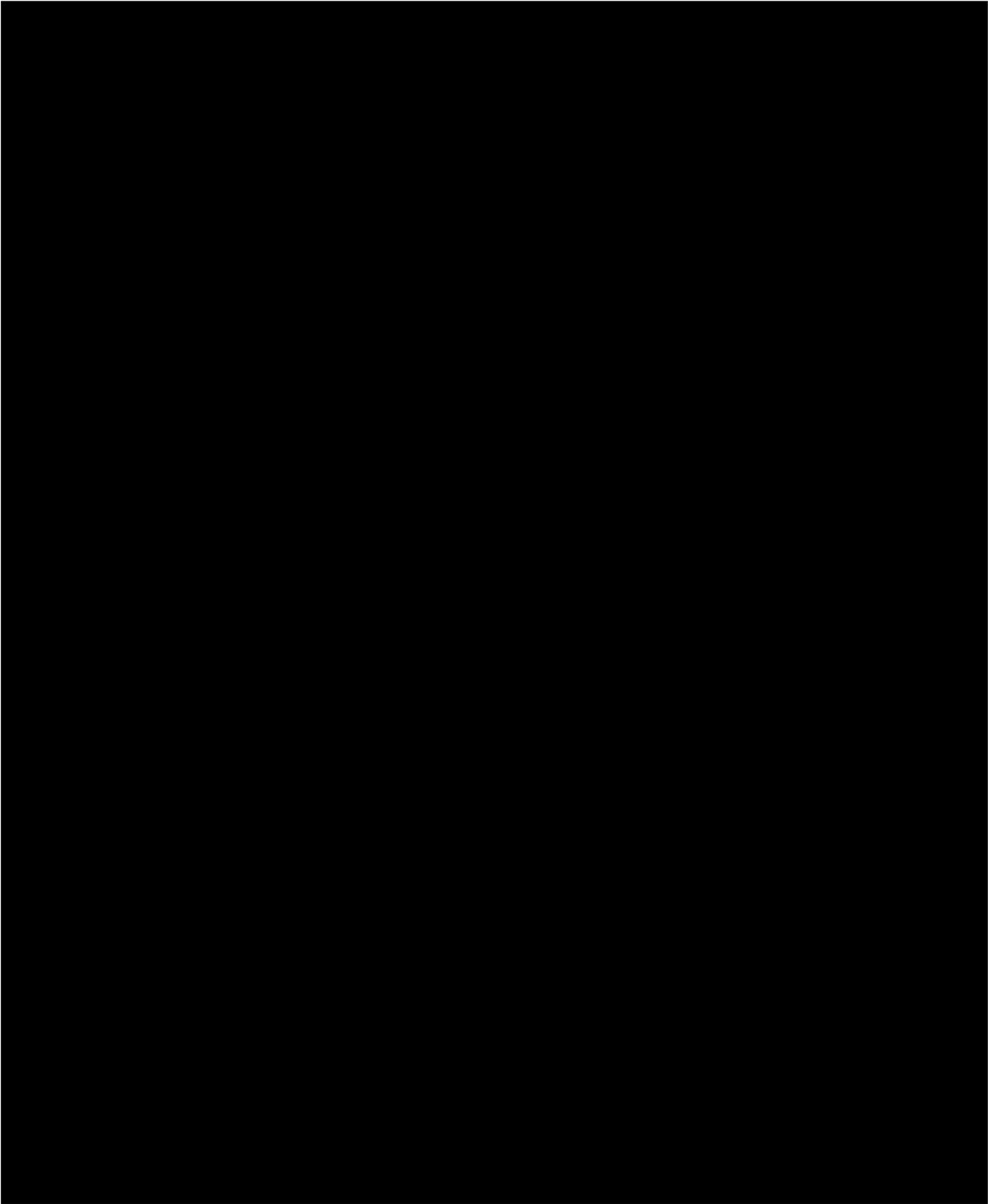


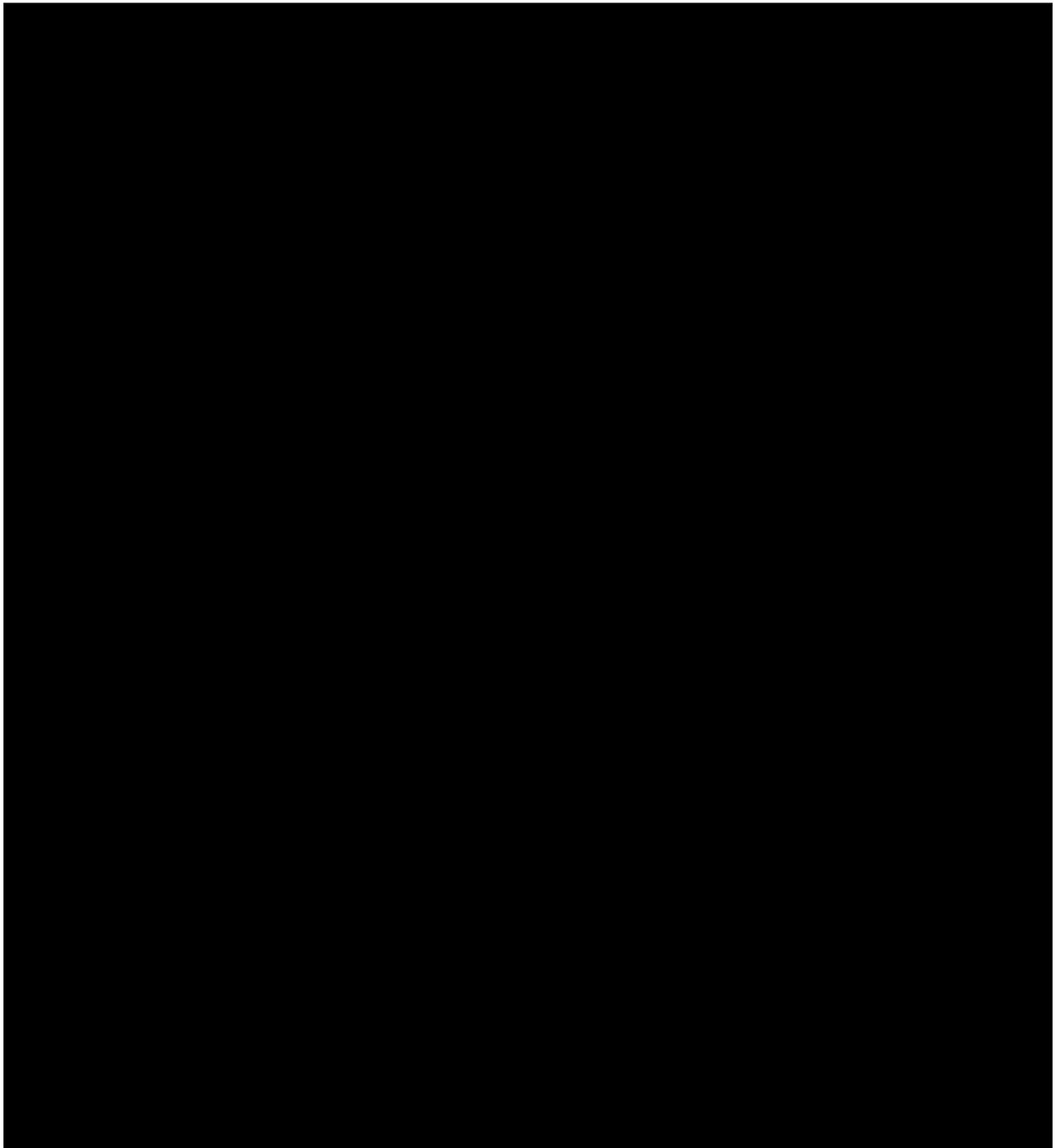


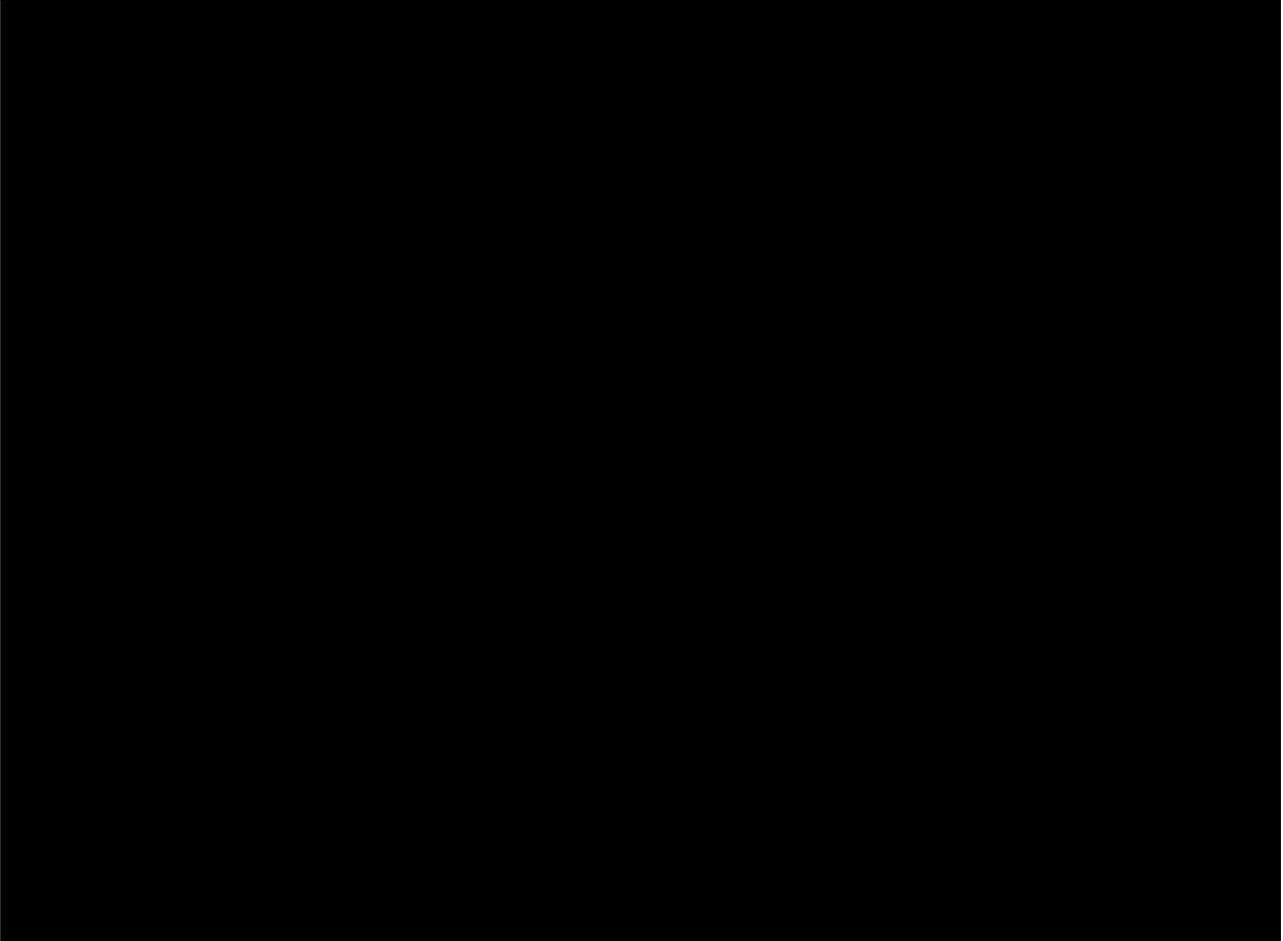




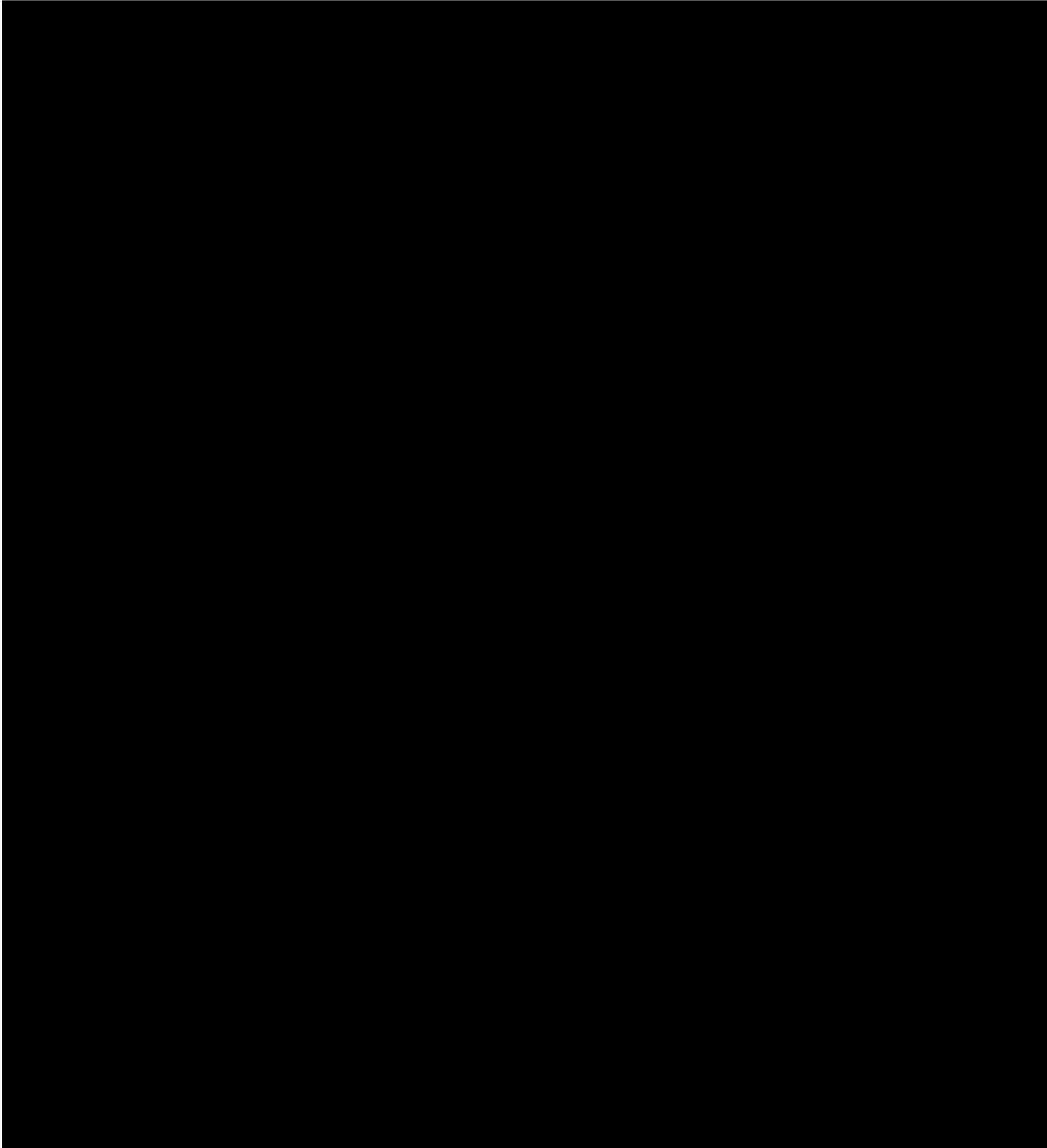


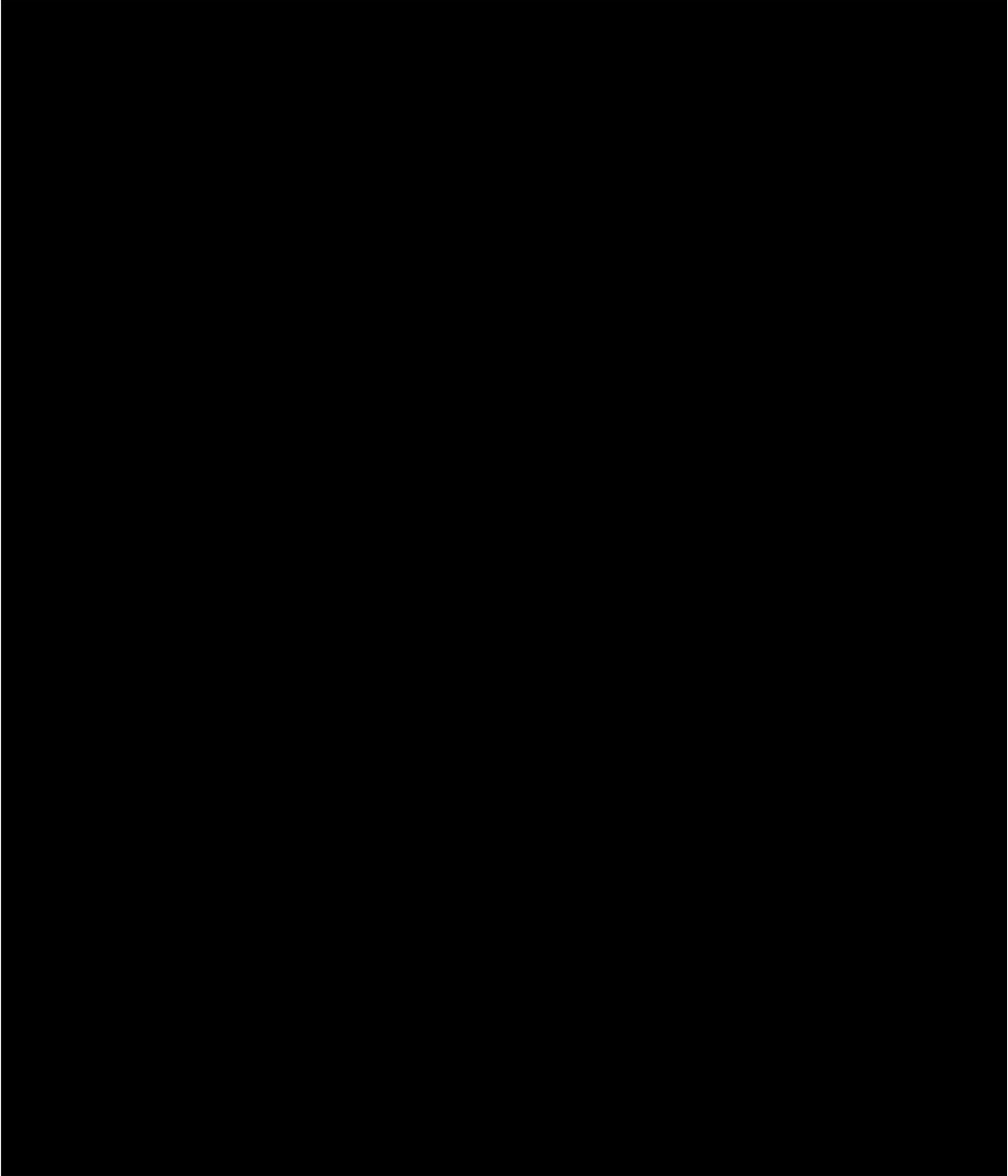


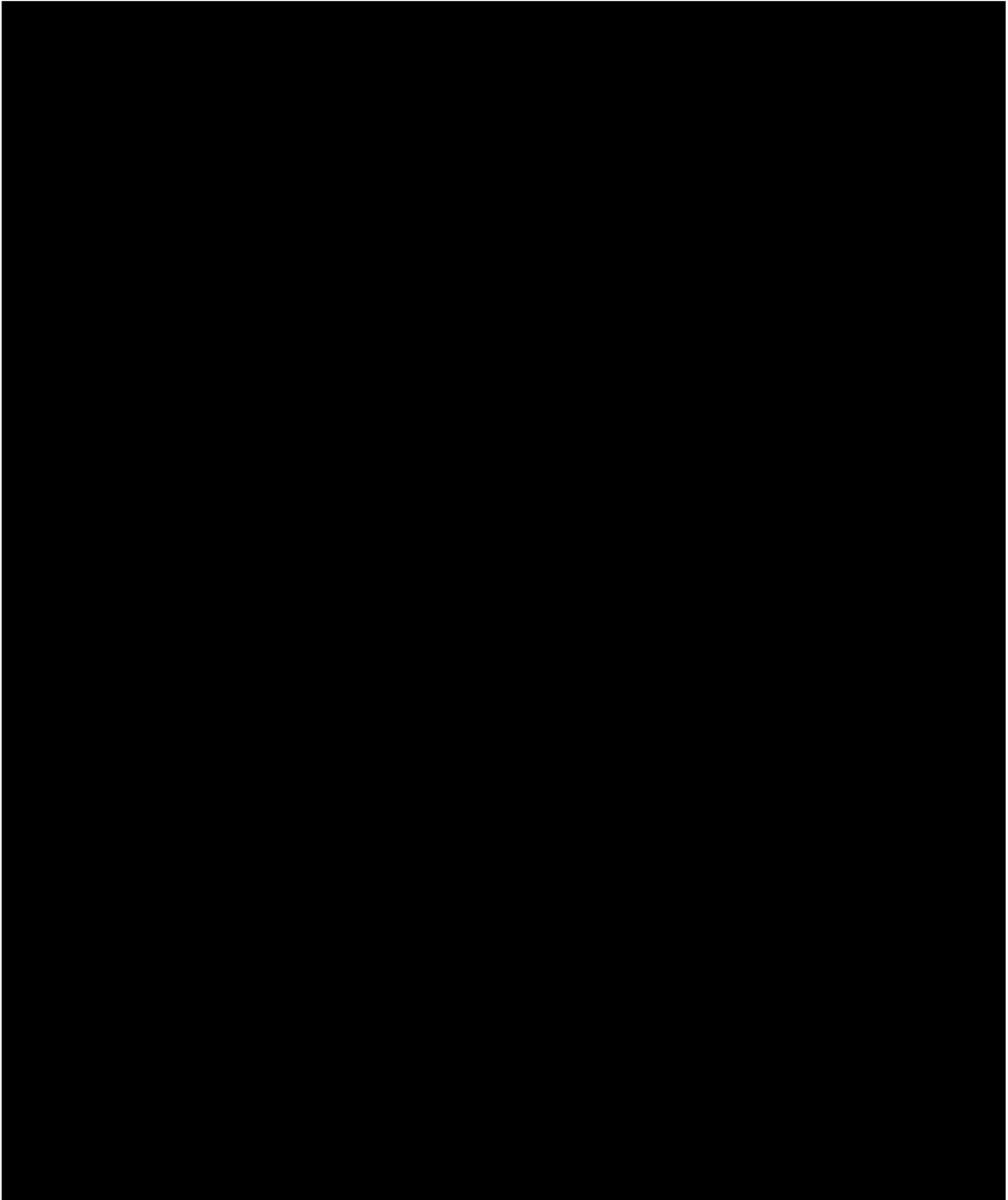




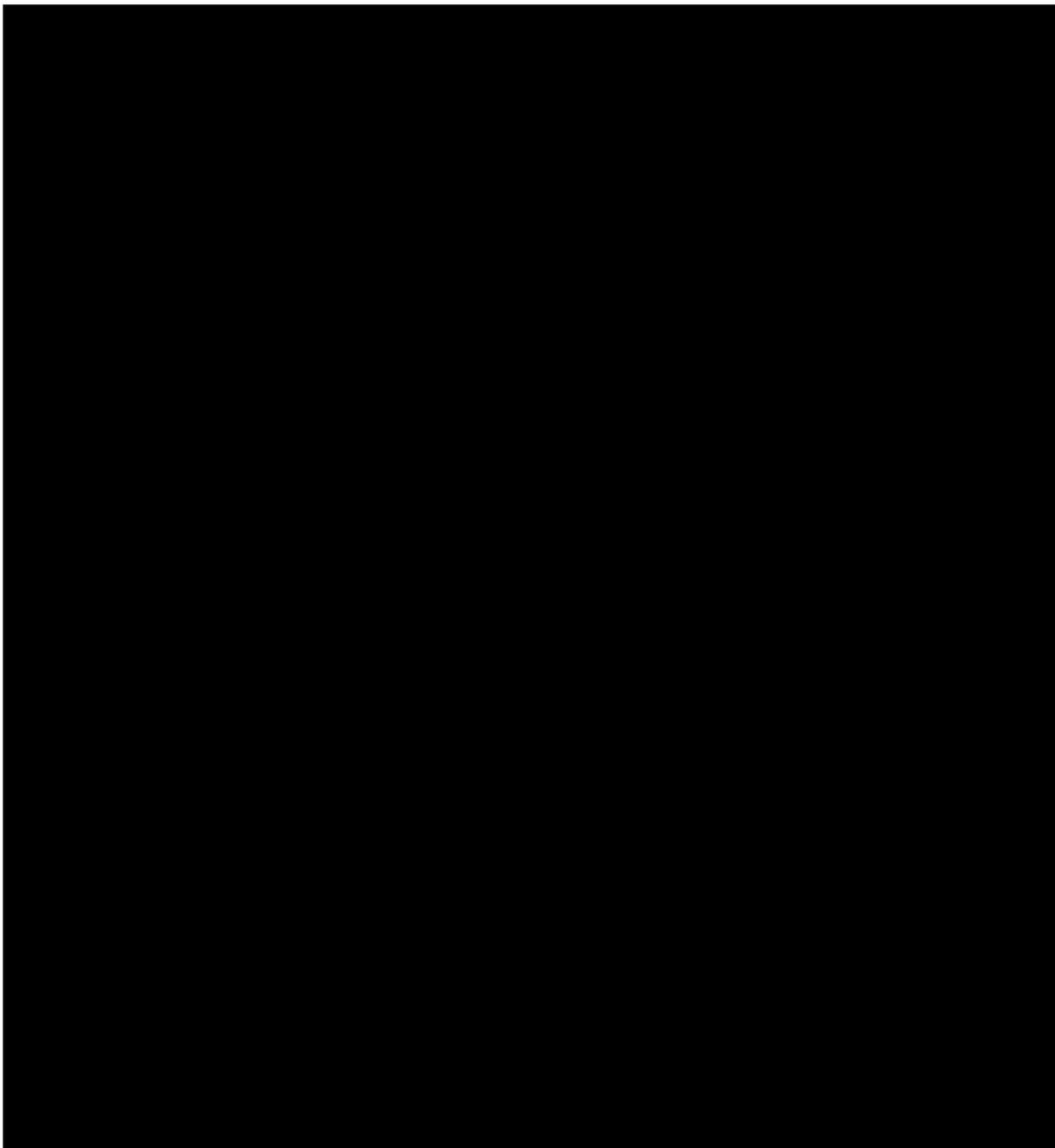


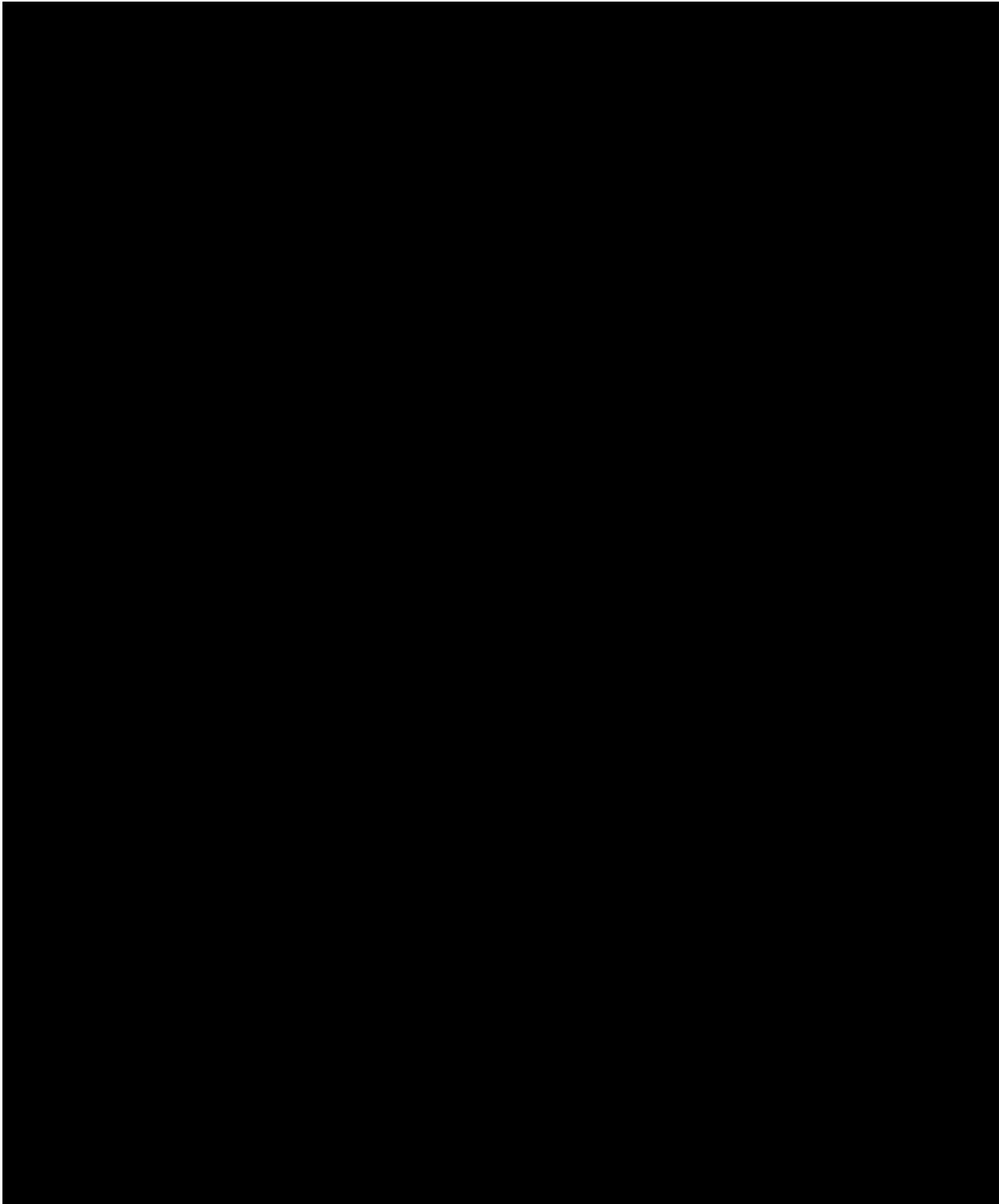


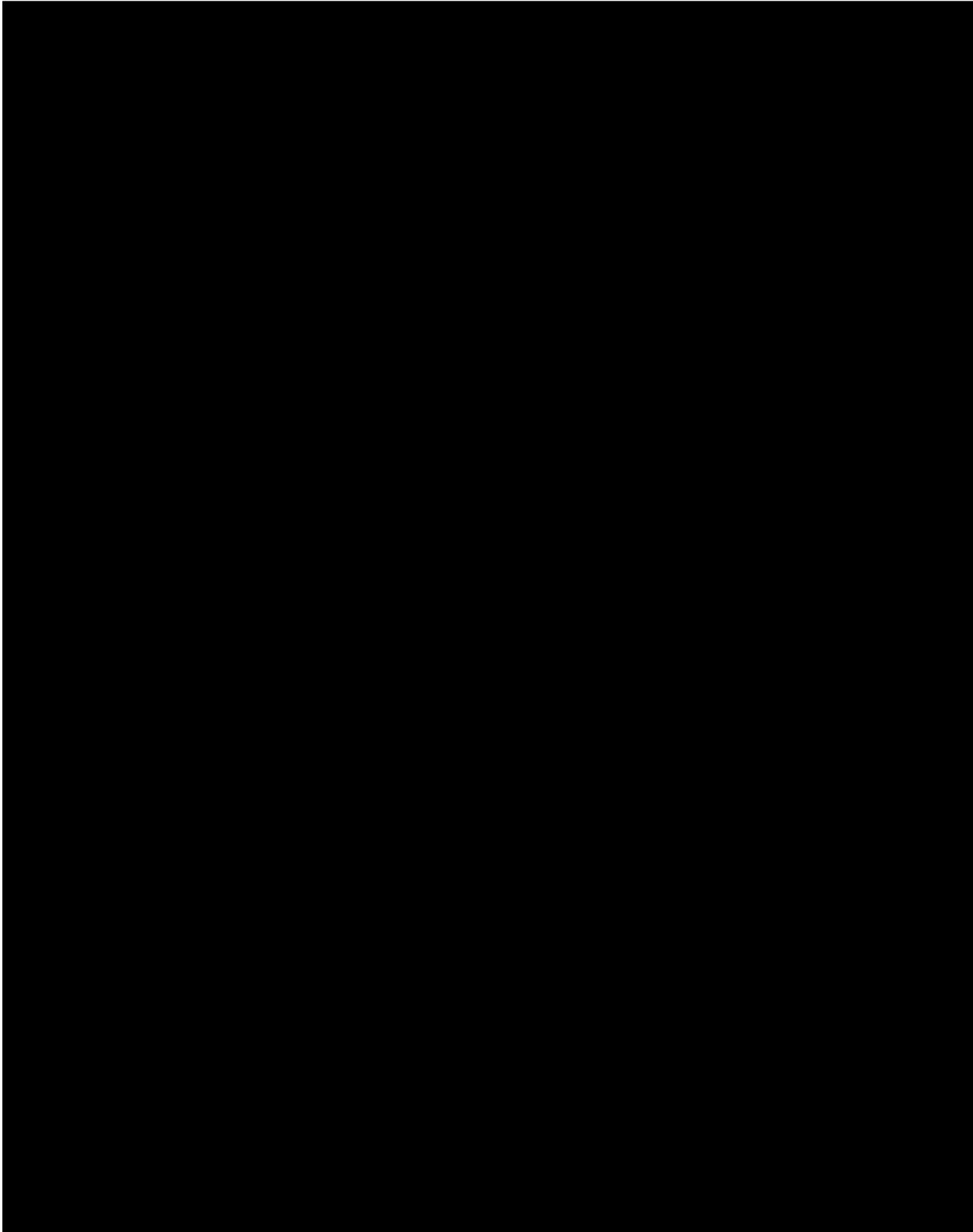


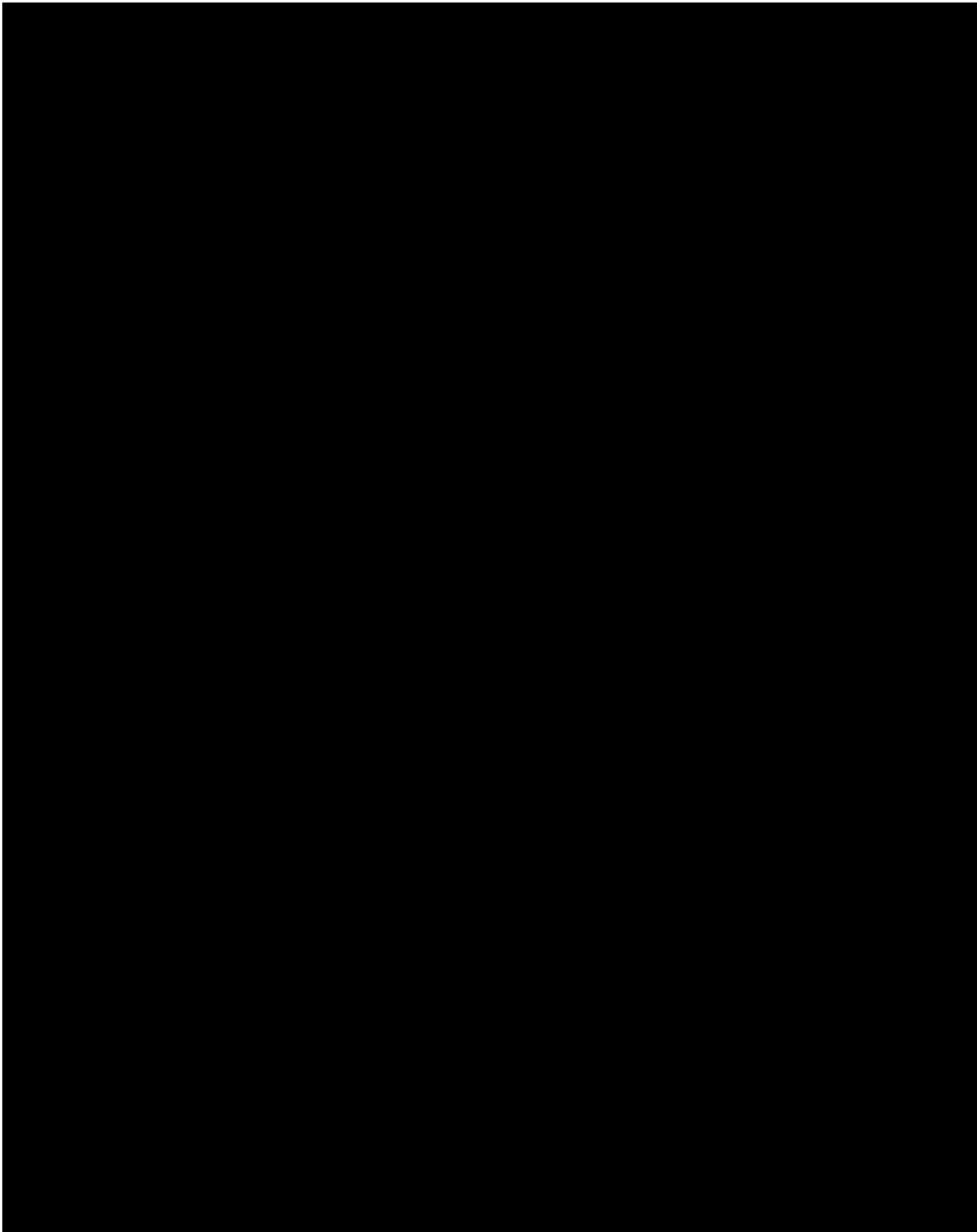


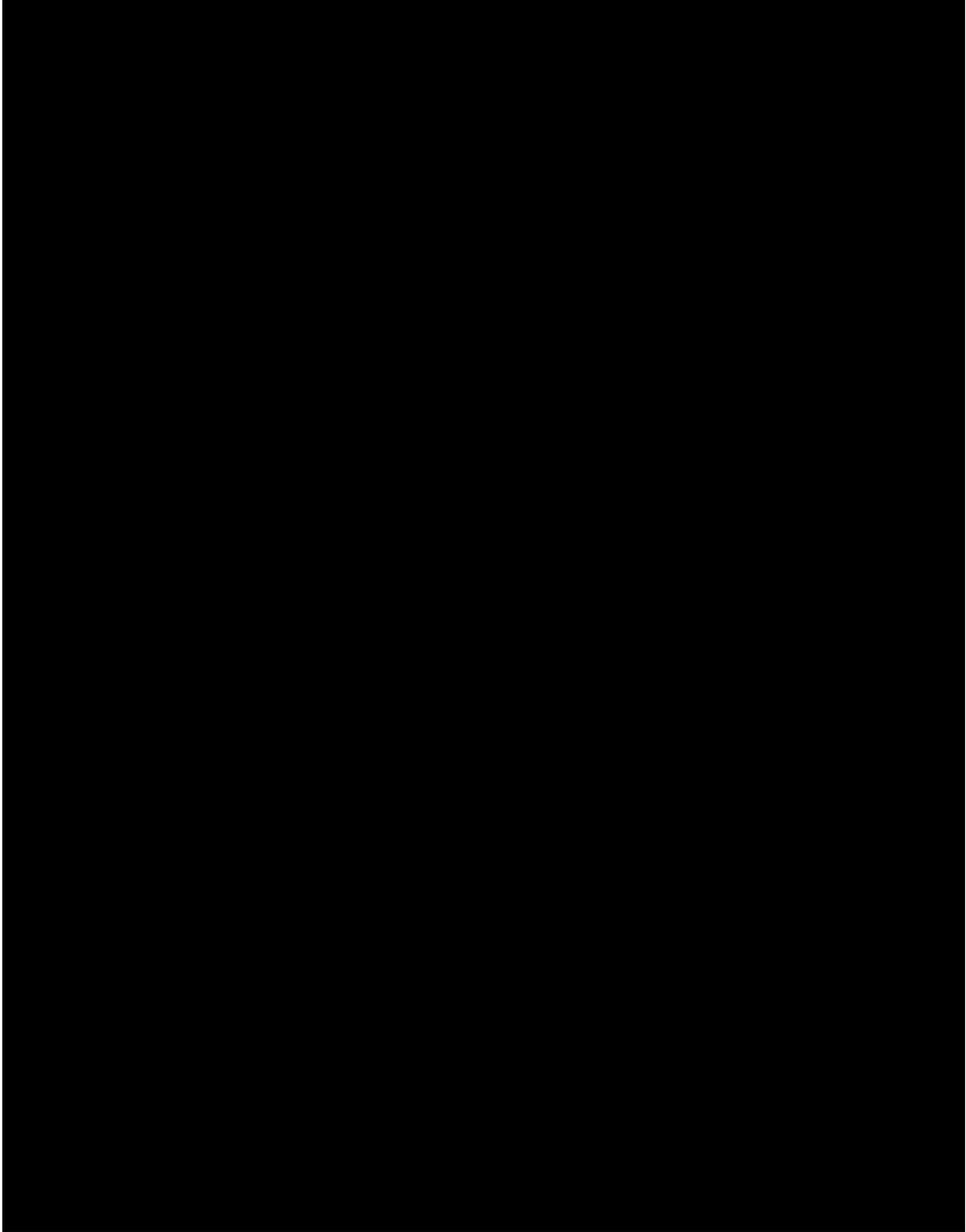


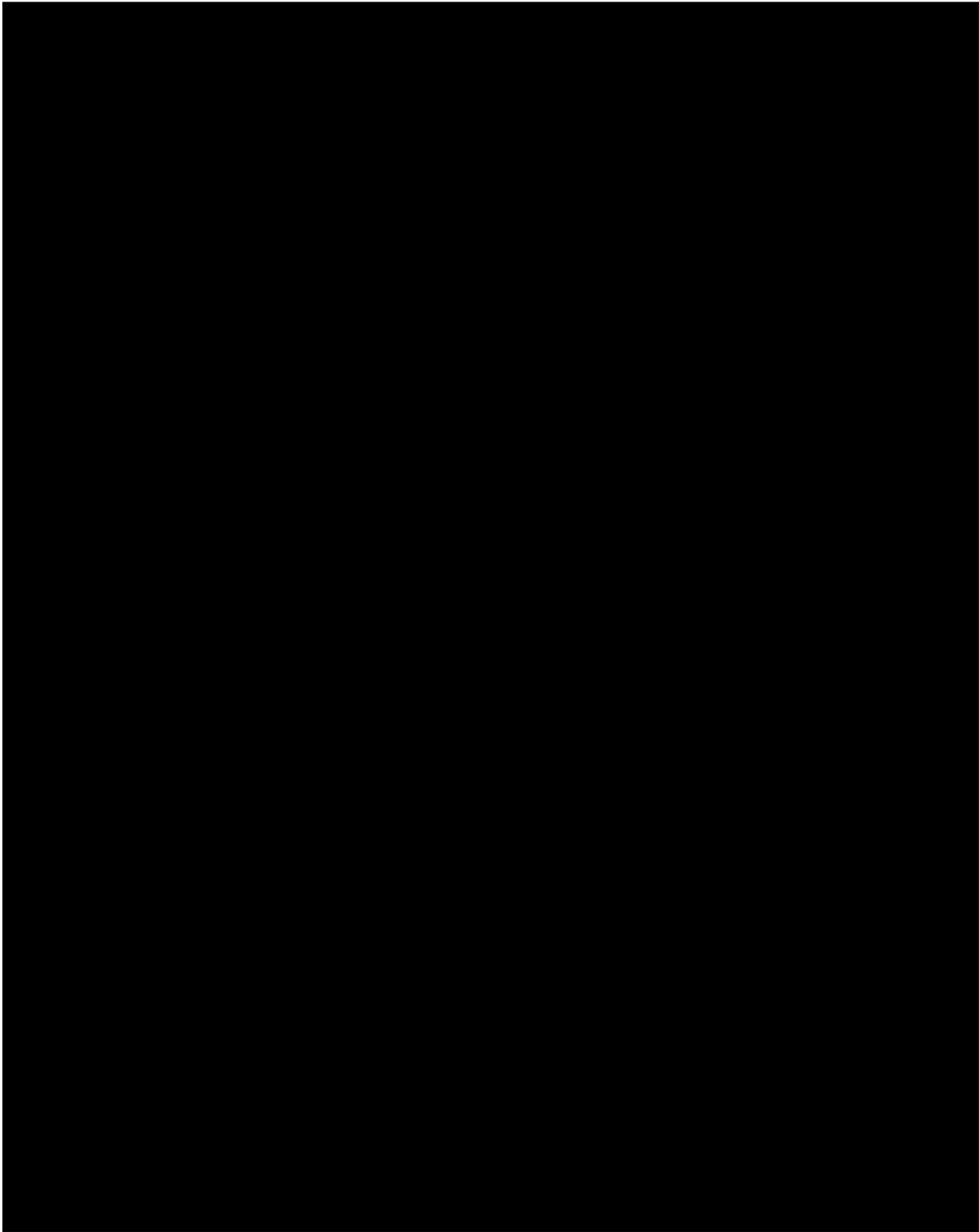


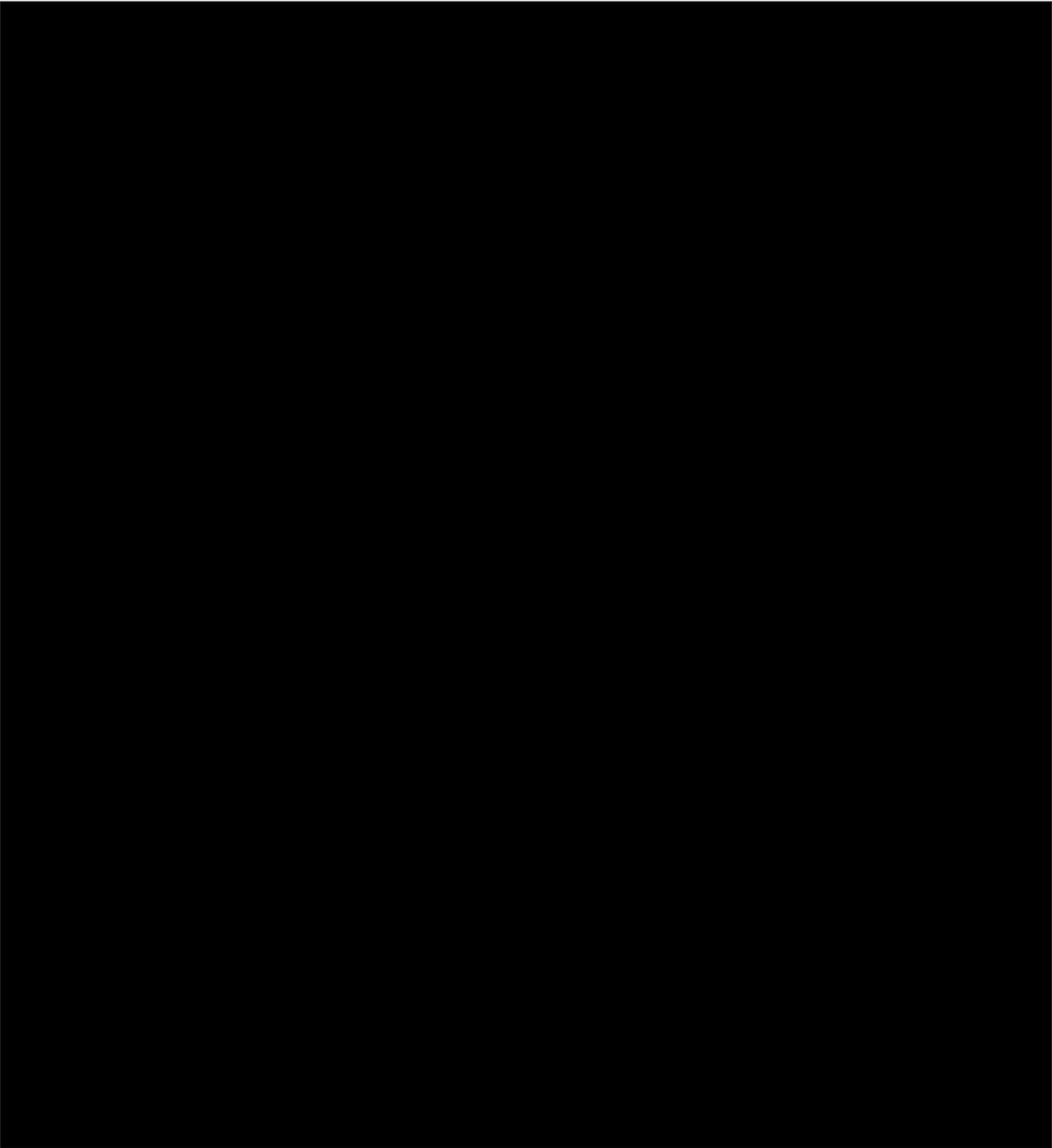


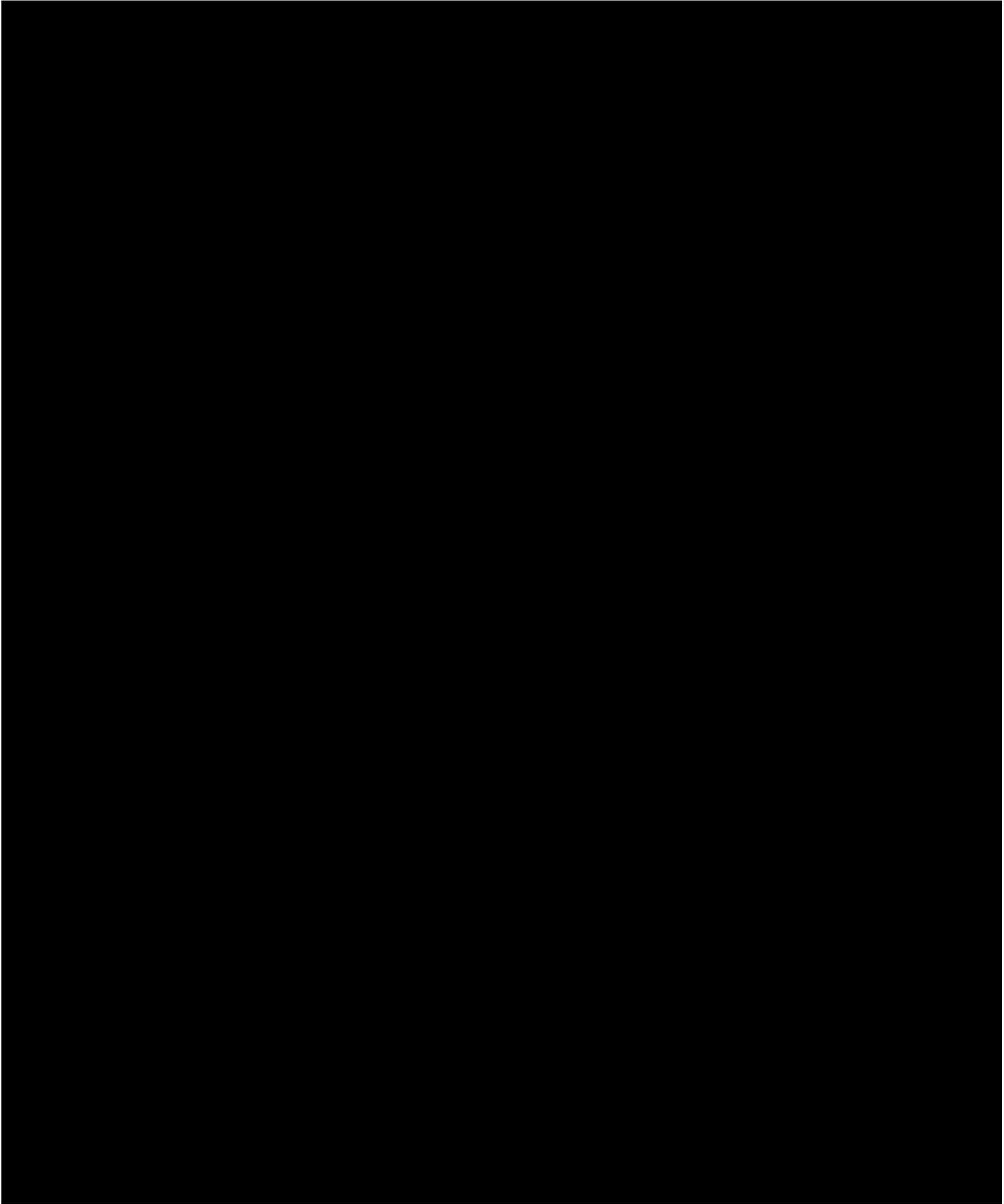


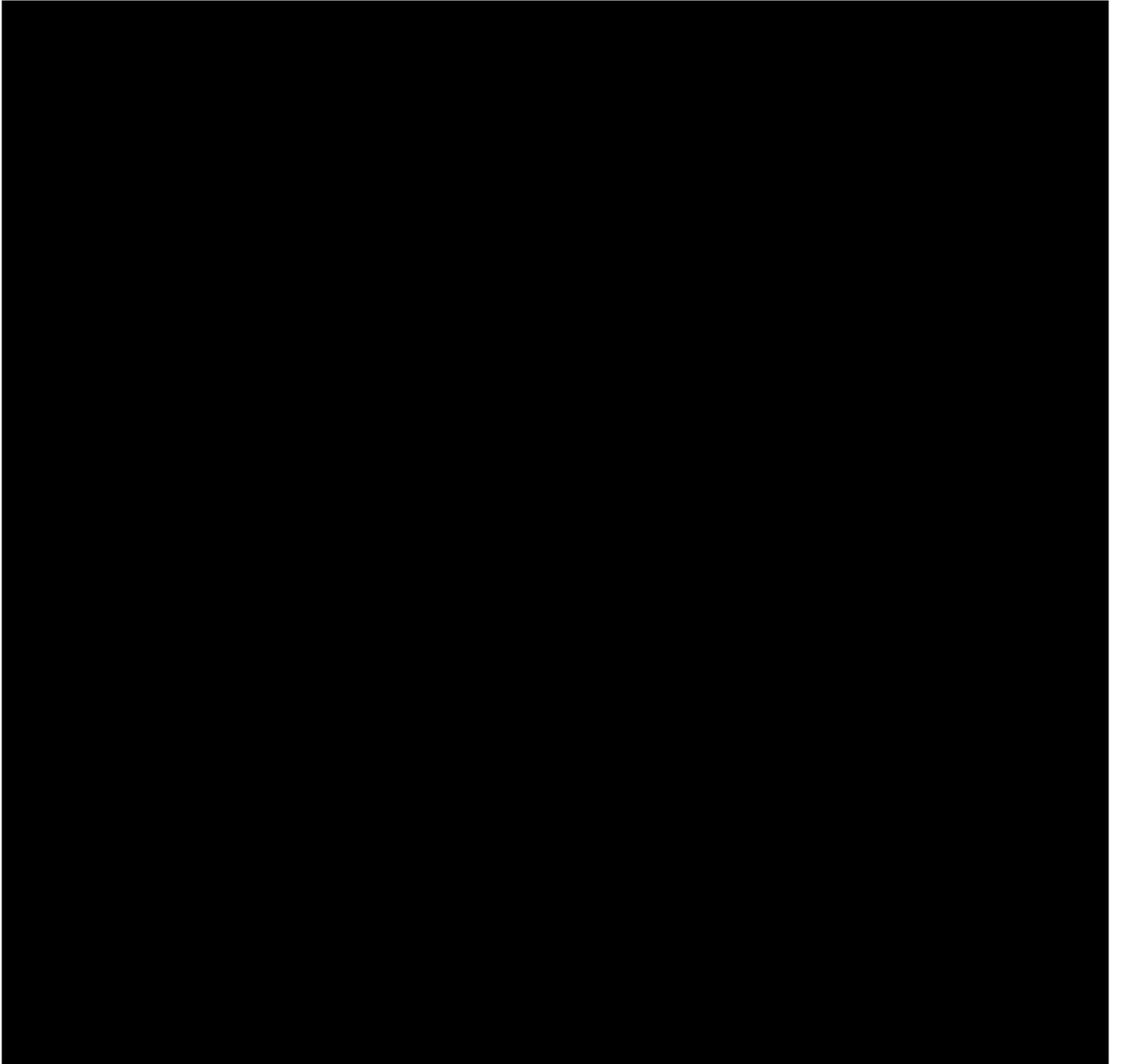


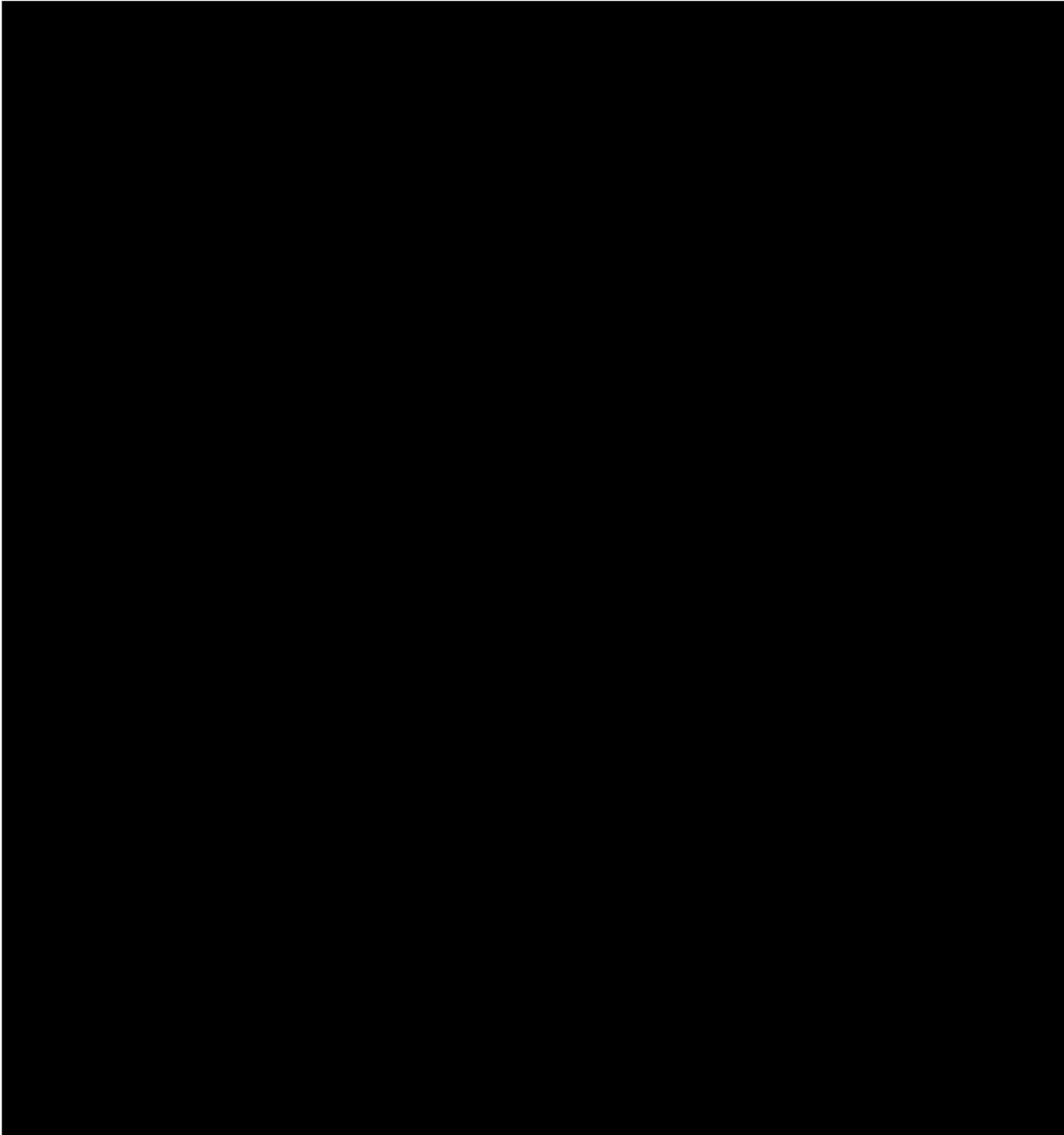


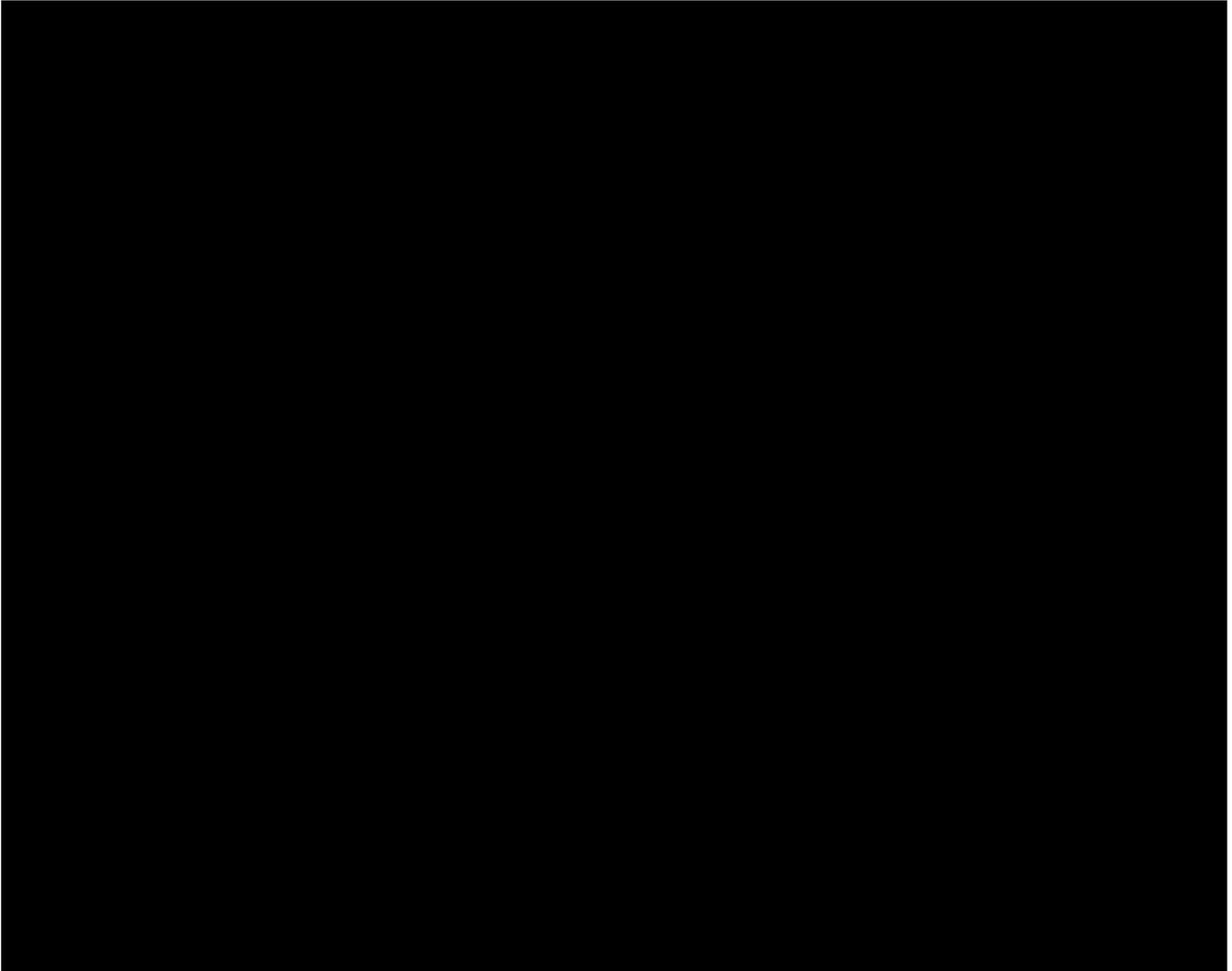


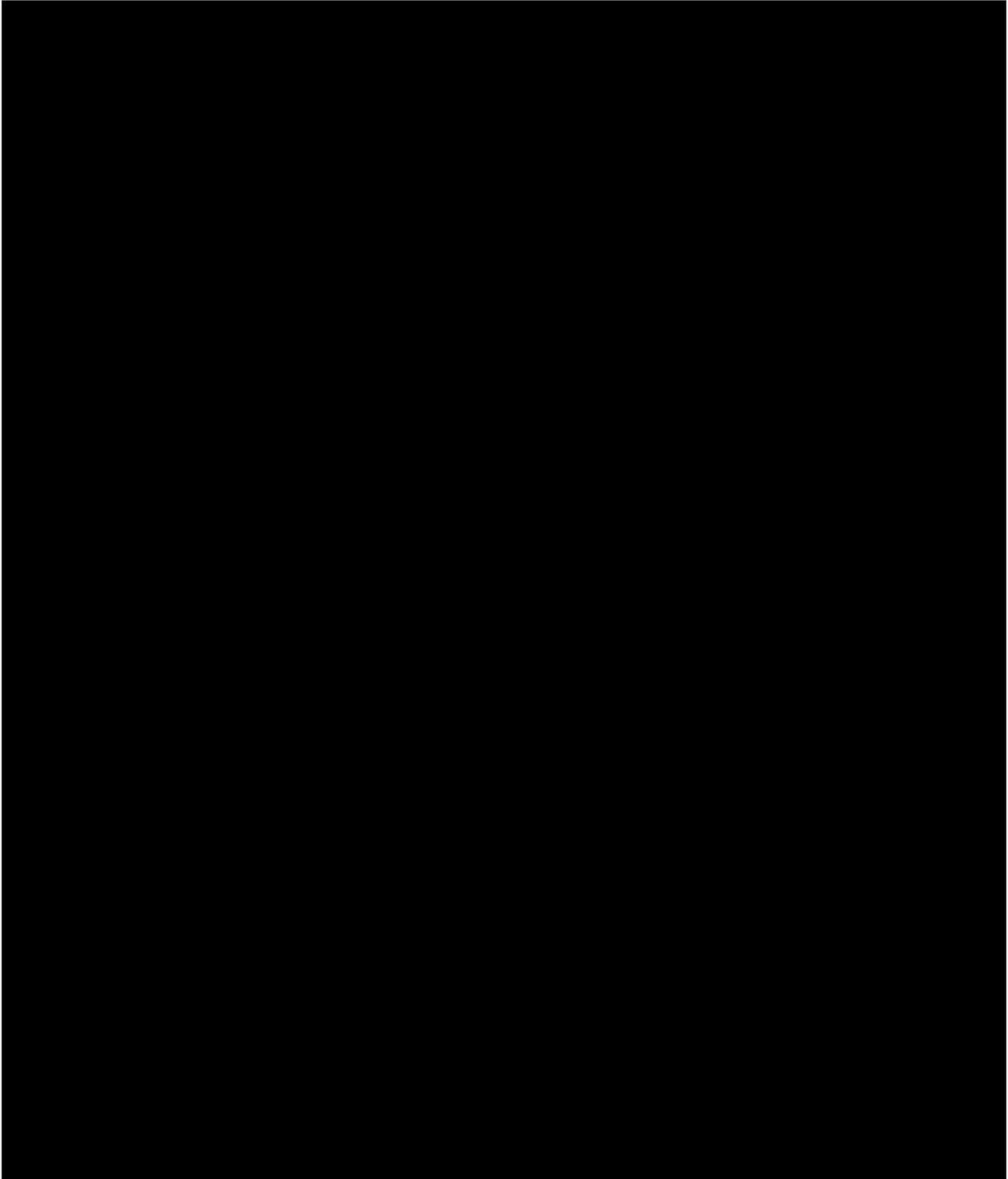


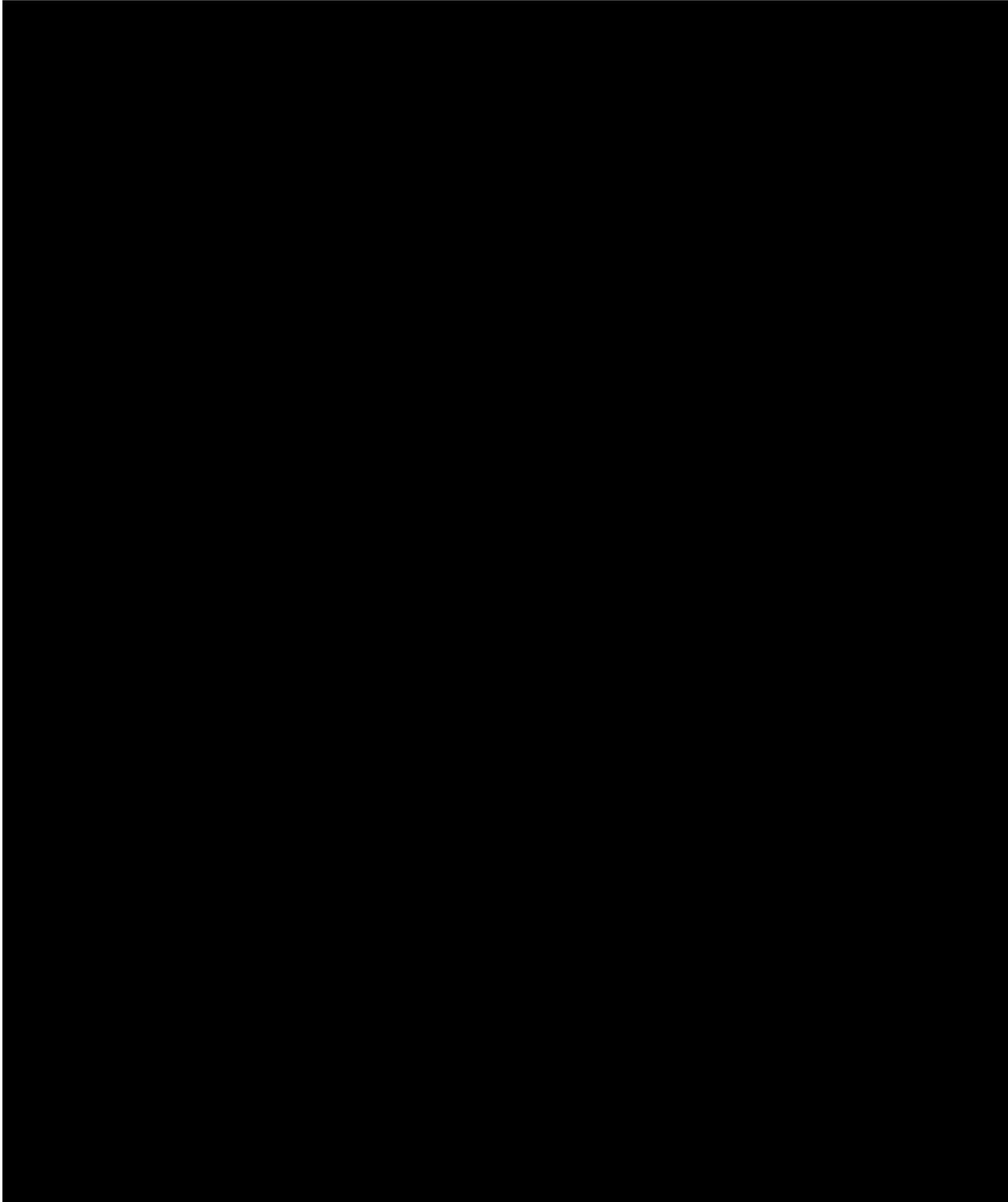


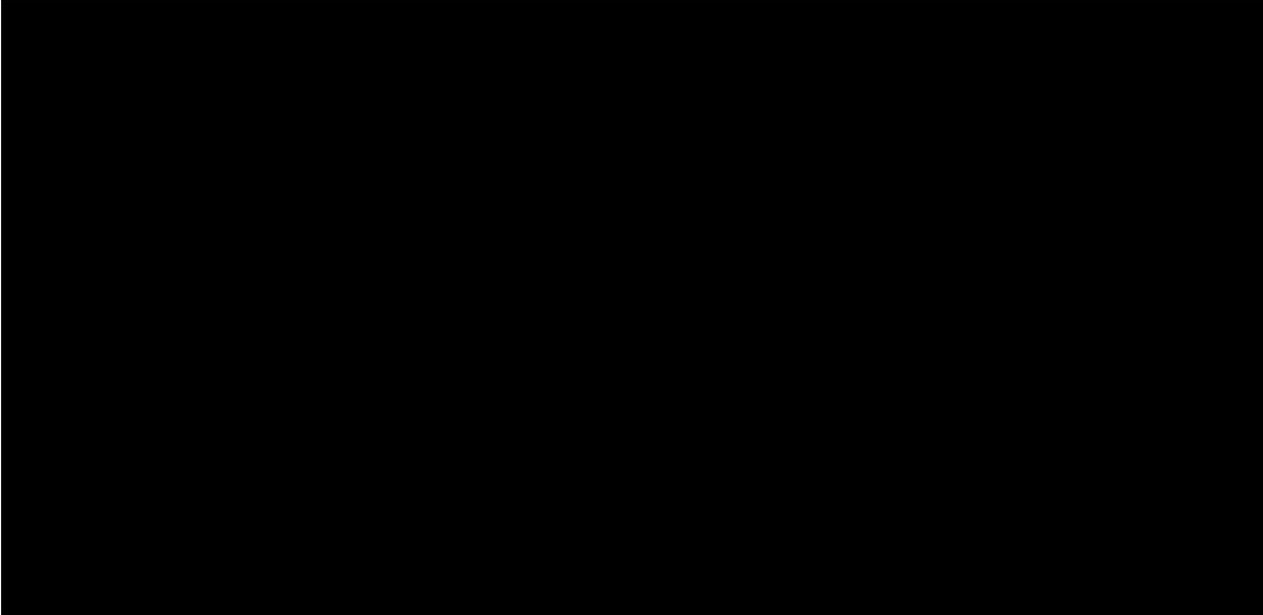


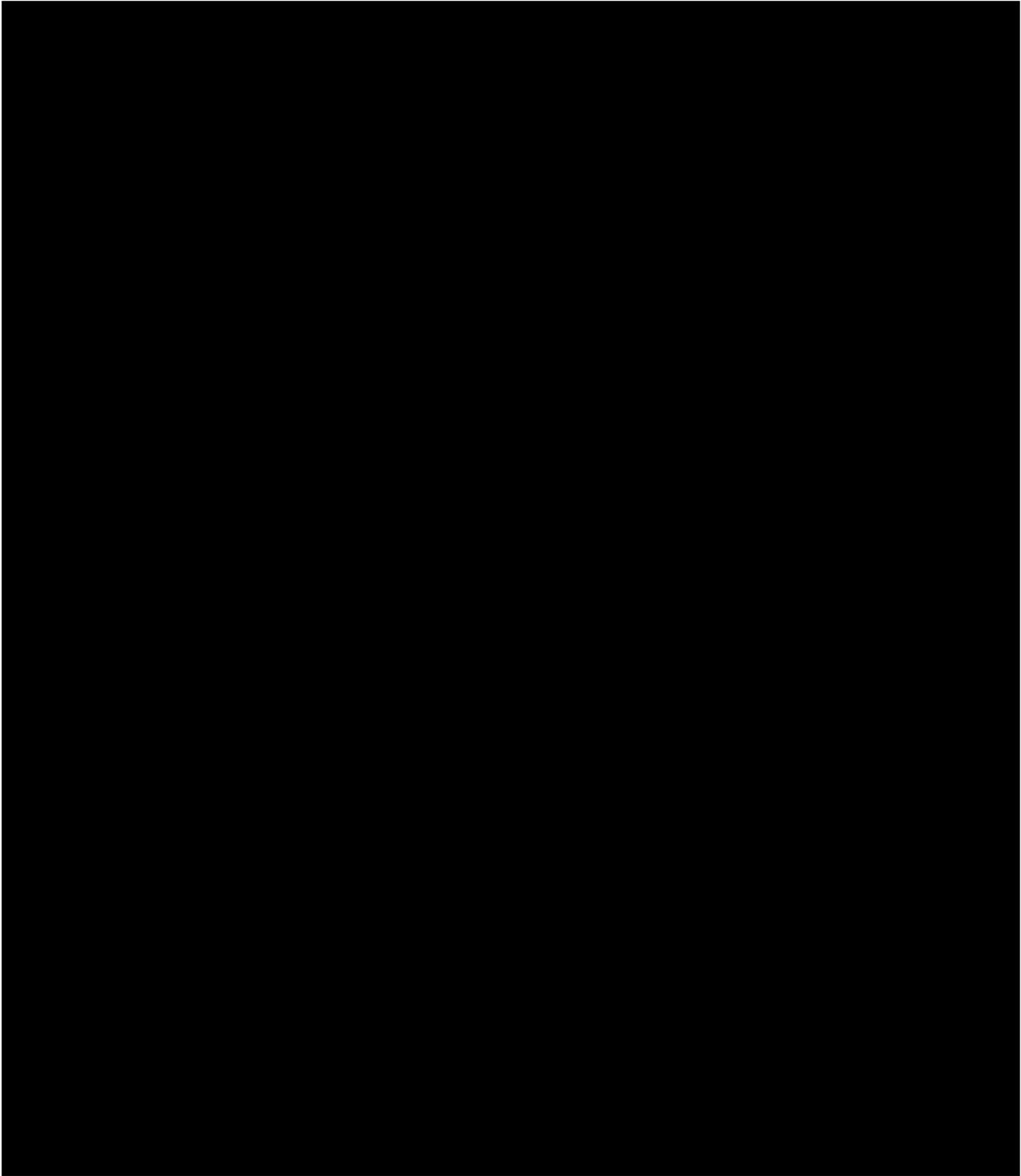


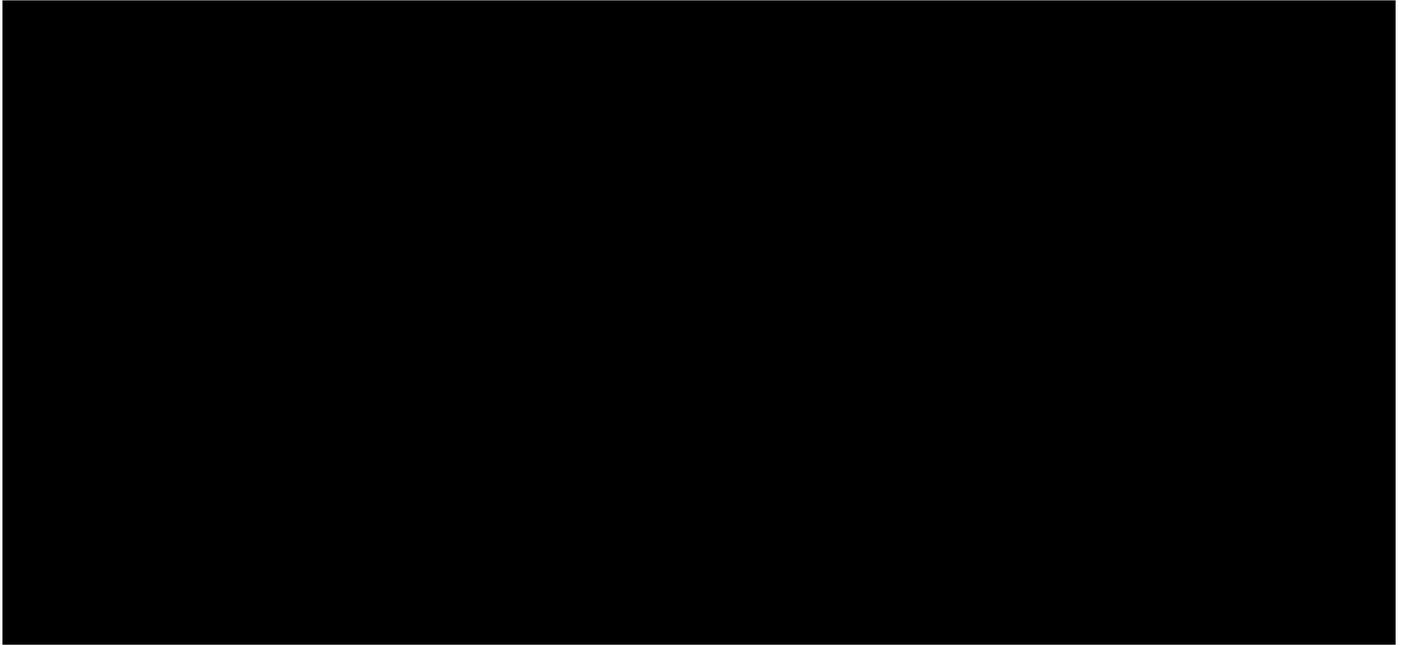


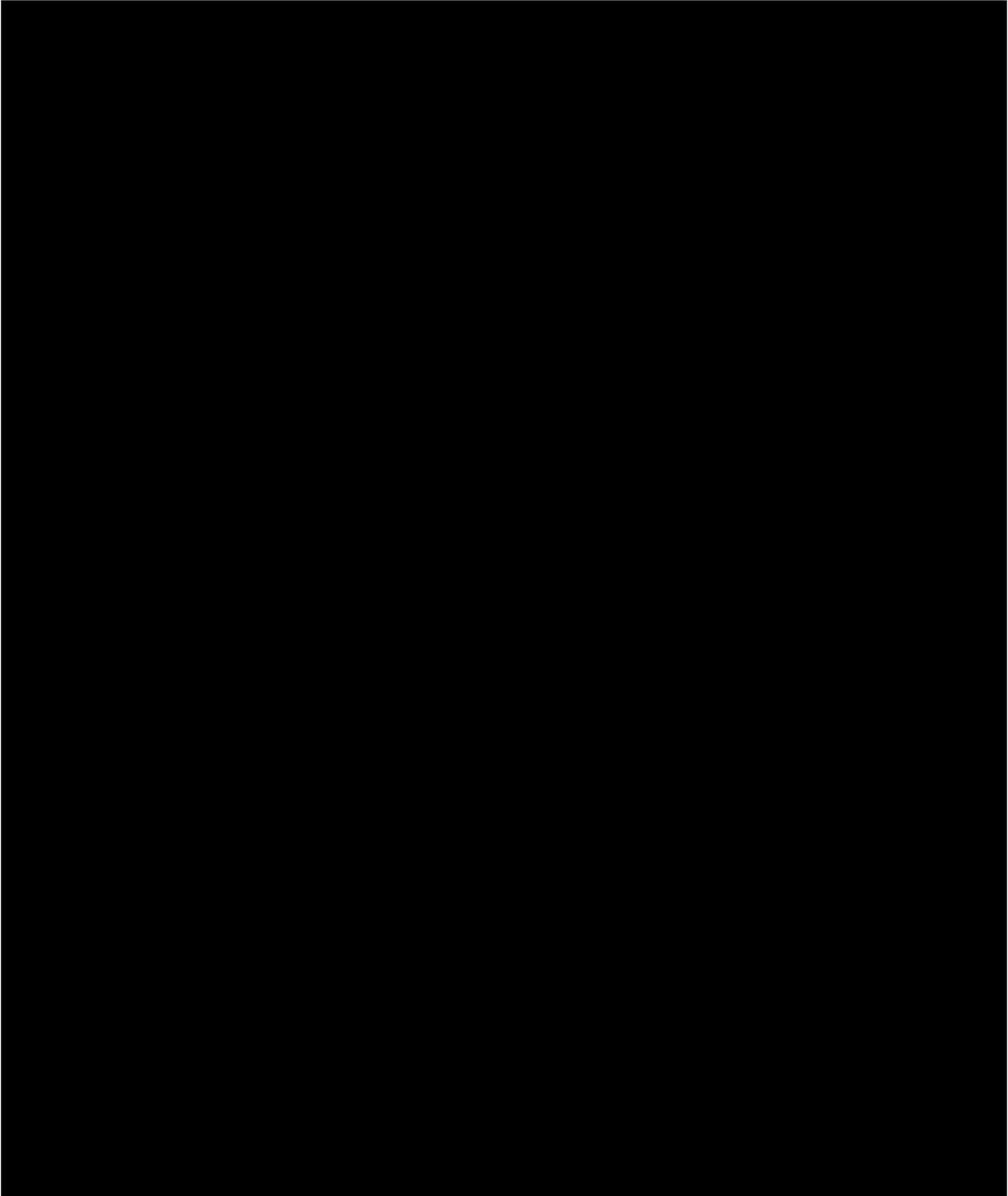


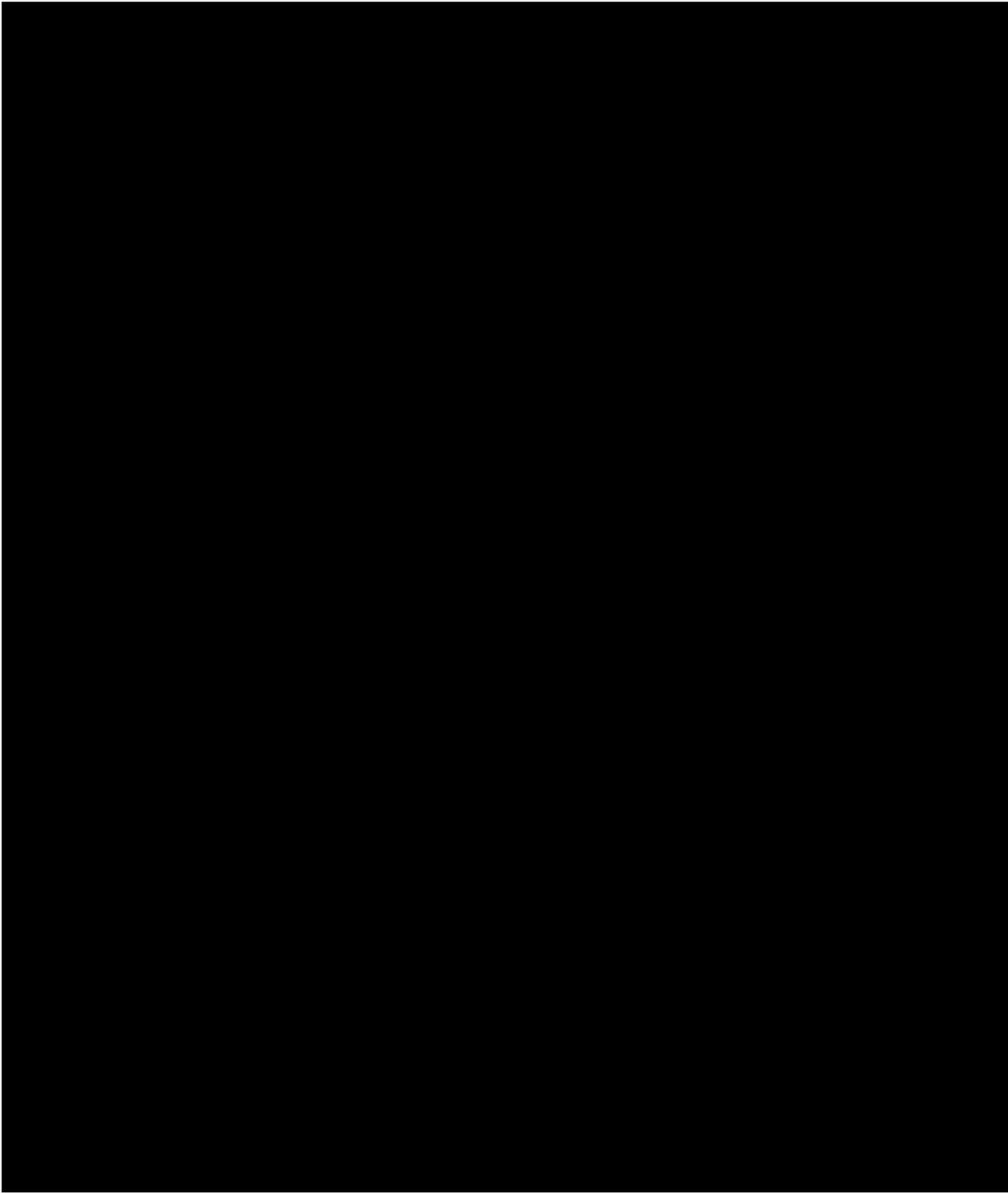


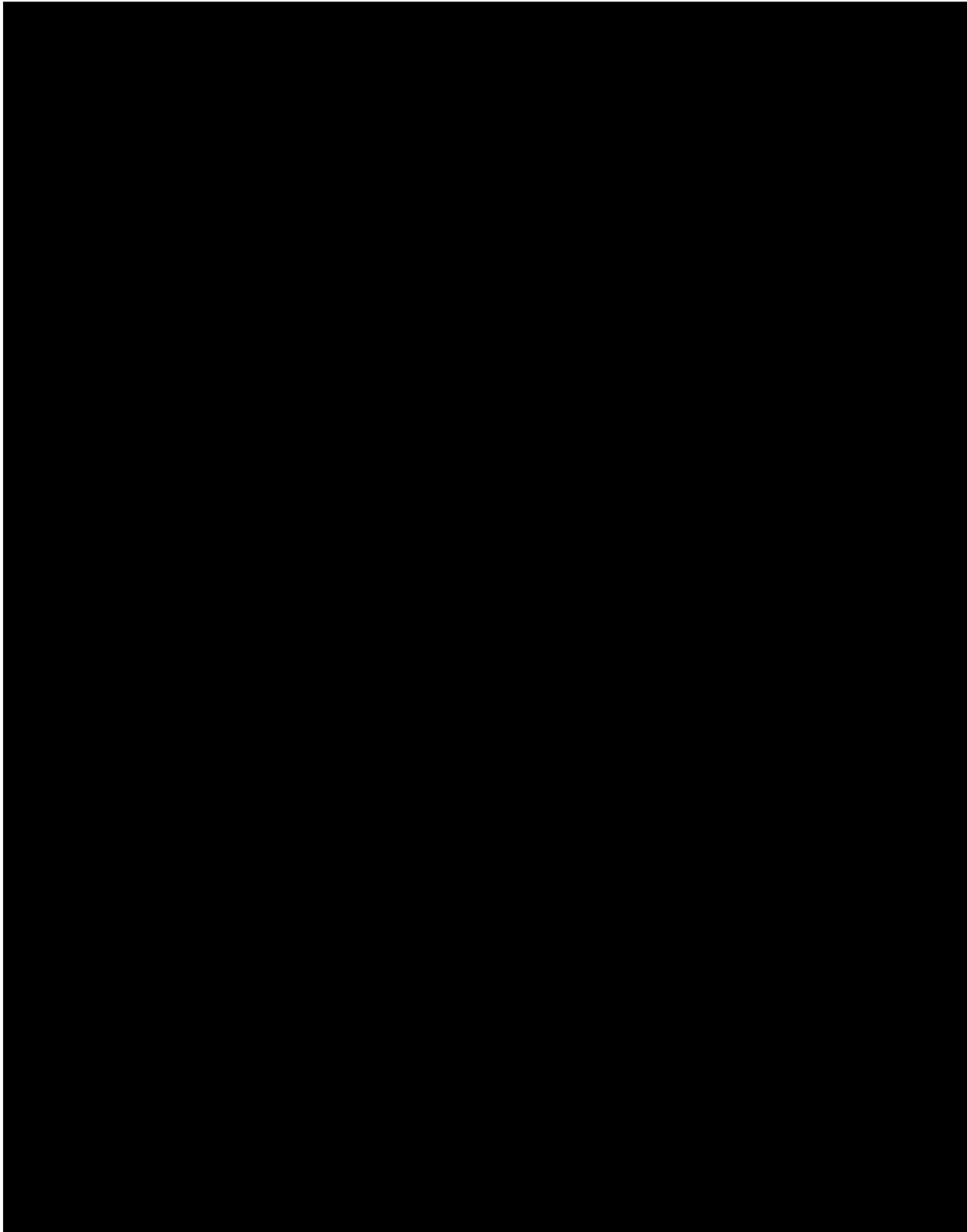


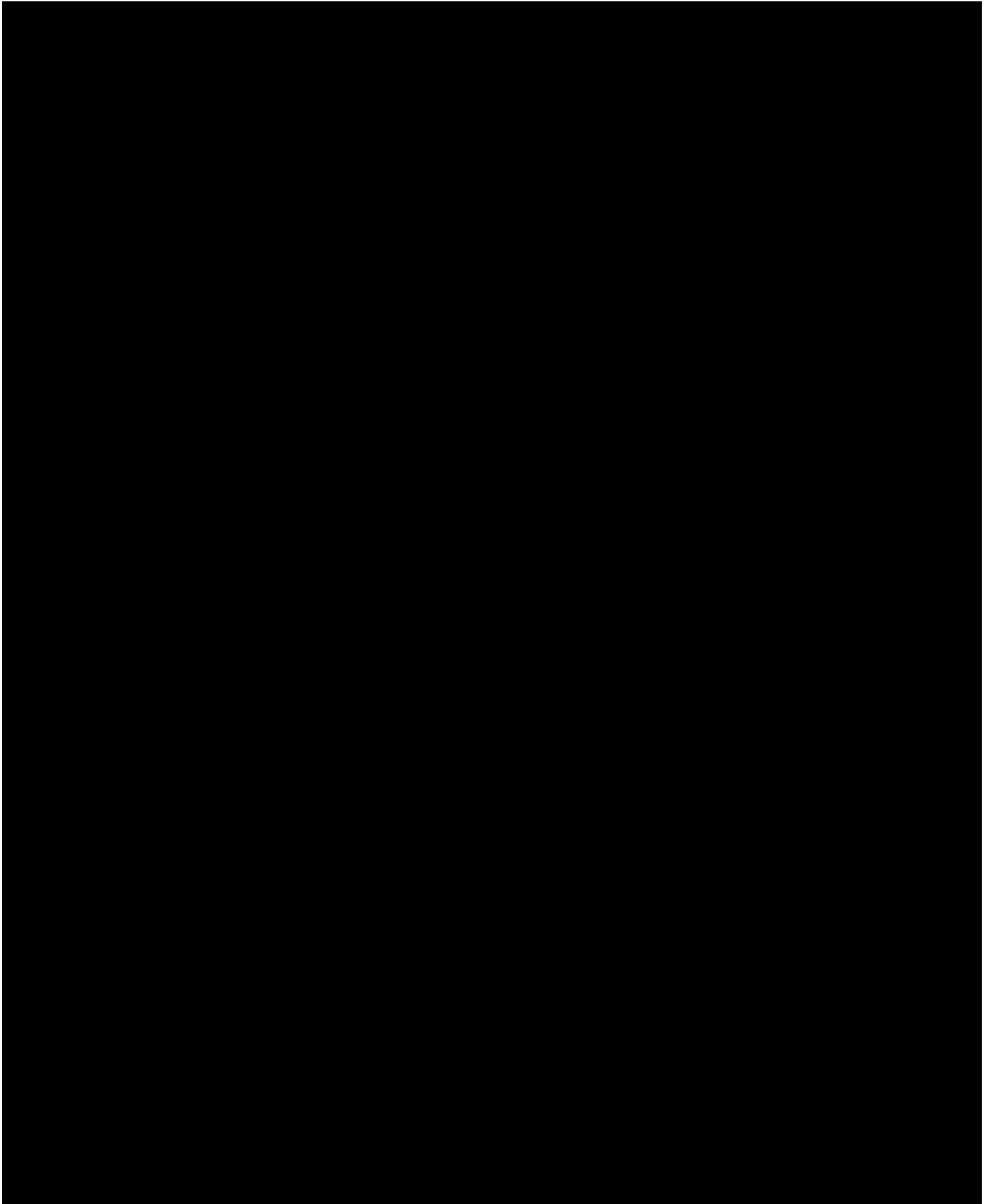


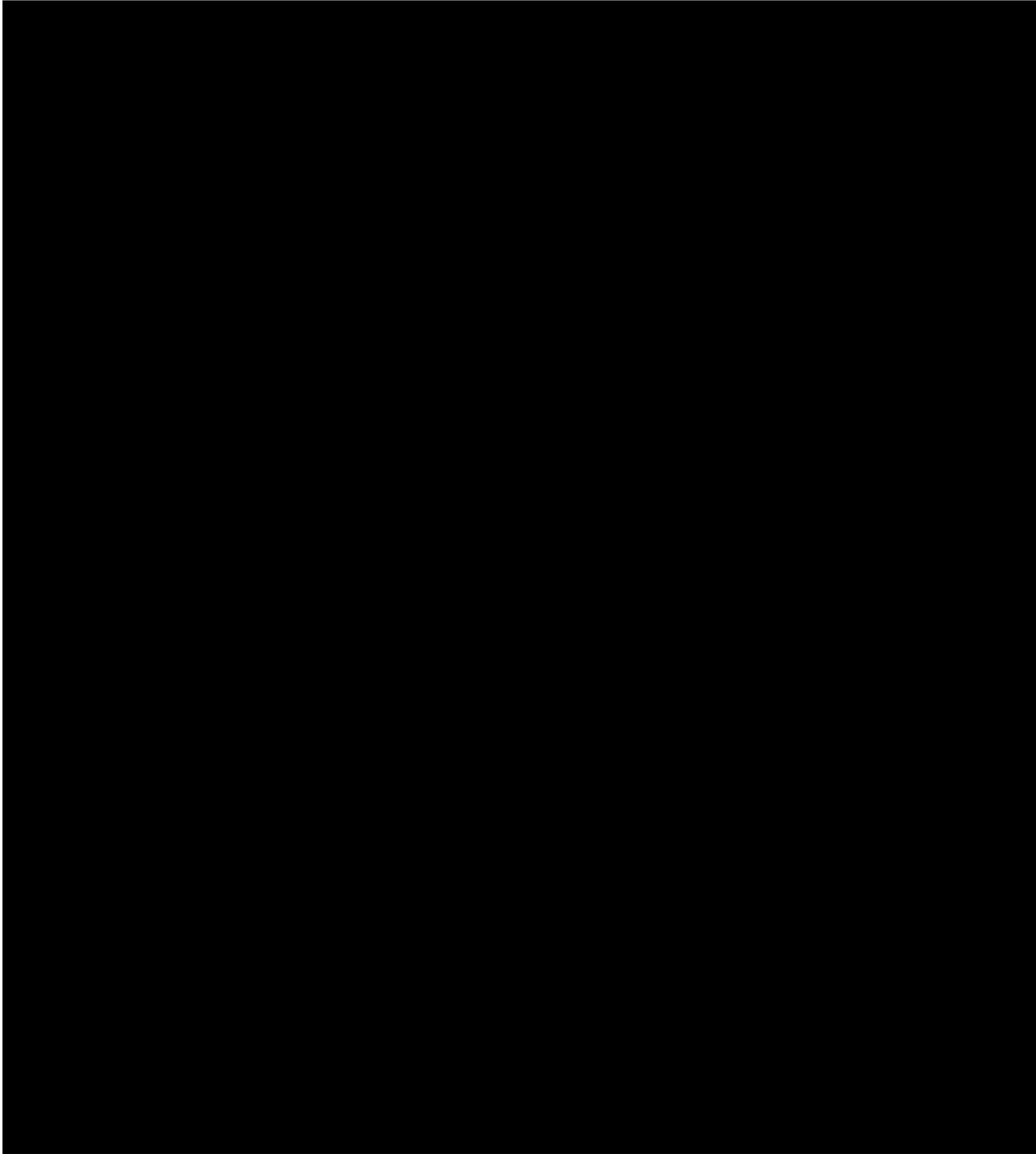


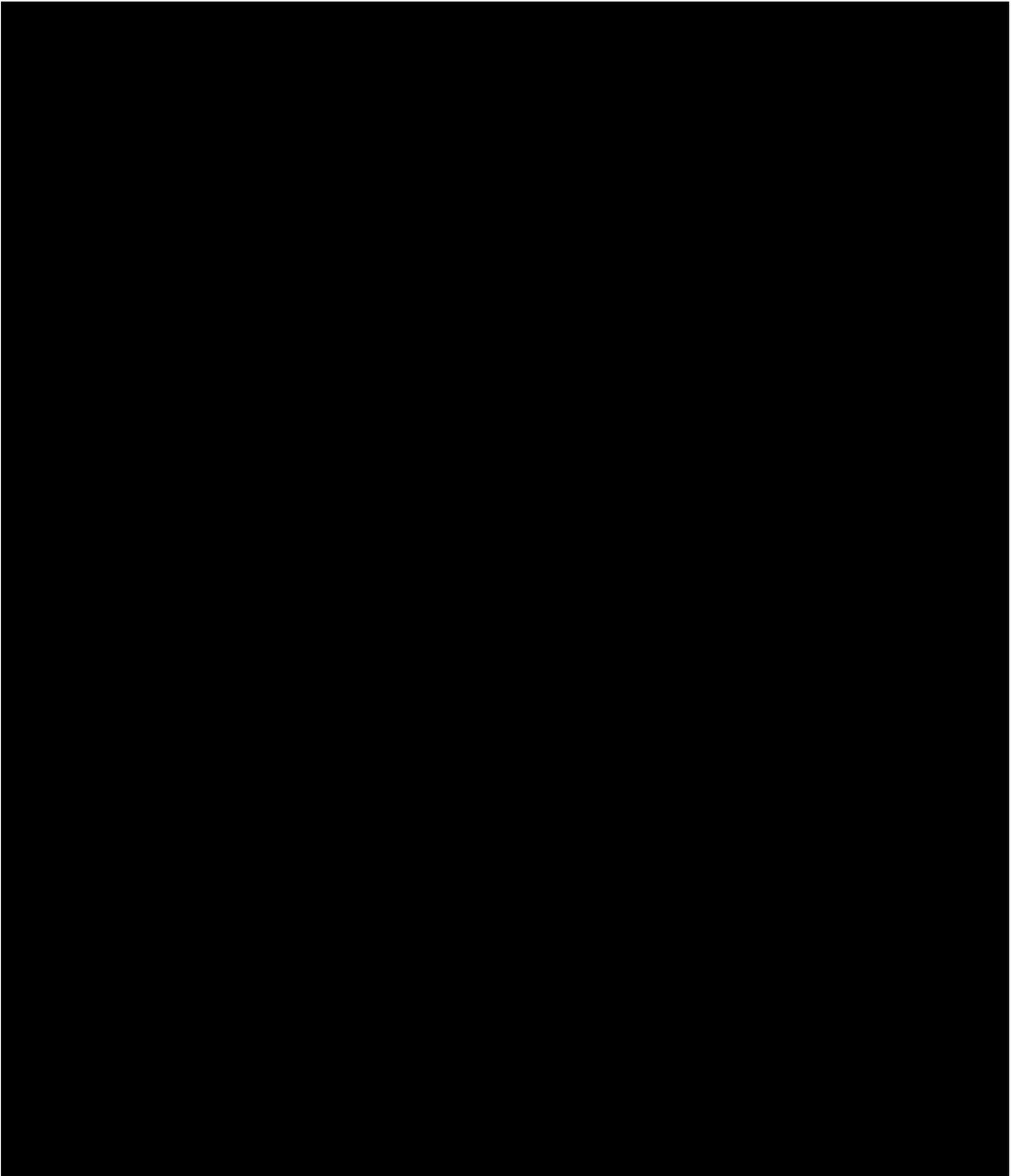


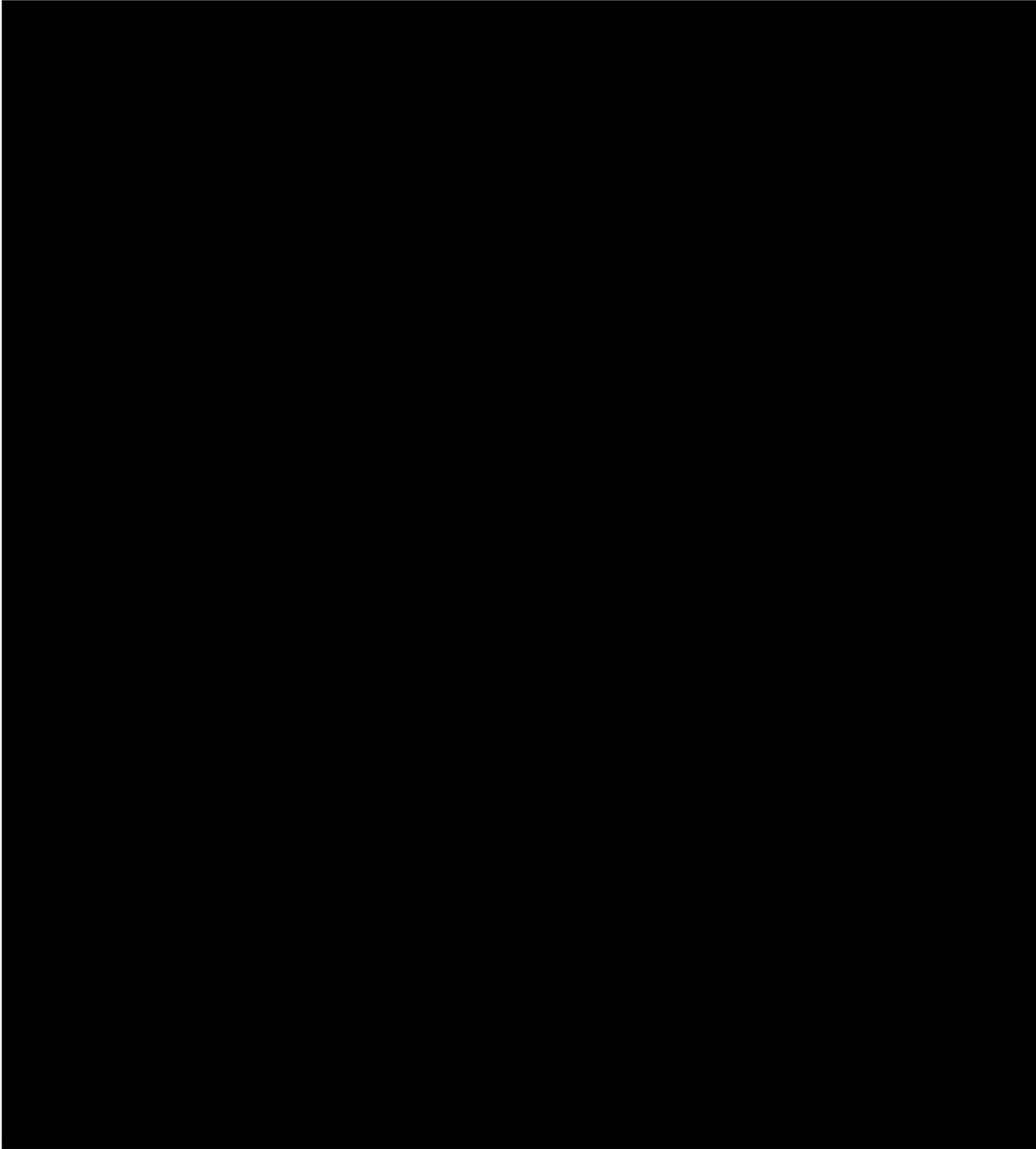


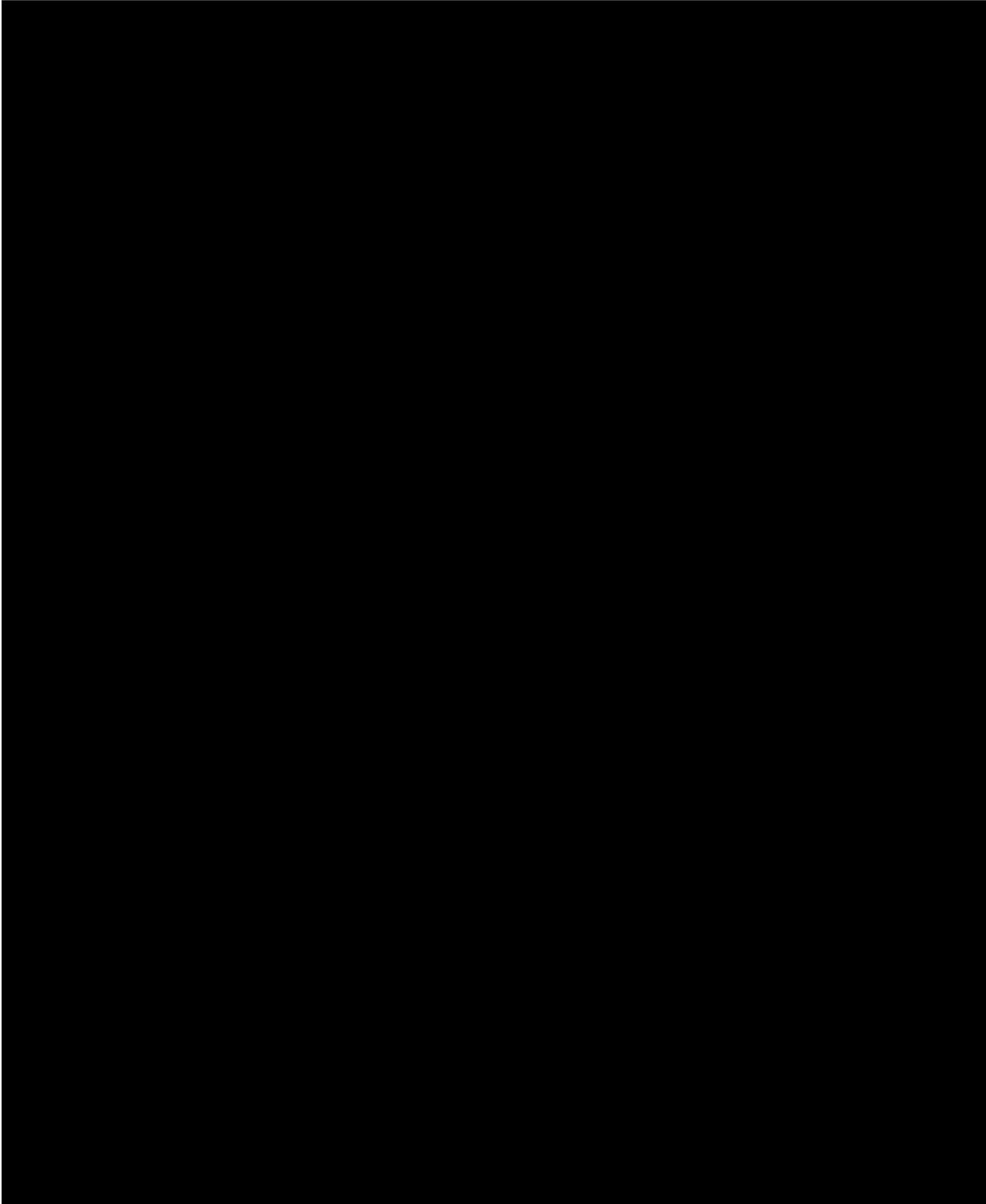


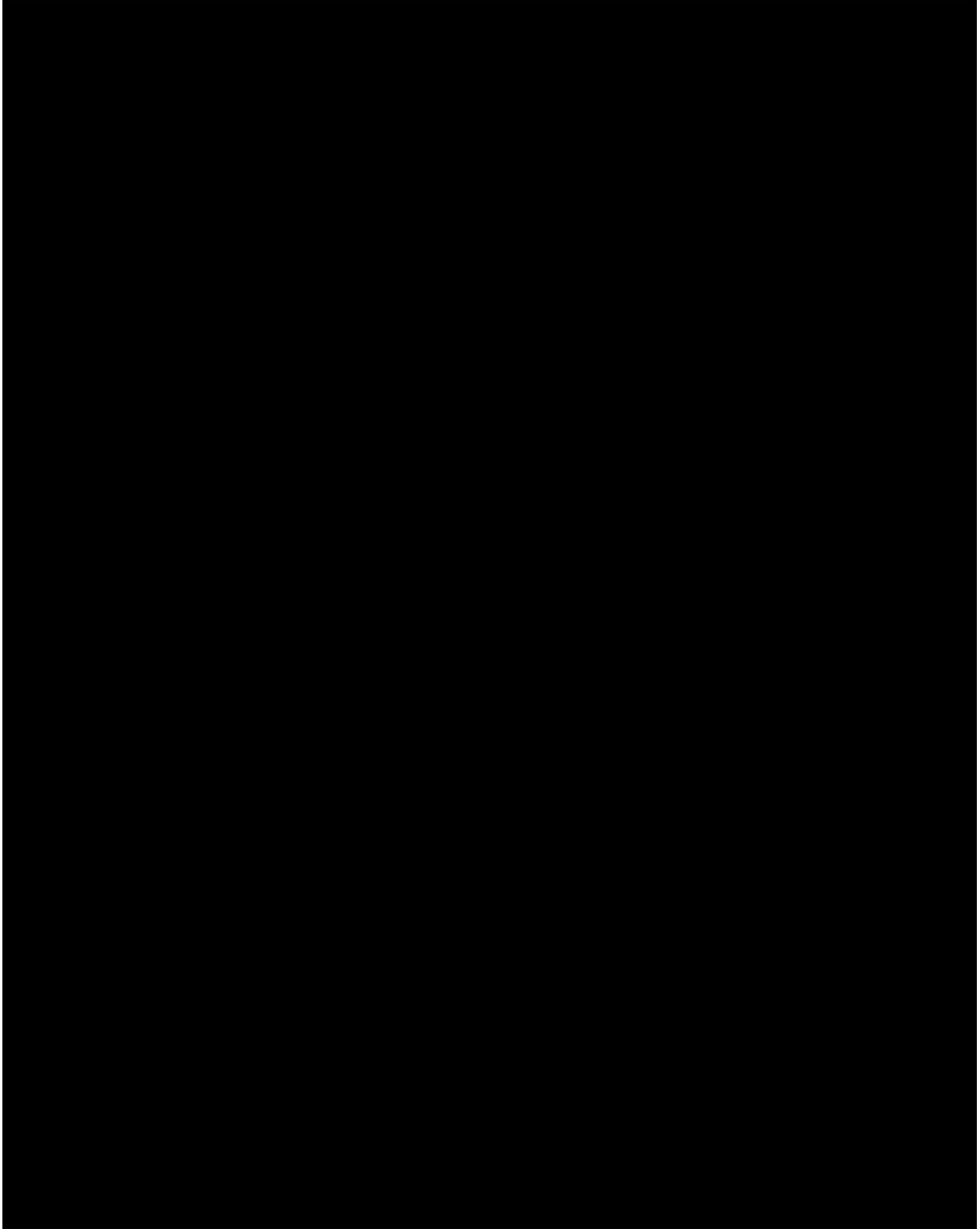


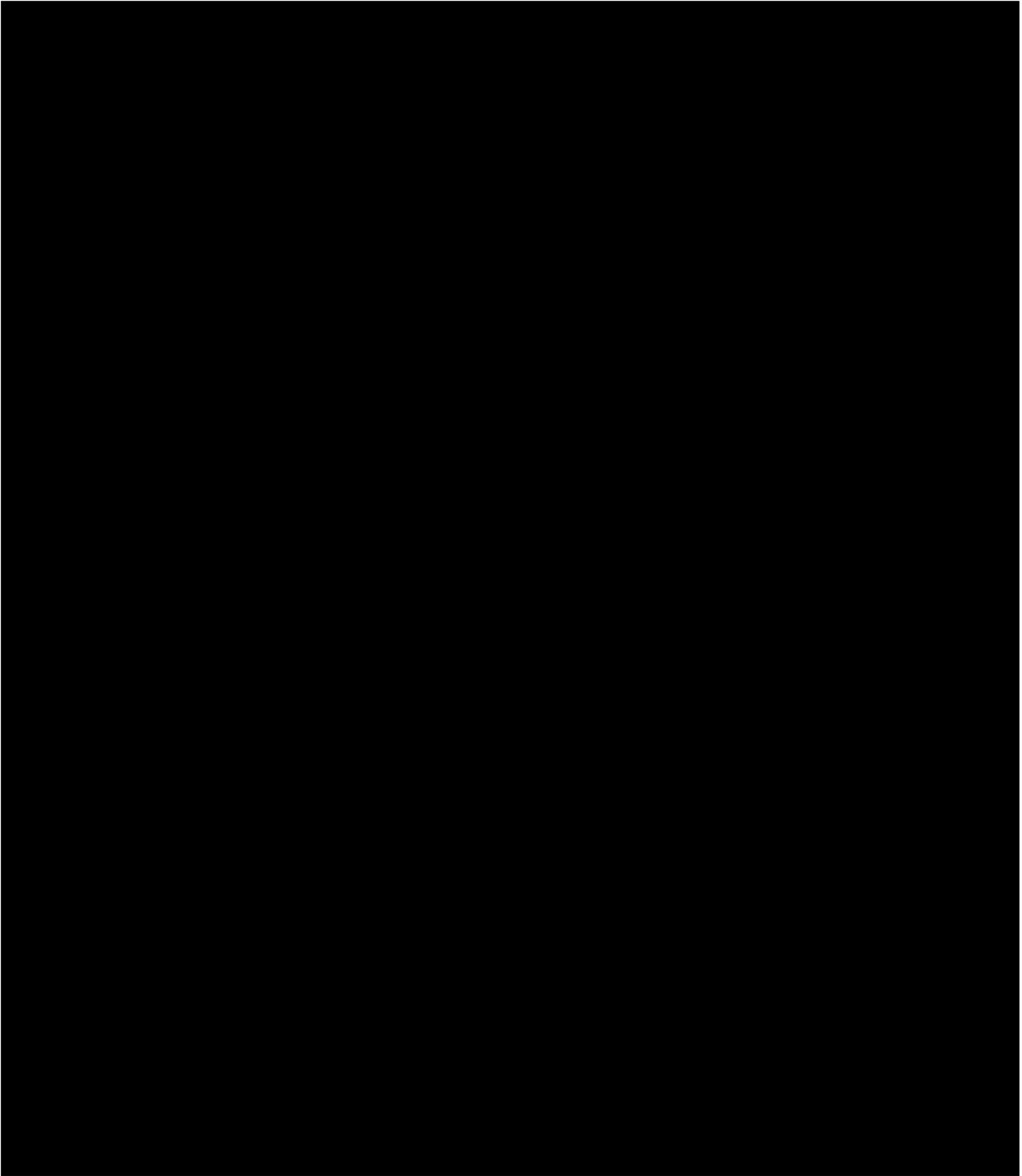












**New York State Electric & Gas Corporation**  
**Financial Statements**  
**As of and for the Years Ended December 31, 2024 and 2023**

**New York State Electric & Gas Corporation**

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KPMG LLP  
345 Park Avenue  
New York, NY 10154-0102

## Independent Auditors' Report

Stockholder and The Board of Directors  
New York State Electric & Gas Corporation:

### *Opinion*

We have audited the financial statements of New York State Electric & Gas Corporation (the Company), which comprise the balance sheets as of December 31, 2024 and 2023, and the related statements of income, comprehensive income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

### *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 Auditors' 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 U.S. generally accepted accounting principles, 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 available to be issued.

### *Auditors' 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 auditors' 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.

*KPMG* LLP

New York, New York  
March 21, 2025

**New York State Electric & Gas Corporation  
Statements of Income**

Years Ended December 31,	2024	2023
(Thousands)		
<b>Operating Revenues</b>	<b>\$ 2,373,591</b>	<b>\$ 2,196,936</b>
<b>Operating Expenses</b>		
Electricity purchased	577,004	513,155
Natural gas purchased	88,061	127,177
Operations and maintenance	968,758	907,062
Depreciation and amortization	230,310	208,969
Taxes other than income taxes, net	178,996	161,089
<b>Total Operating Expenses</b>	<b>2,043,129</b>	<b>1,917,452</b>
<b>Operating Income</b>	<b>330,462</b>	<b>279,484</b>
Other income	77,651	49,638
Other (deductions) income, net	7,283	13,628
Interest expense, net of capitalization	(109,774)	(86,858)
<b>Income Before Income Tax</b>	<b>305,622</b>	<b>255,892</b>
Income tax expense	61,560	43,657
<b>Net Income</b>	<b>\$ 244,062</b>	<b>\$ 212,235</b>

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

**New York State Electric & Gas Corporation  
Statements of Comprehensive Income**

Years Ended December 31,	2024	2023
(Thousands)		
<b>Net Income</b>	<b>\$ 244,062</b>	<b>\$ 212,235</b>
<b>Other Comprehensive Income (Loss), Net of Tax</b>		
Amortization of pension cost for non-qualified plans and current year actuarial gain (loss), net of income tax	(108)	24
Reclassification to net income of loss on settled cash flow treasury hedges, net of income tax	—	227
<b>Total Other Comprehensive Income (Loss), Net of Tax</b>	<b>(108)</b>	<b>251</b>
<b>Comprehensive Income</b>	<b>\$ 243,954</b>	<b>\$ 212,486</b>

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

**New York State Electric & Gas Corporation  
Balance Sheets**

As of December 31,	2024	2023
(Thousands)		
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,444	\$ 6,101
Accounts receivable and unbilled revenues, net	375,291	348,556
Accounts receivable from affiliates	2,409	4,900
Notes receivable from affiliates	41,300	—
Fuel and natural gas in storage	17,045	19,022
Materials and supplies	46,985	47,037
Broker margin accounts	—	12,039
Derivative assets	10,621	—
Prepaid property taxes	41,500	38,757
Other current assets	28,483	19,695
Regulatory assets	269,166	204,332
<b>Total Current Assets</b>	<b>837,244</b>	<b>700,439</b>
Utility plant, at original cost	9,328,326	8,528,387
Less accumulated depreciation	(2,552,644)	(2,490,347)
<b>Net Utility Plant in Service</b>	<b>6,775,682</b>	<b>6,038,040</b>
Construction work in progress	903,915	882,447
<b>Total Utility Plant</b>	<b>7,679,597</b>	<b>6,920,487</b>
Operating lease right-of-use assets	7,305	8,202
Other property and investments	9,316	8,779
<b>Regulatory and Other Assets</b>		
Regulatory assets	1,314,623	1,050,289
Other	33,885	40,526
<b>Total Regulatory and Other Assets</b>	<b>1,348,508</b>	<b>1,090,815</b>
<b>Total Assets</b>	<b>\$ 9,881,970</b>	<b>\$ 8,728,722</b>

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

**New York State Electric & Gas Corporation  
Balance Sheets**

As of December 31,	2024	2023
<b>(Thousands, except share information)</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt	\$ —	\$ 9,603
Notes payable to affiliates	—	83,300
Accounts payable and accrued liabilities	635,943	565,373
Accounts payable to affiliates	54,229	120,564
Interest accrued	39,348	29,288
Taxes accrued	11,102	9,712
Operating lease liabilities	1,318	1,237
Environmental remediation costs	5,914	6,061
Customer deposits	11,342	13,858
Regulatory liabilities	64,233	75,587
Other	111,328	110,600
<b>Total Current Liabilities</b>	<b>934,757</b>	<b>1,025,183</b>
<b>Regulatory and Other Liabilities</b>		
Regulatory liabilities	872,039	917,132
<b>Other Non-current Liabilities</b>		
Deferred income taxes	975,293	853,843
Pension and other postretirement	73,144	119,885
Operating lease liabilities	7,167	8,034
Asset retirement obligation	10,767	11,078
Environmental remediation costs	51,108	53,233
Other	24,762	24,119
<b>Total Regulatory and Other Liabilities</b>	<b>2,014,280</b>	<b>1,987,324</b>
Non-current debt	3,398,466	2,875,190
<b>Total Liabilities</b>	<b>6,347,503</b>	<b>5,887,697</b>
<b>Commitments and Contingencies</b>		
<b>Common Stock Equity</b>		
Common stock (\$6.66 2/3 par value, 90,000,000 shares authorized and 64,508,477 shares outstanding at December 31, 2024 and 2023)	430,057	430,057
Additional paid-in capital	2,378,630	1,929,142
Retained earnings	726,457	482,395
Accumulated other comprehensive loss	(677)	(569)
<b>Total Common Stock Equity</b>	<b>3,534,467</b>	<b>2,841,025</b>
<b>Total Liabilities and Equity</b>	<b>\$ 9,881,970</b>	<b>\$ 8,728,722</b>

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

**New York State Electric & Gas Corporation  
Statements of Cash Flows**

Years Ended December 31,	2024	2023
<b>(Thousands)</b>		
<b>Cash Flow from Operating Activities:</b>		
<b>Net income</b>	<b>\$ 244,062</b>	<b>\$ 212,235</b>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	230,310	208,969
Regulatory assets/liabilities amortization	64,274	6,029
Regulatory assets/liabilities carrying cost	(27,031)	(7,899)
Amortization of debt issuance costs	2,905	2,947
Deferred taxes	94,473	52,984
Pension cost	(7,474)	(14,315)
Stock-based compensation	547	(15)
Accretion expenses	582	596
Gain from disposal of property	(196)	(759)
Other non-cash items	(62,476)	(74,446)
Changes in assets and liabilities		
Accounts receivable, from affiliates, and unbilled revenues	(24,244)	81,222
Inventories	2,029	22,512
Accounts payable, to affiliates, and accrued liabilities	(17,752)	(96,732)
Taxes accrued	1,390	7,334
Other assets/liabilities	80,625	(46,256)
Regulatory assets/liabilities	(495,727)	(289,537)
<b>Net Cash Provided by Operating Activities</b>	<b>86,297</b>	<b>64,869</b>
<b>Cash Flow from Investing Activities:</b>		
Capital expenditures	(964,490)	(838,955)
Contributions in aid of construction	41,475	39,731
Proceeds from sale of property, plant and equipment	2,026	5,376
Notes receivable from affiliates	(41,300)	—
<b>Net Cash Used in Investing Activities</b>	<b>(962,289)</b>	<b>(793,848)</b>
<b>Cash Flow from Financing Activities:</b>		
Non-current debt issuance	519,859	841,791
Repayments of non-current debt	(12,000)	(300,000)
Payments of finance leases	(224)	(212)
Notes payable to affiliates	(83,300)	(6,500)
Capital contribution	450,000	400,000
Dividends paid	—	(200,000)
<b>Net Cash Provided by Financing Activities</b>	<b>874,335</b>	<b>735,079</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(1,657)</b>	<b>6,100</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>6,101</b>	<b>1</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 4,444</b>	<b>\$ 6,101</b>

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

**New York State Electric & Gas Corporation  
Statements of Changes in Common Stock Equity**

(Thousands, except per share amounts)	Number of Shares (*)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Common Stock Equity
<b>Balance, December 31, 2022</b>	<b>64,508,477</b>	<b>\$ 430,057</b>	<b>\$ 1,529,469</b>	<b>\$ 470,160</b>	<b>\$ (820)</b>	<b>\$ 2,428,866</b>
Net income	—	—	—	212,235	—	212,235
Other comprehensive income, net of tax	—	—	—	—	251	251
Comprehensive income						212,486
Stock-based compensation	—	—	(327)	—	—	(327)
Common stock dividends	—	—	—	(200,000)	—	(200,000)
Capital contribution	—	—	400,000	—	—	400,000
<b>Balance, December 31, 2023</b>	<b>64,508,477</b>	<b>430,057</b>	<b>1,929,142</b>	<b>482,395</b>	<b>(569)</b>	<b>2,841,025</b>
Net income	—	—	—	244,062	—	244,062
Other comprehensive loss, net of tax	—	—	—	—	(108)	(108)
Comprehensive income						243,954
Stock-based compensation	—	—	(512)	—	—	(512)
Capital contribution	—	—	450,000	—	—	450,000
<b>Balance, December 31, 2024</b>	<b>64,508,477</b>	<b>\$ 430,057</b>	<b>\$ 2,378,630</b>	<b>\$ 726,457</b>	<b>\$ (677)</b>	<b>\$ 3,534,467</b>

(\*) Par value of share amounts is 6.66 2/3

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

## **Notes to Financial Statements**

### **Note 1. Summary of Significant Accounting Policies, New Accounting Pronouncements and Use of Estimates**

**Background and nature of operations:** New York State Electric & Gas Corporation (NYSEG, the company, we, our, us) conducts regulated electricity transmission and distribution operations and regulated natural gas transportation, storage and distribution operations in upstate New York. It also generates electricity, primarily from its several hydroelectric stations. NYSEG serves approximately 921,000 electricity and 271,000 natural gas customers as of December 31, 2024, in its service territory of approximately 20,000 square miles, which is located in the central, eastern and western parts of the state of New York and has a population of approximately 2.5 million. The larger cities in which NYSEG serves electricity and natural gas customers are Binghamton, Elmira, Auburn, Geneva, Ithaca and Lockport. We operate under the authority of the New York State Public Service Commission (NYPSC) and are also subject to regulation by the Federal Energy Regulatory Commission (FERC).

NYSEG is a subsidiary of Avangrid Networks, Inc. (Networks), which is a wholly-owned subsidiary of Avangrid, Inc. (AGR), which is a wholly-owned subsidiary of Iberdrola, S.A. (Iberdrola), a corporation organized under the laws of the Kingdom of Spain.

**Agreement and Plan of Merger:** On May 17, 2024, AGR entered into an Agreement and Plan of Merger (the Merger Agreement) with Iberdrola and Arizona Merger Sub, Inc (Merger Sub). As a result of the consummation of the Merger on December 23, 2024 (closing date), Merger Sub merged with and into Avangrid (the Merger), with Avangrid continuing as the surviving corporation and a wholly-owned subsidiary of Iberdrola. On the closing date, each share of common stock issued and outstanding immediately prior to the closing date (other than common stock owned by the Merger, Merger Sub or any other direct or indirect wholly owned Subsidiary of the Merger, and in each case not held on behalf of the third parties (collectively, the Excluded Shares)) was converted into a right to receive \$35.75 per share of common stock in cash, without interest.

On the closing date, (i) all shares of common stock ceased to be outstanding, were cancelled and ceased to exist and (ii) each Excluded Share ceased to be outstanding and was cancelled without payment of any consideration and ceased to exist. As a result of the consummation of the Merger on December 23, 2024, Iberdrola became the direct owner of 100 shares of common stock of Avangrid which represents the only outstanding capital of the Company. On the closing date, the New York Stock Exchange (NYSE) filed with the Securities and Exchange Commission (the SEC) a notification of removal from listing on Form 25 in order to delist the common stock from the NYSE and deregister the common stock under Section 12(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act). Following the effectiveness of the Form 25, on January 2, 2025, Avangrid filed with the SEC a Form 15 requesting the termination of registration of the common stock under Section 12(g) of the Exchange Act and the suspension of reporting obligations under Section 13 and 15(d) of the Exchange Act with respect to the common stock.

**Basis of presentation:** The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP).

**Significant Accounting Policies:** We consider the following policies to be the most significant in understanding the judgments that are involved in preparing our financial statements:

**Revenue recognition:** We recognize revenues when we transfer control of promised goods or services to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Refer to Note 4 for further details.

## **Notes to Financial Statements**

**Regulatory accounting:** We account for our regulated operations in accordance with the authoritative guidance applicable to entities with regulated operations that meet the following criteria: (i) rates are established or approved by an independent, third-party regulator; (ii) rates are designed to recover the entity's specific costs of providing the regulated services or products and; (iii) there is a reasonable expectation that rates are set at levels that will recover the entity's costs and can be collected from customers. Regulatory assets primarily represent incurred costs that have been deferred because of their probable future recovery from customers through regulated rates. Regulatory liabilities represent: (i) the excess recovery of costs or accrued credits that have been deferred because it is probable such amounts will be returned to customers through future regulated rates; or (ii) billings in advance of expenditures for approved regulatory programs.

We amortize regulatory assets and liabilities and recognize the related expense or revenue in our statements of income consistent with the recovery or refund included in customer rates. We believe it is probable that our currently recorded regulatory assets and liabilities will be recovered or settled in future rates.

**Utility plant:** We account for utility plant at historical cost. In cases where we are required to dismantle installations or to recondition the site on which they are located, we record the estimated cost of removal or reconditioning as an asset retirement obligation (ARO) and add an equal amount to the carrying amount of the asset.

Development and construction of our various facilities are carried out in stages. We expense project costs during early stage development activities. Once we achieve certain development milestones and it is probable that we can obtain future economic benefits from a project, we capitalize salaries and wages for persons directly involved in the project, and engineering, permits, licenses, wind measurement and insurance costs. We periodically review development projects in construction for any indications of impairment.

We transfer assets from "Construction work in progress" to "Utility plant" when they are available for service.

We determine depreciation expense for utility plant in service using the straight-line method, based on the average service lives of groups of depreciable property, which include estimated cost of removal. Consistent with FERC accounting requirements, we charge the original cost of utility plant retired or otherwise disposed of to accumulated depreciation. Our composite rate for depreciation was 2.4% of average depreciable property for both 2024 and 2023. We amortize our capitalized software cost which is included in common plant, using the straight line method, based on useful lives of 7 to 27 years. Capitalized software costs were approximately \$321.3 million as of December 31, 2024 and \$314.8 million as of December 31, 2023. Depreciation expense was \$214.8 million in 2024 and \$193.9 million in 2023. Amortization of capitalized software was \$15.5 million in 2024 and \$15.0 million in 2023.

We charge repairs and minor replacements to operating expenses, and capitalize renewals and betterments, including certain indirect costs.

Allowance for funds used during construction (AFUDC) is a non-cash item that represents the allowed cost of capital, including a return on equity (ROE), used to finance construction projects. We record the portion of AFUDC attributable to borrowed funds as a reduction of interest expense and record the remainder as other income.

Our balances of major classes of utility plant and associated useful lives are shown below as of December 31:

**Notes to Financial Statements**

Utility Plant (Thousands)	Estimated useful life range (years)	2024	2023
Electric	2-80	\$ 6,647,665	\$ 6,021,282
Natural Gas	2-75	1,444,527	1,380,310
Common	7-70	1,236,134	1,126,795
<b>Total Utility Plant in Service</b>		<b>9,328,326</b>	<b>8,528,387</b>
Total accumulated depreciation		(2,552,644)	(2,490,347)
<b>Total Net Utility Plant in Service</b>		<b>6,775,682</b>	<b>6,038,040</b>
Construction work in progress		903,915	882,447
<b>Total Utility Plant</b>		<b>\$ 7,679,597</b>	<b>\$ 6,920,487</b>

**Leases:** We determine if an arrangement is a lease at inception. We classify a lease as a finance lease if it meets any one of specified criteria that in essence transfers ownership of the underlying asset to us by the end of the lease term. If a lease does not meet any of those criteria, we classify it as an operating lease. On our balance sheets, we include, for operating leases: "Operating lease right-of-use (ROU) assets" and "Operating lease liabilities (current and non-current)"; and for finance leases: finance lease ROU assets in "Other assets" and liabilities in "Other current liabilities" and "Other liabilities."

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. We recognize lease ROU assets and liabilities at commencement of an arrangement based on the present value of lease payments over the lease term. We use the incremental borrowing rate based on information available at the lease commencement date to determine the present value of future payments, except when the rate implicit in the lease is determinable. A lease ROU asset also includes any lease payments made at or before commencement date, minus any lease incentives received, and includes initial direct costs incurred. We do not record leases with an initial term of 12 months or less on the balance sheet for all classes of underlying assets, and we recognize lease expense for those leases on a straight-line basis over the lease term. We include variable lease payments that depend on an index or a rate in the ROU asset and lease liability measurement based on the index or rate at the commencement date, or upon a modification. We do not include variable lease payments that do not depend on an index or a rate in the ROU asset and lease liability measurement. A lease term includes an option to extend or terminate the lease when it is reasonably certain that we will exercise that option. We recognize lease (rent) expense for operating lease payments on a straight-line basis over the lease term, or we recognize the amount eligible for recovery under our rate plan, such as actual amounts paid. We amortize finance lease ROU assets on a straight-line basis over the lease term and recognize interest expense based on the outstanding lease liability.

We have lease agreements with lease and non-lease components, and account for lease components and associated non-lease components together as a single lease component, for all classes of underlying assets.

**Impairment of long-lived assets:** We evaluate utility plant and other long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment evaluation is based on an undiscounted cash flow analysis at the lowest level to which cash flows of the long-lived assets or asset groups are largely independent of the cash flows of other assets and liabilities. We are required to recognize an impairment loss if the carrying amount of the asset exceeds the undiscounted future net cash flows associated with that asset.

## **Notes to Financial Statements**

The impairment loss to be recognized is the amount by which the carrying amount of the long-lived asset exceeds the asset's fair value. Depending on the asset, fair value may be determined by use of a discounted cash flow model, with assumptions consistent with a market participant's view of the exit price of the asset.

**Fair value measurement:** 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 as of the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place in either the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset according to its highest and best use, or by selling it to another market participant that would use the asset according to its highest and best use.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy based on the transparency of input to the valuation of an asset or liability as of the measurement date.

The three input levels of the fair value hierarchy are as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability either directly or indirectly, for substantially the full term of the contract.
- Level 3 - one or more inputs to the valuation methodology are unobservable or cannot be corroborated with market data.

Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Certain investments are not categorized within the fair value hierarchy. These investments are measured based on the fair value of the underlying investments but may not be readily redeemable at that fair value.

**Derivatives and hedge accounting:** Derivatives are recognized on our balance sheets at their fair value, except for certain electricity commodity purchases and sales contracts for both capacity and energy (physical contracts) that qualify for, and are elected under, the normal purchases and normal sales exception. To be a derivative under the accounting standards for derivatives and hedging, an agreement would need to have a notional and an underlying, require little or no initial net investment and could be net settled. We recognize changes in the fair value of a derivative contract in earnings unless specific hedge accounting criteria are met.

Derivatives that qualify and are designated for hedge accounting are classified as cash flow hedges. We report the gain or loss on the derivative instrument as a component of

**Notes to Financial Statements**

Other Comprehensive Income (OCI) and later reclassify amounts into earnings when the underlying transaction occurs, which we present in the same income statement line item as the earnings effect of the hedged item. If the amounts in OCI are probable of recovery in the ratemaking process, then the OCI is reclassified as a regulatory asset or liability. For all designated and qualifying hedges, we maintain formal documentation of the hedge and effectiveness testing in accordance with the accounting standards for derivatives and hedging. If we determine that the derivative is no longer highly effective as a hedge, we will discontinue hedge accounting prospectively. For cash flow hedges of forecasted transactions, we estimate the future cash flows of the forecasted transactions and evaluate the probability of the occurrence and timing of such transactions. If we determine it is probable that the forecasted transaction will not occur, we immediately recognize in earnings hedge gains and losses previously recorded in OCI.

Changes in conditions or the occurrence of unforeseen events could require discontinuance of the hedge accounting or could affect the timing of the reclassification of gains or losses on cash flow hedges from OCI into earnings. We record changes in the fair value of electric and natural gas hedge contracts to derivative assets or liabilities with an offset to regulatory assets or regulatory liabilities.

We offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

**Cash and cash equivalents:** Cash and cash equivalents include cash, bank accounts, and other highly liquid short-term investments. We consider all highly liquid investments with a maturity date of three months or less when acquired to be cash equivalents and include those investments in "Cash and cash equivalents." We classify book overdrafts representing outstanding checks in excess of funds on deposit as "Accounts payable and accrued liabilities" on our balance sheets. We report changes in book overdrafts in the operating activities section of the statements of cash flows.

**Concentration of risk:** We maintain our cash and cash equivalents in accounts with major financial institutions in the form of demand deposits and money market accounts. Deposits in these financial institutions may exceed the amount of federal deposit insurance provided on such deposits.

**Statements of cash flows:** Supplemental disclosure of cash flow information is as follows:

	2024	2023
<i>(Thousands)</i>		
<b>Cash paid (refunded) during the years ended December 31:</b>		
Interest, net of amounts capitalized	\$ 96,949	\$ 73,048
Income taxes refunded, net	\$ (27,329)	\$ (17,250)

Of the income taxes refunded, substantially all was refunded by AGR under the tax sharing agreement. Interest capitalized was \$20.5 million in 2024 and \$16.9 million in 2023. Accrued liabilities for utility plant additions were \$179.5 million and \$151.5 million as of December 31, 2024 and 2023, respectively.

**Broker margin accounts:** We maintain accounts with clearing firms that require initial margin deposits upon the establishment of new positions, primarily related to natural gas and electricity derivatives, as well as maintenance margin deposits in the event of unfavorable movements in

## **Notes to Financial Statements**

market valuation for those positions. We show the amount reflecting those activities as broker margin accounts on our balance sheets.

***Trade receivables and unbilled revenues, net of allowance for credit losses:*** We record trade receivables at amounts billed to customers and we record unbilled revenues based on an estimate of energy delivered or services provided to customers. The estimates for unbilled revenues are determined based on various assumptions, including current month energy load requirements, billing rates by customer class and delivery loss factors. Changes in those assumptions could significantly affect the estimated amounts of unbilled revenues.

The allowance for credit losses is our best estimate of the amount of probable credit losses in our existing trade receivables, determined based on experience for each service region. Each month we review our allowance for credit losses and past due accounts by age. When we believe that a receivable will not be recovered, we charge off the account balance against the allowance. Changes in assumptions about input factors and customer receivables, which are inherently uncertain and susceptible to change from period to period, could significantly affect the allowance for credit losses estimates.

Trade receivables at December 31 include unbilled revenues of \$115.4 million for 2024 and \$101.4 million for 2023, and are shown net of an allowance for credit losses at December 31 of \$68.6 million for 2024 and \$62.8 million for 2023. Trade receivables do not bear interest, although late fees may be assessed. Credit loss expense was \$55.1 million in 2024, including \$0.8 million of arrears forgiveness balances. Credit loss expense was \$62.1 million in 2023, including \$19.3 million of arrears forgiveness balances. Arrears forgiveness balances will be recovered through a tariff over a three year period that began August 1, 2022 for Phase 1 and a two and a half year-period that began on March 1, 2023 for Phase 2.

Trade receivables include amounts due under deferred payment arrangements (DPAs). When a residential customer becomes delinquent in making payments, the NYPSC requires us to allow the customer to enter into a DPA to settle the account balance. A DPA allows the account balance to be paid in installments without interest over an extended period of time, which generally exceeds one year, by negotiating mutually acceptable payment terms. Generally, we must continue to serve a customer who cannot pay an account balance in full if the customer: (i) pays a reasonable portion of the balance; (ii) agrees to pay the balance in installments; and (iii) agrees to pay future bills within 30 days until the DPA is paid in full. Failure to make payments on a DPA results in the full amount of a receivable under a DPA being due. These accounts are part of the regular operating cycle and we classify them as short term.

We establish our allowance for credit losses, including for unbilled revenue (also referred to as contract assets), by using both historical average loss percentages to project future losses, and by establishing a specific allowance for known credit issues or for specific items not considered in the historical average calculation. We consider whether we need to adjust historical loss rates to reflect the effects of current conditions and forecasted changes considering various economic indicators (e.g., Gross Domestic Product, Personal Income, Consumer Price Index, Unemployment Rate) over the contractual life of the trade receivables. We write off amounts when we have exhausted reasonable collection efforts. The allowance for credit losses for DPAs at December 31 was \$31.5 million for 2024 and \$17.6 million for 2023. DPA receivable balances at December 31 were \$52.3 million for 2024 and \$39.1 million for 2023.

***Debentures, bonds and bank borrowings:*** We record bonds, debentures and bank borrowings as a liability equal to the proceeds of the borrowings. We treat the difference between the proceeds and the face amount of the issued liability as discount or premium and accrete the amounts as interest expense or income over the life of the instrument. We defer incremental costs

**Notes to Financial Statements**

associated with the issuance of the debt instruments and amortize them over the same period as debt discount or premium. We present bonds, debentures and bank borrowings net of unamortized discount, premium and debt issuance costs on our balance sheets.

**Inventory:** Inventory comprises fuel and natural gas in storage and materials and supplies. We own natural gas that is stored in third-party owned underground storage facilities, which we record as inventory. We price injections of inventory into storage at the market purchase cost at the time of injection, and price withdrawals of working gas from storage at the weighted-average cost in storage. We continuously monitor the weighted-average cost of gas value to ensure it remains at the lower of cost and net realizable value. We report inventories to support gas operations on our balance sheets within “Fuel and natural gas in storage.”

We also have materials and supplies inventories that are used for construction of new facilities and repairs of existing facilities. These inventories are carried and withdrawn at the lower of cost and net realizable value and reported on the balance sheets within “Materials and supplies.” We combine inventory items for the statement of cash flows presentation purposes.

In addition, stand-alone renewable energy credits that are generated or purchased and held for sale are recorded at the lower of cost or net realizable value and are reported on our balance sheets within “Materials and supplies.”

**Government grants:** We record government grants as a reduction to the related utility plant to be recovered through rate base, in accordance with the prescribed FERC accounting.

In accounting for government grants related to operating and maintenance costs, we recognize amounts receivable as an offset to expenses in the statements of income in the period in which we incur the expenses.

The changes in government grants recorded as a reduction to the related utility plant as of December 31, 2024 and 2023 consisted of:

(Thousands)	Government grants		Total
<b>As of December 31, 2022</b>	<b>\$</b>	<b>10,783</b>	<b>\$ 10,783</b>
Disposals		—	—
Recognized in income		(291)	(291)
<b>As of December 31, 2023</b>	<b>\$</b>	<b>10,492</b>	<b>\$ 10,492</b>
Disposals		—	—
Recognized in income		(291)	(291)
<b>As of December 31, 2024</b>	<b>\$</b>	<b>10,201</b>	<b>\$ 10,201</b>

We are required to comply with certain terms and conditions applicable to each grant and, if a disqualifying event should occur as specified in the grant's terms and conditions, we are required to repay the grant funds to the government. We believe we are in compliance with each grant's terms and conditions as of December 31, 2024 and 2023.

**Deferred income:** Apart from government grants, we occasionally receive payments from transactions in advance of the resulting performance obligations arising from the transaction. It is our policy to defer such payments on our balance sheets and amortize them into earnings when revenue recognition criteria are met.

**Notes to Financial Statements**

**Asset retirement obligations:** We record the fair value of the liability for an asset retirement obligation (ARO) and a conditional ARO in the period in which it is incurred, capitalizing the cost by increasing the carrying amount of the related long-lived asset. The ARO is associated with our long-lived assets and primarily consists of obligations related to removal or retirement of: asbestos, polychlorinated biphenyl-contaminated equipment, gas pipeline and cast iron gas mains. We adjust the liability periodically to reflect revisions to either the timing or amount of the original estimated undiscounted cash flows over time. We accrete the liability to its present value each period and depreciate the capitalized cost over the useful life of the related asset. Upon settlement we will either settle the obligation at its recorded amount or incur a gain or a loss. We defer any timing differences between rate recovery and depreciation expense and accretion as either a regulatory asset or a regulatory liability.

The term conditional ARO refers to an entity's legal obligation to perform an asset retirement activity in which the timing or method of settlement are conditional on a future event that may or may not be within the entity's control. If an entity has sufficient information to reasonably estimate the fair value of the liability for a conditional ARO, it must recognize that liability at the time the liability is incurred.

The following table reconciles the beginning and ending aggregate carrying amount of the ARO for the years ended December 31, 2024 and 2023.

Years ended December 31,	2024	2023
(Thousands)		
ARO, beginning of year	\$ 11,078	\$ 11,349
Liabilities settled during the year	(893)	(867)
Accretion expense	582	596
<b>ARO, end of year</b>	<b>\$ 10,767</b>	<b>\$ 11,078</b>

We have AROs for which we have not recognized a liability because the fair value cannot be reasonably estimated due to indeterminate settlement dates, including: the removal of hydroelectric dams due to structural inadequacy or for decommissioning; the removal of property upon termination of an easement, right-of-way or franchise; and costs for abandonment of certain types of gas mains.

**Accrued removal obligations:** We meet the requirements concerning accounting for regulated operations and recognize a regulatory liability for the difference between removal costs collected in rates and actual costs incurred. We classify those amounts as accrued removal obligations.

**Environmental remediation liability:** In recording our liabilities for environmental remediation costs the amount of liability for a site is the best estimate, when determinable; otherwise it is based on the minimum liability or the lower end of the range when there is a range of estimated losses. We record our environmental liabilities on an undiscounted basis.

**Post-employment and other employee benefits:** We sponsor defined benefit pension plans that cover eligible employees. We also provide health care and life insurance benefits through various postretirement plans for eligible retirees.

We evaluate our actuarial assumptions on an annual basis and consider changes based on market conditions and other factors. All of our qualified defined benefit plans are funded in amounts calculated by independent actuaries, based on actuarial assumptions proposed by management.

## **Notes to Financial Statements**

We account for defined benefit pension or other postretirement plans, recognizing an asset or liability for the overfunded or underfunded plan status. For a pension plan, the asset or liability is the difference between the fair value of the plan's assets and the projected benefit obligation. For any other postretirement benefit plan, the asset or liability is the difference between the fair value of the plan's assets and the accumulated postretirement benefit obligation. We generally reflect all unrecognized prior service costs and credits and unrecognized actuarial gains and losses as regulatory assets rather than in OCI, as management believes it is probable that such items will be recoverable through the ratemaking process. If a plan meets settlement or curtailment accounting criteria, we recognize a regulatory asset or liability if these costs are probable of recovery from ratepayers. Certain nonqualified plan expenses are not recoverable through the ratemaking process and we present the unrecognized prior service costs and credits and unrecognized actuarial gains and losses in accumulated other comprehensive loss. We use a December 31st measurement date for our benefits plans.

We amortize prior service costs for both the pension and other postretirement benefits plans by assigning an equal amount to each future period of service of each employee active on the date of the amendment who is expected to receive benefits under the plan. Prior service cost changes resulting from union bargaining agreements are amortized on a straight-line basis over the period from first recognition to the end of the bargaining agreement. We amortize unrecognized actuarial gains and losses related to the pension and other postretirement benefits plans over 10 years from the time they are incurred as required by the NYPSC. Our policy is to calculate the expected return on plan assets using the market-related value of assets. We determine that value by recognizing the difference between actual returns and expected returns over a five-year period.

**Income taxes:** In August 2022, the Inflation Reduction Act of 2022 ("IRA") was signed into law in the United States. The IRA created a new corporate alternative minimum tax ("CAMT") of 15% on adjusted financial statement income and an excise tax of 1% on the value of certain stock repurchases. The CAMT and other various applicable provisions of the IRA are effective for the Company for periods beginning after December 31, 2022. The impact of CAMT will depend on our facts in each year, as well as on anticipated guidance from the U.S. Department of Treasury.

AGR, the parent company of Networks, files a consolidated federal income tax return and various state income tax returns, some of which are unitary as required or permitted, including all of the activities of its subsidiaries. Each subsidiary company is treated as a member of the consolidated group and determines its current and deferred taxes based on the separate return with benefits for loss method. As a member, NYSEG settles its current tax liability or benefit each year directly with AGR pursuant to a tax allocation agreement between AGR and its members.

The aggregate amount of the related party income tax payable to AGR is \$4.1 million and \$5.5 million at December 31, 2024 and 2023, respectively.

We use the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities reflect the expected future tax consequences, based on enacted tax laws, of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts. In accordance with U.S. GAAP for regulated industries, we have established regulatory assets and liabilities for the net revenue requirements to be recovered from or refunded to customers for the related future tax expense or benefit associated with certain of these temporary differences. We defer investment tax credits when earned and amortize them over the estimated lives of the related assets. We also recognize the income tax consequences of intra-entity transfers of assets other than inventory when the transfer occurs. We had no intra-entity transfers of assets other than inventory during the years ended December 31, 2024 and 2023.

## **Notes to Financial Statements**

Deferred tax assets and liabilities are measured at the expected tax rate for the period in which the asset or liability will be realized or settled, based on legislation enacted as of the balance sheet date. We charge or credit changes in deferred income tax assets and liabilities that are associated with components of OCI directly to OCI. Significant judgment is required in determining income tax provisions and evaluating tax positions. Our tax positions are evaluated under a more-likely-than-not recognition threshold before they are recognized for financial reporting purposes. We record valuation allowances to reduce deferred tax assets when it is more likely than not that we will not realize all or a portion of a tax benefit. We consider the effect of the alternative minimum tax system in determining the need for a valuation allowance for deferred taxes. Deferred tax assets and liabilities are netted and classified as non-current on our balance sheets.

We record the excess of state franchise tax computed as the higher of a tax based on income or a tax based on capital in "Taxes other than income taxes" and "Taxes accrued" in our financial statements.

Positions taken or expected to be taken on tax returns, including the decision to exclude certain income or transactions from a return, are recognized in the financial statements when it is more likely than not the tax position can be sustained based solely on the technical merits of the position. The amount of a tax return position that is not recognized in the financial statements is disclosed as an unrecognized tax benefit. Changes in assumptions on tax benefits may also impact interest expense or interest income and may result in the recognition of tax penalties. Interest and penalties related to unrecognized tax benefits are recorded within "Interest expense, net of capitalization" and "Other Income" and "Other Deductions" in our statements of income.

Uncertain tax positions have been classified as non-current unless expected to be paid within one year. Our policy is to recognize interest and penalties on uncertain tax positions as a component of interest expense in the statements of income.

Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management's best assessment of estimated current and future taxes to be paid. Significant judgments and estimates are required in determining the consolidated income tax components of the financial statements.

**Limited voting junior preferred stock:** We have a class of preferred stock having one share and a par value of \$1, which is issued and outstanding and has voting authority only with respect to whether NYSEG may file a voluntary bankruptcy petition.

**Stock-based compensation:** Stock-based compensation represents costs related to stock-based awards granted to employees. We account for stock-based payment transactions based on the estimated fair value of awards reflecting forfeitures when they occur. The recognition period for these costs begins at either the applicable service inception date or grant date and continues throughout the requisite service period, or until the employee becomes retirement eligible, if earlier.

## **Adoption of New Accounting Pronouncements**

Although we are not a public business entity, we adopt new accounting standards based on public business entity guidance aside from the effective dates in certain situations where we may follow the effective dates for private entities.

## **Notes to Financial Statements**

There have been no new accounting pronouncements adopted as of and for the year ended December 31, 2024 that are expected to have a material impact on NYSEG's financial statements.

### **Accounting Pronouncements Issued But Not Yet Adopted**

The following are new accounting pronouncements not yet adopted that we have evaluated or are evaluating to determine their effect on NYSEG's financial statements.

#### **(a) Improvements to Income Tax Disclosures**

In December 2023, the FASB issued guidance to enhance income tax disclosures. The standard is required to be adopted by private entities for the annual periods beginning after December 15, 2025. Early adoption is permitted. The two primary enhancements relate to disaggregation of the annual effective tax rate reconciliation and income taxes paid disclosures. For the rate reconciliation, it requires additional disaggregation of information in a tabular format using both percentages and amounts broken out into specific categories (e.g., state and local income tax net of federal income tax effect, foreign tax effects, effect of changes in tax laws, tax credits, changes in valuation allowances, nontaxable or nondeductible items, and changes in unrecognized tax benefits). For income taxes paid, it requires disaggregation by jurisdiction (e.g., federal, state and foreign). We do not expect the new guidance to have a material impact on our results of operations, financial position and cash flows.

**Use of estimates and assumptions:** The preparation of our financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but not limited to: (1) allowance for credit losses and unbilled revenues; (2) asset impairments; (3) depreciable lives of assets; (4) income tax valuation allowances; (5) uncertain tax positions; (6) reserves for professional, workers' compensation, and comprehensive general insurance liability risks; (7) contingency and litigation reserves; (8) earnings sharing mechanism (ESM); (9) environmental remediation liabilities; (10) pension and other postretirement employee benefits (OPEB); (11) fair value measurements and (12) AROs. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our financial statements will change as new events occur, as more experience is acquired, as additional information is obtained, and as our operating environment changes. We evaluate and update our assumptions and estimates on an ongoing basis and may employ outside specialists to assist in our evaluations, as considered necessary. Actual results could differ from those estimates.

**Union collective bargaining agreements:** Approximately 70% of our employees are covered by a collective bargaining agreement. We have no agreements that will expire during 2025.

## **Note 2. Industry Regulation**

### **Electricity and Natural Gas Distribution**

Our revenues are regulated, being based on tariffs established in accordance with administrative procedures set by the New York State Public Service Commission (NYPSC). The tariffs applied to regulated activities are approved by the NYPSC and are based on the cost of providing service.

## **Notes to Financial Statements**

Our revenues are set to be sufficient to cover all of our operating costs, including energy costs, finance costs, and the costs of equity, the last of which reflect our capital ratio and a reasonable return on equity (ROE).

Energy costs that are set on the New York wholesale markets are passed on to consumers. The difference between energy costs that are budgeted and those that are actually incurred is offset by applying reconciliation procedures that result in either immediate or deferred tariff adjustments. Reconciliation procedures apply to other costs, which are in many cases exceptional, such as the effects of extreme weather conditions, environmental factors, regulatory and accounting changes, and treatment of vulnerable customers. Any revenues that allow us to exceed target returns, usually the result of better than expected cost efficiency, are generally shared with customers, resulting in future tariff reductions.

### **2023 NYSEG Rate Plan**

On May 26, 2022, NYSEG made an initial filing to the NYPSC requesting increases to the delivery rates for its electric business of 31.2% and for its gas business of 20.7%. This initial filing started a lengthy process guided by NYPSC regulations. The Department of Public Service Staff and other parties to the rate cases submitted testimony on September 26, 2022. On October 18, 2022, the Companies submitted rebuttal testimony responding to the testimony of Department of Public Service Staff and other parties to the proceedings. On October 19, 2022, the Companies filed a notice of impending settlement negotiations. A Joint Proposal for a three year rate plan term for electric and gas service at NYSEG commencing May 1, 2023 and continuing through April 30, 2026 was filed on June 14, 2023. The NYPSC issued an Order on October 12, 2023 approving the Joint Proposal in its entirety with one modification to acknowledge that the “make whole” period would be effective from May 1, 2023 through November 1, 2023, rather than October 1, 2023, as originally proposed in the Joint Proposal. The effective date of new tariffs was November 1, 2023 with make-whole back to May 1, 2023. An Order was issued on April 18, 2024 approving the Companies’ filed tariff amendments on a permanent basis. The Joint Proposal bases delivery revenues on an 9.20% ROE and 48% equity ratio; however, for the proposed earnings sharing mechanism, the equity ratio is the lower of the actual equity ratio or 50%. The approved Joint Proposal was signed in whole or in part by eight parties, and includes levelized delivery rate increases as summarized below:

	May 1, 2023		May 1, 2024		May 1, 2025	
	Rate Increase (Millions)	Delivery Rate Increase* %	Rate Increase (Millions)	Delivery Rate Increase* %	Rate Increase (Millions)	Delivery Rate Increase* %
<b>Electric</b>	\$137.3	17.1%	\$160.7	17.1%	\$200.6	17.1%
<b>Gas</b>	\$11.7	5.6%	\$12.4	5.6%	\$12.9	5.6%

\* Based on “net base delivery” revenues, which consist of gross base delivery revenue plus Bill Issuance Payment Process (BIPP), plus Gross Revenue Tax (GRT).

The approved Joint Proposal also reflects increased energy efficiency programs and distribution vegetation management, along with investments in aging infrastructure, resiliency, continued implementation of Advanced Metering Infrastructure (AMI), and increases in the Company’s workforce. The approved Joint Proposal reflects the continued recovery of deferred NYSEG Electric storm costs and continued reserve accounting for qualifying Major Storms (\$31.5 million in Rate Year 1, \$41.5M in Rate Year 2 and \$46.5M in Rate Year 3). Incremental maintenance costs incurred to restore service in qualifying divisions will be chargeable to the Major Storm Reserve provided they meet certain thresholds for each storm event.

### **Notes to Financial Statements**

The approved Joint Proposal continued part of the electric reliability performance measures (and associated potential negative revenue adjustments for failing to meet established performance levels) which include the system average interruption frequency index (SAIFI) and the customer average interruption duration index (CAIDI). The approved Joint Proposal modified the Tier II SAIFI targets to make them more achievable. The Proposal also maintains certain gas safety performance measures at the company, including those relating to the replacement of leak prone main, leak backlog management, emergency response, and damage prevention. The approved Joint Proposal established threshold performance levels for designated aspects of customer service quality, with increases to potential negative revenue adjustments. The approved Joint Proposal continues bill reduction and arrears forgiveness Low Income Programs. Certain REV-related incremental costs and fees will be included in the revenue adjustment mechanism (RAM) to the extent cost recovery is not provided for elsewhere. Under the approved Joint Proposal, NYSEG continues the RAM, which is applicable to all customers, to return or collect RAM Eligible Deferrals and Costs, including: (1) property taxes; (2) Major Storm deferral balances; (3) gas leak prone pipe replacement; (4) REV costs and fees which are not covered by other recovery mechanisms; (5) costs associated with the implementation of any Commission-ordered EV program which are not covered by any other cost recovery mechanism; and (6) Covid-related uncollectibles (Rate Years 1 and 2 only).

The Proposal provided for partial or full reconciliation of certain expenses including, but not limited to: pension and other postretirement benefits; property taxes; variable rate debt and new fixed rate debt; gas research and development; environmental remediation costs; Major Storms; nuclear electric insurance limited credits; economic development; Low Income Programs, and Covid-related Uncollectible Expense. The Proposal also includes downward-only Net Plant, AML and Resiliency Program reconciliations. In addition, the Proposal included downward-only reconciliations for the costs of: electric distribution and gas vegetation management; pipeline integrity; and other incremental maintenance programs. The Proposal provided that the Company continue the electric and gas revenue decoupling mechanisms (RDM) on a total revenue per class basis.

The Proposal provides that with few exceptions, the provisions for electric and gas service under the Proposal for Rate Year 3 (the twelve-month period ending April 30, 2026) shall continue unless and until such provisions and base delivery rates for electric or gas service are changed by subsequent order of the New York Public Service Commission. Thus, from May 1, 2023, until such time as new rates are approved by the Commission, the current rates and terms for Rate Year 3 of the prior Proposal remain in effect.

### **Reforming the Energy Vision (REV)**

In April 2014, the NYPSC commenced a proceeding entitled REV, which is a wide-ranging initiative to reform New York State's energy industry and regulatory practices. REV was divided into two tracks, Track 1 for Market Design and Technology, and Track 2 for Regulatory Reform. REV and its related proceedings have and will continue to propose regulatory changes that are intended to promote more efficient use of energy, deeper penetration of renewable energy resources such as wind and solar and wider deployment of distributed energy resources (DER), such as micro grids, on-site power supplies and storage.

The NYPSC issued a 2015 order in Track 1, which acknowledged the utilities' role as a Distribution System Platform provider, and required the utilities to file an initial Distribution System Implementation Plan (DSIP) followed by bi-annual updates. The next scheduled DSIP update is June 30, 2025.

### **Notes to Financial Statements**

A Track 2 order was issued in May 2016, and included guidance related to the potential for Earnings Adjustment Mechanisms (EAMs), Platform Service Revenues, innovative rate designs and data utilization and security. EAMs were approved by the Commission on November 19, 2020 in its Order approving NYSEG's 2020 Rate Plan. Modifications to EAMs were approved by the Commission on October 12, 2023 in its Order approving NYSEG's 2023 Rate Plan.

In 2017, the NYPSC approved a transition from traditional Net Energy Metering (NEM) towards a more values-based approach (Value Stack) for compensating DER. Since that time, the Commission has issued a number of orders on additional Value of Distributed Energy Resources matters. On January 16, 2024, the NYPSC Staff issued a proposal on Community Distributed Generation (CDG) Billing and Crediting Performance Metrics and Negative Revenue Adjustments (NRA). The NYPSC Staff recommends six CDG performance metrics with associated NRAs that would incent improvements to the CDG billing processes. At this time, the outcome of this proceeding is unknown. On May 16, 2024, the NYPSC issued an Order approving a statewide Solar for All program, effective December 1, 2025, whereby utilities would aggregate bill credits generated by participating CDG projects and distribute them among customers automatically enrolled in the utility's low-income energy affordability programs that are located in a disadvantaged community. Also on May 16, 2024, the NYPSC issued an Order that permits CDG projects to offer up to three distinct CDG savings rates to CDG subscribers beginning June 1, 2025.

Other REV-related orders pertaining to electric vehicles (EV), an Integrated Energy Data Resource (IEDR) platform and energy storage are summarized below.

- The NYPSC issued an Order on April 20, 2023 instituting a proceeding to advance infrastructure for medium and heavy-duty vehicles. The Joint Utilities filed an implementation plan with the NYPSC for the medium and heavy-duty pilot program. The Joint Utilities are awaiting the NYPSC's approval of the implementation plan.
- On February 11, 2021, the NYPSC issued an Order to implement an Integrated Energy Data Resource platform, where NYSERDA was designated as the Program Sponsor of the platform. The Order established a combined cost cap of \$12 Million for NYSEG and RG&E for Phase 1, to be deferred and recovered in the next rate case filing after Phase 1 is complete. On January 19, 2024, the NYPSC issued an Order approving Phase 2 budget, with costs up to the combined cost cap deferred for future recovery in the same manner as Phase 1.
- An order was issued on July 16, 2020 approving a \$700 million statewide program (NYSEG and RG&E combined share is approximately \$118 million) funded by customers to accelerate the deployment of EV charging stations. On November 16, 2023, the Commission issued its Order Approving Midpoint Review Whitepaper's Recommendations with Modifications. The Order increased the total budget to \$1.243 billion for the statewide program (NYSEG and RG&E combined share is approximately \$131 million).
- On December 13, 2018, the NYPSC issued an Order for utilities to file implementation plans detailing a competitive procurement process and cost recovery for deploying qualified storage systems. NYSEG has tariffs in effect to collect costs for the procurement of qualified energy storage assets. On June 20, 2024, the NYPSC issued an Order establishing an updated storage goal and deployment policy.

**Notes to Financial Statements**

- On April 18, 2024 the NYPSC instituted a proceeding intended to transition New York to a more connected, affordable, resilient, and clean electric grid. During the proceeding, Public Service Commission staff will engage with stakeholders to develop a comprehensive New York Grid of the Future plan that establishes targets for the deployment of flexible resources such as virtual power plants and identifies the utility investments needed to enable the grid of the future. The NYPSC is commencing this proceeding to establish a clear set of needed grid capabilities, establish targets for deployment of those capabilities, identify required investments to effectuate those targets, and identify the anticipated customer benefits and savings achievable from meeting those targets. NYPSC Staff filed a Grid Flexibility Study on January 31, 2025 and will develop and file the first iteration of the “New York Grid of the Future Plan” (Plan) by February 28, 2025.
- On August 15, 2024, the NYPSC issued an Order Establishing Proactive Planning Proceeding. The Order directs utilities to develop and propose a framework for a process to proactively plan for electric vehicles and electrification, and to identify urgent projects that may need to be deployed before the planning process is completed. On December 13, 2024, the Joint Utilities filed a long-term proactive planning framework.

**Customer Arrearages Reduction Order**

On June 16, 2022, the NYPSC issued an order (Phase 1) authorizing an arrears reduction program targeting low-income customers to provide COVID-19-related relief through a one-time bill credit to eliminate accrued arrears through May 1, 2022. A portion of the targeted arrearages will be funded via direct contributions from the State of New York, and the remainder to be received via a surcharge to all customers. The surcharge recovery is over three years for NYSEG beginning on August 1, 2022.

On January 19, 2023, the NYPSC issued a subsequent order (Phase 2) providing bill relief for customers who did not receive a credit as part of the Phase 1 Program approved in 2022 (Low Income Program participants). Qualifying residential and small business customers are eligible to have any past-due balance from bills for service through May 1, 2022, reduced through a one time bill credit, up to a maximum credit below:

Residential	Total Forecast Residential Credits (Millions)	Small Business	Total Forecast Small Business Credits (Millions)
Up to \$1,000	\$16.9	Up to \$1,250	\$1.4

The New York State Budget for 2023-2024 included an appropriation of \$200 million designated to provide prompt utility bill relief. On February 15, 2024, the NYPSC issued an order authorizing and directing utilities, including NYSEG, to provide one-time bill credits to customers to achieve the stated purpose of the budget appropriation. The February 15, 2024 NYPSC Order provides \$8.7 million and \$4.3 million, for NYSEG Electric and Gas customers, respectively, to be distributed in the form of one-time credits to customers as shown below:

Service	Number of Customers	NYSEG Allocation (Millions)	Estimated Credit Per Customer
Electric	916,528	\$8.7	\$9.5
Gas	271,630	\$4.3	\$15.7

## **Notes to Financial Statements**

### **Community Leadership and Climate Protection Act Transmission**

Pursuant to the Community Leadership and Climate Protection Act of 2019 (CLCPA) and Accelerated Renewable Energy Growth and Community Benefit Act of 2020, the Commission has issued orders addressing investment in transmission by NYSEG to support the state achieving the CLCPA's goal of 70% renewable energy by 2030. First, on December 15, 2022, the Commission issued an Order authorizing NYSEG to continue the development of CLCPA "Phase 1" transmission projects with an estimated investment of approximately \$1.27 billion through 2030. CLCPA Phase 1 transmission projects are upgrades to the NYSEG local transmission system that are being developed to satisfy reliability needs, but that also create headroom on the transmission system for the interconnection and delivery of new generation sources. The December 15, 2022 Order allows NYSEG to continue development of the projects while the rate case is pending, with any final project approvals to be addressed in the rate case.

Second, on February 16, 2023, the Commission issued an Order approving the investment of approximately \$2.05 billion by NYSEG through 2030 in CLCPA "Phase 2" transmission projects. Phase 2 transmission projects are upgrades to the NYSEG local transmission system that are being developed primarily to allow for the interconnection and delivery of renewable energy in the Southern Tier, an area that the Commission has designated as an "Area of Concern" for renewable energy development because there is substantial renewable energy development interest but inadequate transmission. Unlike other transmission owned by NYSEG, the cost of CLCPA Phase 2 transmission will be recovered pursuant to a formula rate under the jurisdiction of the Federal Energy Regulatory Commission (FERC) so that costs can be allocated statewide. NYSEG and other transmission-owning utilities in New York negotiated a Cost Sharing and Recovery Agreement (CSRA), which was approved by the Commission on May 12, 2022, and by FERC on August 22, 2022. Under the terms of the CSRA the cost of CLCPA Phase 2 transmission projects approved by the Commission will be recovered through the New York Independent System Operator tariff, with ROE and capital structure determined by the Commission, subject to an ROE ceiling set by FERC. The CSRA requires utilities to obtain authorization from the Commission prior to seeking recovery of a 100% construction work in progress (CWIP) incentive associated with CLCPA Phase 2 projects. In an April 19, 2024 Order, the Commission granted the Company's request for authorization to seek a 100% CWIP incentive for its CLCPA Phase 2 projects. On July 5, 2024, FERC conditionally accepted NYSEG's application for CWIP and the 100% Abandoned Plant incentive (Abandoned Plant), subject to further compliance, for projects that are subject to subsequent permitting approval by the NYPSC under Article VII of New York State's Public Service Law, effective July 8, 2024, and denied the application for CWIP and Abandoned Plant for projects not subject to Article VII permitting approval. NYSEG is assessing the July 5, 2024 FERC order and the impacts on the companies. On October 1, FERC ruled on NYSEG's request for clarification/rehearing. FERC confirmed that any projects that receive state siting approval orders that include the required reliability and/or congestion reduction determinations can qualify for incentives, not limited to the projects listed in the July order as Article VII projects. FERC denied clarification and rehearing to include CWIP in rate base prior to FERC's acceptance of the state siting orders.

### **Minimum Equity Requirements for Regulated Subsidiaries**

NYSEG is subject to a minimum equity ratio requirement that is tied to the capital structure assumed in establishing revenue requirements. Pursuant to these requirements, NYSEG must maintain a minimum equity ratio equal to the ratio in its currently effective rate plan or decision measured using a trailing 13-month average. On a monthly basis, NYSEG must maintain a

### **Notes to Financial Statements**

minimum equity ratio of no less than 300 basis points below the equity ratio used to set rates. The minimum equity ratio requirement has the effect of limiting the amount of dividends that may be paid and may, under certain circumstances, require that the parent contribute equity capital. NYSEG is prohibited by regulation from lending to unregulated affiliates. NYSEG has also agreed to minimum equity ratio requirements in certain borrowing agreements. These requirements are lower than the regulatory requirements.

#### **Note 3. Regulatory Assets and Liabilities**

Pursuant to the requirements concerning accounting for regulated operations we capitalize, as regulatory assets, incurred and accrued costs that are probable of recovery in future electric and natural gas rates. We base our assessment of whether recovery is probable on the existence of regulatory orders that allow for recovery of certain costs over a specific period, or allow for reconciliation or deferral of certain costs. When costs are not treated in a specific order we use regulatory precedent to determine if recovery is probable.

We also record, as regulatory liabilities, obligations to refund previously collected revenue or to spend revenue collected from customers on future costs. Of the total regulatory assets net of regulatory liabilities, approximately \$130.1 million represents the offset of accrued liabilities for which funds have not been expended. The remainder is either included in rate base or accruing carrying costs.

Details of other regulatory assets and other regulatory liabilities are shown in the tables below. They result from various regulatory orders that allow for the deferral and/or reconciliation of specific costs. Regulatory assets and regulatory liabilities are classified as current when recovery or refund in the coming year is allowed or required through a specific order or when the rates related to a specific regulatory asset or regulatory liability are subject to automatic annual adjustment.

On October 12, 2023, the NYPSC approved the Proposal in connection with a three-year rate plan for electric and gas service at NYSEG effective May 1, 2023. Following the approval of the proposal most of these items related to NYSEG are amortized over a three-year period, except the portion of storm costs to be recovered over ten years, plant related tax items which are amortized over the life of associated plant, and unfunded deferred taxes which are amortized over forty three years. In accordance with the Schedule of Regulatory Amortizations included in the approved Joint Proposal, annual net amortization revenue for NYSEG is approximately \$39.0 million for the year ended December 31, 2024.

Regulatory assets at December 31, 2024 and 2023 consisted of:

**Notes to Financial Statements**

<b>December 31,</b>	<b>2024</b>	<b>2023</b>
(Thousands)		
Asset retirement obligation	\$ 11,014	\$ 11,303
Electric supply reconciliation	17,632	4,991
Environmental remediation costs	50,516	47,167
Energy efficiency programs	—	8,967
Federal tax depreciation normalization adjustment	71,851	75,627
Low income programs	21,298	12,701
Low income arrears forgiveness	9,748	24,066
Make-whole provision	37,059	63,342
Pension and other post-retirement benefits	76,952	99,656
Pension and other post-retirement benefits cost deferrals	12,595	16,559
Rate adjustment mechanism	17,175	15,734
Rate change levelization	72,723	38,572
Revenue decoupling mechanism	28,008	14,095
Sales and use tax audit deferral	7,651	9,269
Storm costs	808,286	529,811
Unamortized loss on re-acquired debt	7,992	9,686
Uncollectible reserve	77,565	61,661
Unfunded future income taxes	28,669	17,758
Value distributed energy resource	35,553	32,617
Vegetation management	86,276	69,859
Other	105,226	91,180
<b>Total regulatory assets</b>	<b>1,583,789</b>	<b>1,254,621</b>
Less: current portion	269,166	204,332
<b>Total non-current regulatory assets</b>	<b>\$ 1,314,623</b>	<b>\$ 1,050,289</b>

Asset retirement obligations represent the differences in timing of the recognition of costs associated with our AROs and the collection of such amounts through rates. This amount is being amortized at the related depreciation and accretion amounts of the underlying liability.

Electric supply reconciliation represents over/under collection of costs related to electric supply in which NYSEG supplies electricity as the default service option for customers.

Environmental remediation costs include spending that has occurred and is eligible for future return/recovery in customer rates. Environmental costs are currently recovered through a reserve mechanism whereby projected spending is included in rates with any variance recorded as a regulatory asset or a regulatory liability. The amortization period will be established in future proceedings and will depend upon the timing of spending for the remediation costs. It also includes the anticipated future rate recovery of costs that are recorded as environmental liabilities since these will be recovered when incurred. Because no funds have yet been expended for the regulatory asset related to future spending, it does not accrue carrying costs and is not included within rate base.

Energy efficiency represents the costs of energy efficiency programs deferred for future recovery to the extent they exceed the amount in rates. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

### **Notes to Financial Statements**

Federal tax depreciation normalization adjustment represents the revenue requirement impact of the difference in the deferred income tax expense required to be recorded under the IRS normalization rules and the amount of deferred income tax expense that was included in cost of service for rate years covering 2011 forward. The recovery period is being amortized over a twenty-year period starting in 2023.

Low income programs represent deferrals related to over/under spending on Low-Income customer assistance programs.

Low income arrears forgiveness represents deferred bill credits in the state of New York based on the order issued by PSC on June 16, 2022, approving deferral of bill credits for low-income customers (Phase 1), and additional deferred bill credits for other residential and small commercial customers who did not qualify for Phase 1 based on the order issued by PSC on January 19, 2023 (Phase 2). The Phase 1 regulatory asset will be recovered from all customers over three years for NYSEG through a surcharge that began August 1, 2022. The Phase 2 regulatory asset will be recovered from all customers over two and a half years for NYSEG through a surcharge that began March 1, 2023.

Make-whole provision represents the regulatory asset to recover revenues that would have been received by NYSEG had Rate Year 1 rates approved in the 22-E-0317 et al. joint proposal gone into effect on the effective date of May 1, 2023. The balance is being recovered through a separately stated make-whole rate, effective November 1, 2023, over 6-30 months.

Pension and other postretirement benefits represent the actuarial losses on the pension and other postretirement plans that will be reflected in customer rates when they are amortized and recognized in future pension expenses. Because no funds have yet been expended for this regulatory asset, it does not accrue carrying costs and is not included within the rate base.

Pension and other postretirement benefits cost deferrals include the difference between actual expense for pension and other postretirement benefits and the amount provided for in rates. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

Rate adjustment mechanism (RAM) represents a mechanism each business implements to return or collect the net balance of RAM eligible deferrals and costs. The primary driver of RAM collections is storm costs, but it also includes property taxes and REV costs and fees not covered in other recovery mechanisms.

Rate change levelization adjusts the New York delivery rate increases across the three-year plan to avoid unnecessary spikes and offsetting dips in customer rates. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

Revenue decoupling mechanism represents the mechanism established to disassociate the utility's profits from its delivery/commodity sales.

Sales and Use tax audit deferral represents sales and use tax refunds allocated to operating expenses. This balance is being amortized in current rates over a six-year period beginning in 2023.

### **Notes to Financial Statements**

Storm costs for NYSEG are allowed in rates based on an estimate of the routine costs of service restoration. NYSEG is also allowed to defer unusually high levels of service restoration costs resulting from major storms when they meet certain criteria for severity and duration. Since the approval of the 2010 rate plan in New York (see Note 2), we have experienced unusually high levels of restoration costs resulting from various storms including Hurricane Sandy, Hurricane Irene and tropical storm Lee. NYSEG's total storm balance was \$808.3 million at December 31, 2024 and \$529.8 million at December 31, 2023. Pursuant to the most recent Joint Proposal approved by the Commission, which began May 1, 2023, NYSEG will recover \$96.6 million of the balance over seven years and \$187.7 million of the balance over ten years for non-super storms, and \$52.3 million of the balance over seven years for the super-storm balance.

Unamortized losses on reacquired debt represent deferred losses on debt reacquisitions that will be recovered over the remaining original amortization period of the reacquired debt.

Uncollectible reserve includes the anticipated future rate recovery of costs that are recorded as uncollectible since those will be recovered when incurred. Because no funds have yet been expended for the regulatory asset related to future uncollectible expense, it does not accrue carrying costs and is not included within rate base. It also includes the variance between actual uncollectible expense and uncollectible expense included in rates that is eligible for future recovery in customer rates. The amortization period will be established in future proceedings.

Unfunded future income taxes represent unrecovered federal and state income taxes primarily resulting from regulatory flow through accounting treatment. The income tax benefits or charges for certain plant related timing differences, such as removal costs, are immediately flowed through to, or collected from, customers. This amount is being amortized as the amounts related to temporary differences that give rise to the deferrals are recovered in rates.

Value distributed energy resource represents a mechanism to compensate energy created by distributed energy resources like solar.

Vegetation management represents a program to address danger trees outside of the distribution right-of-way, including but not limited to, ash trees.

Other includes items such as AMI accelerated depreciation, earnings adjustment mechanism, and electric vehicle deferrals.

Regulatory liabilities at December 31, 2024 and 2023 consisted of:

**Notes to Financial Statements**

<b>December 31,</b> (Thousands)	<b>2024</b>	<b>2023</b>
Accrued removal obligation	\$ 392,255	\$ 430,834
Accumulated deferred investment tax credits	9,910	10,554
Debt rate reconciliation	5,430	17,830
Energy efficiency programs	561	—
Gas supply charge and deferred natural gas cost	—	7,022
Hedge gains	12,495	—
New York 2018 winter storm settlement	95	160
Non by-passable charges	3,163	9,076
Pension and other postretirement benefits	51,248	37,088
Pension and other postretirement benefits cost deferral	8,293	11,330
Property tax	5,137	5,238
Service quality performance mechanism	41,809	38,717
Tax Act remeasurement	340,018	356,074
Unfunded future income taxes	254	1,076
Other	65,604	67,720
<b>Total regulatory liabilities</b>	<b>936,272</b>	<b>992,719</b>
Less: current portion	64,233	75,587
<b>Total non-current regulatory liabilities</b>	<b>\$ 872,039</b>	<b>\$ 917,132</b>

Accrued removal obligations represent the differences between asset removal costs recorded and amounts collected in rates for those costs. The amortization period is dependent upon the asset removal costs of underlying assets and the life of the utility plant.

Accumulated deferred investment tax credits represent investment tax credits related to plant investments that are deferred when earned and amortized over the estimated lives of the related assets.

Debt rate reconciliation represents the over/under collection of costs related to fixed and variable rate debt instruments identified in the rate case. Costs include interest, commissions and fees versus amounts included in rates. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases. The amortization period in current rates is three years and began in 2023.

Energy efficiency represents the costs of energy efficiency programs deferred for future recovery to the extent they exceed the amount in rates. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

Hedge gains regulatory liability represents deferred fair value gains on electric and gas hedge contracts.

New York 2018 winter storm settlement represents the settlement amount with the NYSPSC following the comprehensive investigation of New York's major utility companies' preparation and response to March 2018 storms. This balance is amortized through current rates over an amortization period of three years, beginning in 2023.

Non by-passable charges represent the non by-passable charge paid by all customers. An asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered. This liability will be refunded to customers within the next year.

## **Notes to Financial Statements**

Pension and other postretirement benefits represent the actuarial gains on pension and other postretirement plans that will be reflected in customer rates when they are amortized and recognized in future expenses. Because no funds have yet been received for this a regulatory liability is not reflected within rate base. They also represent the difference between actual expense for pension and other postretirement benefits and the amount provided for in rates. Recovery of these amounts will be determined in future proceedings.

Pension and other postretirement benefits cost deferrals include the difference between actual expense for pension and other postretirement benefits and the amount provided for in rates. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

Property taxes represent the customer portion of the difference between actual expense for property taxes and the amount provided for in rates. The New York (NY) amount is being amortized over a five-year period following the approval of the proposal by the NYPSC.

Service quality performance mechanism represents negative revenue adjustments as well positive rate adjustments for exceeding and/or failing to meet targets for certain performance measures including the system average interruption frequency index (SAIFI) and the customer average interruption duration index (CAIDI), certain gas safety performance measures and for uncollectible/terminations/arrears measures. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

Tax Act remeasurement represents the impact from remeasurement of deferred income tax balances as a result of the Tax Act enacted by the U.S. federal government on December 22, 2017. Reductions in accumulated deferred income tax balances due to the reduction in the corporate income tax rates from 35% to 21% under the provisions of the Tax Act will result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers, generally through reductions in future rates.

Other includes various items subject to reconciliation including Clean Energy Fund (CEF), Net Plant Reconciliation, Methane Detection Program and Direct Current Fast Charging (DCFC).

### **Note 4. Revenue**

We recognize revenue when we have satisfied our obligations under the terms of a contract with a customer, which generally occurs when the control of promised goods or services transfers to the customer. We measure revenue as the amount of consideration we expect to receive in exchange for providing those goods or services. Contracts with customers may include multiple performance obligations. For such contracts, we allocate revenue to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to customers. Certain revenues are not within the scope of ASC 606, such as revenues from leasing, derivatives, other revenues that are not from contracts with customers and other contractual rights or obligations, and we account for such revenues in accordance with the applicable accounting standards. We exclude from revenue amounts collected on behalf of third parties, including any such taxes collected from customers and remitted to governmental authorities. We do not have any material significant payment terms because we receive payment at or shortly after the point of sale.

The following describes the principal activities from which we generate revenue.

## **Notes to Financial Statements**

NYSEG derives its revenue primarily from tariff-based sales of electricity and natural gas service to customers in New York with no defined contractual term. For such revenues, we recognize revenues in an amount derived from the commodities delivered to customers. Other major sources of revenue are electricity transmission and wholesale sales of electricity and natural gas.

Tariff-based sales are subject to the corresponding state regulatory authorities, which determine prices and other terms of service through the ratemaking process. In New York, customers have the option to obtain the electricity or natural gas commodity directly from the utility or from another supplier. For customers that receive their commodity from another supplier, the utility acts as an agent and delivers the electricity or natural gas provided by that supplier. Revenue in those cases is only for providing the service of delivery of the commodity.

Transmission revenue results from others' use of the utility's transmission system to transmit electricity and is subject to FERC regulation, which establishes the prices and other terms of service. Long-term wholesale sales of electricity are based on individual bilateral contracts. Short-term wholesale sales of electricity are generally on a daily basis based on market prices and are administered by the New York Independent System Operator (NYISO) or PJM Interconnection, LLC (PJM), as applicable. Wholesale sales of natural gas are generally short-term based on market prices through contracts with the specific customer.

The performance obligation in all arrangements is satisfied over time because the customer simultaneously receives and consumes the benefits as NYSEG delivers or sells the electricity or natural gas or provides the transmission service.

NYSEG records revenue from Alternative Revenue Programs (ARPs), which is not ASC 606 revenue. Such programs represent contracts between the utilities and their regulators. The NYSEG ARPs include revenue decoupling mechanisms, other ratemaking mechanisms, annual revenue requirement reconciliations, and other demand side management programs.

NYSEG also has various other sources of revenue including billing, collection, other administrative charges, sundry billings, rent of utility property, and miscellaneous revenue. It classifies such revenues as other ASC 606 revenues to the extent they are not related to revenue generating activities from leasing, ARPs, or other activities.

We have contract liabilities for revenue from transmission congestion contract (TCC) auctions, for which we receive payment at the beginning of an auction period, and amortize ratably each month into revenue over the applicable auction period. The auction periods range from six months to two years. TCC contract liabilities totaled \$8.9 million at December 31, 2024 and \$17.4 million at December 31, 2023, and are presented in "Other current liabilities" on our balance sheets. We recognized \$20.9 million and \$43.7 million as revenue during the years ended December 31, 2024 and 2023, respectively.

We apply a practical expedient to expense as incurred costs to obtain a contract when the amortization period is one year or less. We record costs incurred to obtain a contract within operating expenses, including amortization of capitalized costs.

Revenues disaggregated by major source for the years ended December 31, 2024 and 2023 are as follows:

**Notes to Financial Statements**

Years Ended December 31, (Thousands)	2024	2023
Regulated operations – electricity	\$ 1,966,855	\$ 1,768,816
Regulated operations – natural gas	318,753	362,304
Other(a)	34,999	21,440
<b>Revenue from contracts with customers</b>	<b>2,320,607</b>	<b>2,152,560</b>
Leasing revenue	1,009	919
Alternative revenue programs	35,336	24,188
Other revenue	16,639	19,269
<b>Total operating revenues</b>	<b>\$ 2,373,591</b>	<b>\$ 2,196,936</b>

(a) Primarily includes certain intra-month trading activities, billing, collection, and administrative charges, sundry billings, and other miscellaneous revenue.

**Note 5. Income Taxes**

Current and deferred taxes charged to expense for the years ended December 31, 2024 and 2023 consisted of:

Years Ended December 31, (Thousands)	2024	2023
<b>Current</b>		
Federal	\$ (32,675)	\$ (8,990)
State	(238)	(337)
<b>Current taxes charged to benefit</b>	<b>(32,913)</b>	<b>(9,327)</b>
<b>Deferred</b>		
Federal	74,933	39,354
State	20,050	14,140
<b>Deferred taxes charged to expense</b>	<b>94,983</b>	<b>53,494</b>
Investment tax credit adjustments	(510)	(510)
<b>Total Income Tax Expense</b>	<b>\$ 61,560</b>	<b>\$ 43,657</b>

The differences between tax expense per the statements of income and tax expense at the 21% statutory federal tax rate for the years ended December 31, 2024 and 2023, respectively, consisted of:

Years Ended December 31, (Thousands)	2024	2023
Tax expense at statutory rate	\$ 64,181	\$ 53,737
Equity AFUDC tax effects	(6,071)	(4,535)
Excess ADIT amortization	(11,872)	(16,354)
Investment tax credit amortization	(510)	(510)
State tax expense, net of federal benefit	15,651	10,904
Other, net	181	415
<b>Total Income Tax Expense</b>	<b>\$ 61,560</b>	<b>\$ 43,657</b>

Income tax expense for the year ended December 31, 2024 was \$2.6 million lower than it would have been at the statutory federal income tax rate of 21% due predominately to excess Accumulated Deferred Income Tax (ADIT) amortization and AFUDC Equity tax effects, partially

**Notes to Financial Statements**

offset by state taxes. This resulted in an effective tax rate of 20.1%. Income tax expense for the year ended December 31, 2023 was \$10.1 million lower than it would have been at the statutory federal income tax rate of 21% due predominately to excess ADIT amortization and AFUDC Equity tax effects, partially offset by state taxes. This resulted in an effective tax rate of 17.1%.

In 2020, NYSEG began refunding previously deferred protected and unprotected Excess ADIT, established as a result of the 2017 Tax Act as part of the 2020 Joint Proposal and as determined by the NYPSC and IRS normalization rules.

Deferred tax assets and liabilities as of December 31, 2024 and 2023 consisted of:

December 31, (Thousands)	2024	2023
<b>Non-current Deferred Income Tax Liabilities (Assets)</b>		
Property related	\$ 1,062,430	\$ 957,039
Storm costs	212,100	138,998
Pension and other post-retirement benefits	(8,688)	(11,074)
Power tax deferred income tax	18,854	19,841
Regulatory liability due to "Tax Cuts and Jobs Act"	(89,227)	(93,423)
Environmental	(14,963)	(15,556)
Federal and state NOL's	(308,191)	(214,429)
Other	102,978	72,447
<b>Total Non-current Deferred Income Tax Liabilities</b>	<b>\$ 975,293</b>	<b>\$ 853,843</b>
Deferred tax assets	\$ 421,069	\$ 334,482
Deferred tax liabilities	1,396,362	1,188,325
<b>Net Accumulated Deferred Income Tax Liabilities</b>	<b>\$ 975,293</b>	<b>\$ 853,843</b>

NYSEG has gross federal net operating losses of \$1,051.8 million and gross NY state net operating losses of \$1,685.2 million for the year ended December 31, 2024. NYSEG had gross federal net operating losses of \$743 million and gross NY state net operating losses of \$1,115.5 million for the year ended December 31, 2023.

Uncertain tax positions have been classified as non-current unless expected to be paid within one year. Our policy is to recognize interest and penalties on uncertain tax positions as a component of interest expense in the statements of income.

The reconciliation of unrecognized income tax benefits for the years ended December 31, 2024 and 2023 consisted of:

Years Ended December 31, (Thousands)	2024	2023
Balance as of January 1	\$ 44,905	\$ 44,978
Reduction for tax positions related to prior years	(73)	(73)
<b>Balance as of December 31</b>	<b>\$ 44,832</b>	<b>\$ 44,905</b>

Unrecognized income tax benefits represent income tax positions taken on income tax returns but not yet recognized in the financial statements. The accounting guidance for uncertainty in income taxes provides that the financial effects of a tax position shall initially be recognized in the financial statements when it is more likely than not based on the technical merits that the position will be

### **Notes to Financial Statements**

sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information.

There were no additional accruals for interest and penalties on tax reserves as of December 31, 2024 and 2023.

### **Note 6. Long-term Debt**

Long-term debt as of December 31, 2024 and 2023 consisted of:

As of December 31,	2024		2023		
(Thousands, except interest rates)	Maturity Dates	Balances	Interest Rates	Balances	Interest Rates
Senior unsecured debt	2026-2052	\$ 2,975,000	1.95%-5.85%	\$ 2,450,000	1.95%-5.85%
Unsecured pollution control notes – fixed	2026-2034	441,210	1.40% - 4.00%	453,210	1.40% - 4.00%
Unamortized debt issuance costs and discount		(17,744)		(18,417)	
<b>Total Debt</b>		<b>\$3,398,466</b>		<b>\$2,884,793</b>	
Less: debt due within one year, included in current liabilities		—		9,603	
<b>Total Non-current Debt</b>		<b>\$ 3,398,466</b>		<b>\$ 2,875,190</b>	

On June 21, 2023 NYSEG issued \$100 million aggregate principal amount of unsecured, tax-exempt bond maturing in 2034 at an interest of 4.00%.

On August 3, 2023 NYSEG issued \$350 million aggregate principal amount of unsecured green public bond maturing in 2028 at an interest of 5.65%.

On August 3, 2023 NYSEG issued \$400 million aggregate principal amount of unsecured green public bond maturing in 2033 at an interest of 5.85%.

On August 6, 2024, NYSEG issued \$525 million aggregate principal amount of unsecured green public bond maturing in 2034 at an interest of 5.30%.

Long-term debt, including sinking fund obligations, due over the next five years consist of:

	2025	2026	2027	2028	2029	Total
(Thousands)						
	\$—	\$565,000	\$34,000	\$417,210	\$175,000	\$1,191,210

### **Note 7. Bank Loans and Other Borrowings**

NYSEG had no notes payable outstanding at December 31, 2024 and \$83.3 million notes payable outstanding at December 31, 2023, respectively. NYSEG funds short-term liquidity needs through an agreement among Avangrid's regulated utility subsidiaries (the Virtual Money Pool Agreement), a bi-lateral intercompany credit agreement with Avangrid (the Bi-Lateral Intercompany Facility) and a bank provided credit facility to which NYSEG is a party (the AGR Credit Facility), each of which are described below.

### **Notes to Financial Statements**

The Virtual Money Pool Agreement is an agreement among the investment grade-rated, regulated utility subsidiaries of Avangrid under which the parties to this agreement may lend to or borrow from each other. This Agreement allows Avangrid to optimize cash resources within the regulated utility companies which are prohibited by regulation from lending to unregulated affiliates. The interest rate on transactions under this agreement is the A2/P2 non-financial 30-day commercial paper rate published by the Federal Reserve. NYSEG has a lending/borrowing limit of \$100 million under this agreement. NYSEG had no debt outstanding under this agreement at December 31, 2024 and \$20.9 million outstanding under this agreement at December 31, 2023, respectively.

The Bi-Lateral Intercompany Facility provides for borrowing of up to \$500 million from Avangrid at the A2/P2 non-financial 30-day commercial paper rate published by the Federal Reserve. NYSEG had no debt outstanding under this agreement at December 31, 2024 and \$62.4 million outstanding under this agreement at December 31, 2023, respectively.

On November 23, 2021, AGR and its investment-grade rated utility subsidiaries (NYSEG, Rochester Gas and Electric Corporation ("RG&E"), Central Maine Power Company ("CMP"), The United Illuminating Company ("UI"), Connecticut Natural Gas Corporation ("CNG"), The Southern Connecticut Gas Company ("SCG") and The Berkshire Gas Company ("BGC")) executed a new credit facility with an aggregate limit of \$3,575 million and a termination date of November 23, 2026. Under the terms of the Avangrid Credit Facility, each borrower has a maximum borrowing entitlement, or sublimit, which can be periodically adjusted to address specific short-term capital funding needs, subject to the maximum limit contained in the agreement. NYSEG has a maximum sublimit of \$700 million, RG&E has \$300 million, CMP has \$200 million and UI has a maximum sublimit of \$250 million, CNG and SCG have maximum sublimits of \$150 million, and BGC has a maximum sublimit of \$50 million. Effective on November 23 2021, the AGR Credit Facility was amended to increase AGR's maximum sublimit to \$2,500 million and to establish minimum sublimits of \$500 million for NYSEG, \$200 million for RG&E, \$100 million for CMP, \$150 million for UI, \$50 million for CNG and SCG, and \$25 million for BGC. On July 17, 2023, the Avangrid Credit Facility was amended and restated to, among other things, provide for the replacement of LIBOR-based rates with SOFR-based rates. Under the AGR Credit Facility, each of the borrowers are charged a facility fee that is dependent on their credit rating. The facility fees range from 10.0 to 22.5 basis points. NYSEG had no outstanding balance as of December 31, 2024 and December 31, 2023.

In the AGR Credit Facility we covenant not to permit, without the consent of the lenders, our ratio of total indebtedness to total capitalization to exceed 0.65 to 1.00 at any time. For purposes of calculating the maximum ratio of indebtedness to total capitalization, the facility excludes from net worth the balance of accumulated other comprehensive loss as it appears on the balance sheet. The facility contains various other covenants, including a restriction on the amount of secured indebtedness we may maintain. Continued un-remedied failure to comply with those covenants beyond any applicable cure period, constitutes an event of default, and events of default could result in termination or reduction of lenders' commitments or acceleration of amounts owed under the facility. Our ratio of indebtedness to total capitalization pursuant to the revolving credit facility was 0.49 to 1.00 at December 31, 2024. We are not in default as of December 31, 2024.

### **Note 8. Preferred Stock Redeemable Solely at the Option of the Company**

At December 31, 2024 and 2023, NYSEG had 2,455,000 shares of \$100 par value preferred stock, 10,800,000 shares of \$25 par value preferred stock and 1,000,000 shares of \$100 par value preference stock authorized but unissued.

**Notes to Financial Statements**

**Note 9. Leases**

We have operating leases for office buildings, facilities, vehicles and certain equipment. Our finance leases are primarily related to electric generation, distribution, transmission and other. Certain of our lease agreements include rental payments adjusted periodically for inflation or are based on other periodic input measures. Our leases do not contain any material residual value guarantees or material restrictive covenants. Our leases have remaining lease terms of 1 to 47 years, some of which may include options to extend the leases for up to 20 years, and some of which may include options to terminate the leases within one year. We consider extension or termination options in the lease term if it is reasonably certain we will exercise the option.

The components of lease cost and other information related to leases were as follows:

<b>Years Ended December 31,</b>	<b>2024</b>	<b>2023</b>
(Thousands)		
<b>Lease cost</b>		
Finance lease cost		
Amortization of right-of-use assets	\$ 3,265	\$ 3,503
Interest on lease liabilities	111	122
<b>Total finance lease cost</b>	<b>3,376</b>	<b>3,625</b>
Operating lease cost	1,225	1,429
Short-term lease cost	1,154	1,494
Variable lease cost	18	15
Intercompany	(73)	(72)
<b>Total lease cost</b>	<b>\$ 5,700</b>	<b>\$ 6,491</b>

Balance sheet and other information for the years ended December 31, 2024 and 2023 was as follows:

**Notes to Financial Statements**

As of December 31,	2024	2023
<i>(Thousands, except lease term and discount rate)</i>		
<b>Operating Leases</b>		
Operating lease right of use assets	\$ 7,305	\$ 8,202
Operating lease liabilities, current	1,318	1,237
Operating lease liabilities, long-term	7,167	8,034
Total operating lease liabilities	\$ 8,485	\$ 9,271
<b>Finance Leases</b>		
Other assets	\$ 24,971	\$ 28,235
Other current liabilities	244	230
Other non-current liabilities	1,458	1,479
Total finance lease liabilities	\$ 1,702	\$ 1,709
<b>Weighted-average Remaining Lease Term (years):</b>		
Finance leases	6.08	6.89
Operating leases	8.66	9.28
<b>Weighted-average Discount Rate:</b>		
Finance leases	5.33 %	5.65 %
Operating leases	3.56 %	3.51 %

Supplemental cash flows information related to leases was as follows:

Years Ended December 31,	2024	2023
<i>(Thousands)</i>		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 1,368	\$ 1,497
Operating cash flows from finance leases	\$ 110	\$ 108
Financing cash flows from finance leases	\$ 224	\$ 212
Right-of-use assets obtained in exchange for lease obligations:		
Finance leases	\$ —	\$ —
Operating leases	\$ 381	\$ 431

Maturities of lease liabilities were as follows:

**Notes to Financial Statements**

	Finance	Operating
<i>(Thousands)</i>		
<b>Years Ended December 31,</b>		
2025	\$ 324	\$ 1,472
2026	401	1,400
2027	401	1,013
2028	401	1,111
2029	401	783
Thereafter	97	4,174
<b>Total lease payments</b>	<b>2,025</b>	<b>9,953</b>
Less: imputed interest	(323)	(1,468)
<b>Total</b>	<b>\$ 1,702</b>	<b>\$ 8,485</b>

Most of our leases do not provide an implicit rate in the lease, thus we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments.

**Note 10. Commitments and Contingencies**

**Purchase power and natural gas contracts, including nonutility generators**

NYSEG is the provider of last resort for customers. As a result, the company buys physical energy and capacity from the NYISO. In accordance with the NYPSC's February 26, 2008 Order, NYSEG is required to hedge on behalf of non-demand billed customers. The physical electric capacity purchases we make from parties other than the NYISO are to comply with the hedge requirement for electric capacity. The company enters into financial swaps to comply with the hedge requirement for physical electric energy purchases. NYSEG also makes purchases from other independent power producers and New York Power Authority (NYPA) under existing contracts or long-term supply agreements in order to comply with the company's Public Utility Regulatory Policies Act (PURPA) purchase obligation.

NYSEG satisfies its natural gas supply requirements through purchases from various producers and suppliers, withdrawals from natural gas storage, capacity contracts and winter peaking supplies and resources. The company operates diverse portfolios of gas supply, firm transportation capacity, gas storage and peaking resources. Actual gas costs incurred by the company are passed through to customers through state regulated purchased gas adjustment mechanisms, subject to regulatory review.

The company purchases the majority of its natural gas supply at market prices under seasonal, monthly or mid-term supply contracts and the remainder is acquired on the spot market. The company acquires firm transportation capacity on interstate pipelines under long-term contracts and utilizes that capacity to transport both natural gas supply purchased and natural gas withdrawn from storage to the local distribution system. The company acquires firm underground natural gas storage capacity using long-term contracts and fills the storage facilities with gas in the summer months for subsequent withdrawal in the winter months.

We recognized expenses of approximately \$96.2 million for Normal Purchase Normal Sale (NPNS) purchase power and natural gas contracts including non-utility generators in 2024 and \$92.2 million in 2023.

## **Notes to Financial Statements**

### **Note 11. Environmental Liability**

From time to time environmental laws, regulations and compliance programs may require changes in our operations and facilities and may increase the cost of electric and natural gas service.

#### **Waste sites**

The Environmental Protection Agency (EPA) and the New York State Department of Environmental Conservation (NYSDEC), as appropriate, have notified us that we are among the potentially responsible parties that may be liable for costs incurred to remediate certain hazardous substances at twelve waste sites. The twelve sites do not include sites where coal gas was manufactured in the past, which are discussed below. With respect to the twelve sites, ten sites are included in the New York State Registry of Inactive Hazardous Waste Disposal Sites and two sites are also included on the National Priorities list. Any liability may be joint and several for certain of those sites.

We have recorded a liability of \$5.0 million as of December 31, 2024, related to the twelve sites. We have paid remediation costs related to the twelve sites. We have recorded an estimated liability of \$0.6 million related to other two sites where we believe it is probable that we will incur remediation costs and/or monitoring costs, although we have not been notified that we are among the potentially responsible parties. It is possible that the ultimate cost to remediate the sites may be significantly more than the accrued amount. Our estimate for costs to remediate these sites ranges from \$5.6 million to \$6.2 million as of December 31, 2024. Factors affecting the estimated remediation amount include the remedial action plan selected, the extent of site contamination and the portion attributed to us. It is anticipated that costs would be recovered in rates typical of historical Site Investigation and Remediation rate recovery.

#### **Manufactured gas plants**

We have a program to investigate and perform necessary remediation and/or monitoring at our 39 sites where coal gas was manufactured in the past. The Company has entered into orders on consent with the NYSDEC for 37 sites and into a Brownfield Cleanup Program for 1 site. Those orders require us to investigate and, where necessary, remediate 38 of our 39 sites, with the 39th site the responsibility of another potentially responsible party (PRP). Six sites are included in the New York State Registry.

Our estimate for costs related to investigation, remediation and/or monitoring of the 38 sites ranges from \$48.6 million to \$123.9 million at December 31, 2024. The estimate could change materially based on facts and circumstances derived from site investigations, changes in required remedial action, changes in technology relating to remedial alternatives, changes due to property use and changes to current laws and regulations.

The liability to investigate and perform remediation and/or monitoring, as necessary, at the known inactive coal gas manufacturing sites was \$51.4 million at December 31, 2024 and \$53.9 million at December 31, 2023. We recorded a corresponding regulatory asset, net of insurance recoveries and the amount collected from FirstEnergy described below, because we expect to recover the net costs in rates.

Our environmental liability accruals are recorded on an undiscounted basis and are expected to be paid through the year 2051.

## **Notes to Financial Statements**

### **FirstEnergy**

NYSEG sued FirstEnergy under the Comprehensive Environmental Response, Compensation, and Liability Act to recover environmental cleanup costs at sixteen former manufactured coal gas sites, which are included in the discussion above. In July 2011, the District Court issued a decision and order in NYSEG's favor. Based on past and future clean-up costs at the sixteen sites in dispute, FirstEnergy would be required to pay NYSEG approximately \$60 million if the decision were upheld on appeal. On September 9, 2011, FirstEnergy paid NYSEG \$30 million, representing their share of past costs of \$27 million and pre-judgment interest of \$3 million.

FirstEnergy appealed the decision to the Second Circuit Court of Appeals. On September 11, 2014, the Second Circuit Court of Appeals affirmed the District Court's decision in NYSEG's favor, but modified the decision for nine sites, reducing NYSEG's damages for incurred costs from \$27 million to \$22 million, excluding interest, and reducing FirstEnergy's allocable share of future costs at these sites. NYSEG refunded FirstEnergy the excess \$5 million in November 2014.

FirstEnergy remains liable for a share of clean up expenses at nine manufactured gas plant sites. Based on current projections, FirstEnergy's share is estimated at approximately \$7.4 million. This amount is being treated as a contingent asset and has not been recorded as either a receivable or a decrease to the environmental provision. Any recovery will be flowed through to NYSEG ratepayers.

### **Note 12. Accounting for Derivative Instruments and Hedging Activities**

We are exposed to certain risks relating to our ongoing business operations. The primary risk we manage by using derivative instruments is commodity price risk. In accordance with the accounting requirements concerning derivative instruments and hedging activities, we recognize all derivative instruments as either assets or liabilities at fair value on our balance sheet.

The financial instruments we hold or issue are not for trading or speculative purposes.

**Commodity price risk:** Commodity price risk, due to volatility experienced in the wholesale energy markets, is a significant issue for the electric and natural gas utility industries. We manage this risk through a combination of regulatory mechanisms, such as the pass-through of the market price of electricity and natural gas to customers, and through comprehensive risk management processes. Those measures mitigate our commodity price exposure, but do not completely eliminate it. Owned electric generation and long-term supply contracts reduce our exposure to market fluctuations.

We have electricity commodity purchases and sales contracts for both capacity and energy (physical contracts) that have been designated and qualify for the normal purchases and normal sales exception in accordance with the accounting requirements concerning derivative instruments and hedging activities.

We currently have a non by-passable wires charge adjustment that allows us to pass through rates any changes in the market price of electricity. We use electricity contracts, both physical and financial, to manage fluctuations in electricity commodity prices in order to provide price stability to customers. We include the cost or benefit of those contracts in the amount expensed for electricity purchased when the related electricity is sold. We record changes in the fair value of electric hedge contracts to derivative assets and/or liabilities with an offset to regulatory assets and/or regulatory liabilities in accordance with the requirements concerning accounting for regulated operations.

**Notes to Financial Statements**

We have a purchased gas adjustment clause that allows us to recover through rates any changes in the market price of purchased natural gas, substantially eliminating our exposure to natural gas price risk. We use natural gas futures and forwards to manage fluctuations in natural gas commodity prices in order to provide price stability to customers. We include the cost or benefit of natural gas futures and forwards in the commodity cost that is passed on to customers when the related sales commitments are fulfilled. We record changes in the fair value of natural gas hedge contracts to derivative assets and/or liabilities with an offset to regulatory assets and/or regulatory liabilities in accordance with the requirements concerning accounting for regulated operations.

The amounts for electricity hedge contracts and natural gas hedge contracts recognized in regulatory liabilities and assets as of December 31, 2024 and 2023, respectively, and amounts reclassified from regulatory assets and liabilities into income for the years ended December 31, 2024 and 2023, respectively, are as follows:

(Thousands)	Loss or (Gain) Recognized in Regulatory Assets/ Liabilities		Location of Loss (Gain) Reclassified from Regulatory Assets/ Liabilities into Income	Loss (Gain) Reclassified From Regulatory Assets/ Liabilities Into Income	
	Electricity	Natural Gas	2024	Electricity	Natural Gas
<b>As of</b>			<b>Years Ended</b>		
<b>December 31, 2024</b>			<b>December 31,</b>		
Regulatory assets	\$ —	\$ 115	Electricity and natural gas purchased	\$ 29,300	\$ 3,730
Regulatory liabilities	\$ (12,359)	\$ (136)			
<b>December 31, 2023</b>			<b>2023</b>		
Regulatory assets	\$ 16,807	\$ 3,211	Electricity and natural gas purchased	\$ 75,022	\$ 5,618
Regulatory liabilities	\$ —	\$ —			

Our derivative volumes by commodity type that are expected to settle each year are:

Year to settle	Electricity Contracts	Natural Gas Contracts
	Mwhs	Dths
<b>As of December 31, 2024</b>		
2025	3,308,950	2,730,000
2026	473,575	360,000
<b>As of December 31, 2023</b>		
2024	3,064,100	2,630,000
2025	717,600	370,000

The offsetting of derivatives, location in the balance sheet and amounts of derivatives as of December 31, 2024 and 2023, respectively, consisted of:

**Notes to Financial Statements**

<b>December 31, 2024</b>	<b>Derivative Assets-current</b>	<b>Derivative Assets-Non- current</b>	<b>Derivative Liabilities- current</b>	<b>Derivative Liabilities-Non- current</b>
<i>(Thousands)</i>				
Not designated as hedging instruments				
Derivative assets	\$ 24,554	\$ 3,498	\$ 13,933	\$ 1,624
Derivative liabilities	(13,933)	(1,624)	(14,048)	(1,624)
	10,621	1,874	(115)	—
Designated as hedging instruments				
Derivative assets	—	—	—	—
Derivative liabilities	—	—	—	—
	—	—	—	—
Total derivatives before offset of cash collateral	10,621	1,874	(115)	—
Cash collateral receivable	—	—	115	—
<b>Total derivatives as presented in the balance sheet</b>	<b>\$ 10,621</b>	<b>\$ 1,874</b>	<b>\$ —</b>	<b>\$ —</b>
<b>December 31, 2023</b>	<b>Derivative Assets-current</b>	<b>Derivative Assets-Non- current</b>	<b>Derivative Liabilities- current</b>	<b>Derivative Liabilities-Non- current</b>
<i>(Thousands)</i>				
Not designated as hedging instruments				
Derivative assets	\$ 8,021	\$ 2,285	\$ 8,021	\$ 2,285
Derivative liabilities	(8,021)	(2,285)	(23,551)	(6,774)
	—	—	(15,530)	(4,489)
Designated as hedging instruments				
Derivative assets	—	—	—	—
Derivative liabilities	—	—	—	—
	—	—	—	—
Total derivatives before offset of cash collateral	—	—	(15,530)	(4,489)
Cash collateral receivable	—	—	15,530	4,489
<b>Total derivatives as presented in the balance sheet</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

As of December 31, 2024 and 2023, the derivative assets - non-current are presented within other non-current assets of the balance sheet. The derivative liabilities - non-current are presented within other non-current liabilities of the balance sheet.

*Derivatives designated as hedging instruments*

The effect of derivatives in cash flow hedging instruments on OCI and income for the years ended December 31, 2024 and 2023, respectively, consisted of:

**Notes to Financial Statements**

Years Ended December 31,	(Loss) Gain Recognized in OCI on Derivatives	Location of (Loss) Gain Reclassified From Accumulated OCI into Income	(Loss) Gain Reclassified From Accumulated OCI into Income	Total Amount per Income Statement
(Thousands)				
<b>2024</b>				
Interest rate contracts	\$ —	Interest expense	\$ —	\$ 109,774
<b>Total</b>	<b>\$ —</b>		<b>\$ —</b>	
<b>2023</b>				
Interest rate contracts	\$ —	Interest expense	\$ (44)	\$ 86,858
<b>Total</b>	<b>\$ —</b>		<b>\$ (44)</b>	

There is no gain (loss) amount in AOCI related to previously settled forward starting swaps and accumulated amortization as of December 31, 2024 and 2023. There was a net loss of \$0.05 million in AOCI related to previously settled forward starting swaps and accumulated amortization, which was fully amortized during the year ended December 31, 2023.

We face risks related to counterparty performance on hedging contracts due to counterparty credit default. We have developed a matrix of unsecured credit thresholds that are dependent on a counterparty's or the counterparty guarantor's applicable credit rating (normally Moody's or Standard & Poor's). When our exposure to risk for counterparty exceeds the unsecured credit threshold, the counterparty is required to post additional collateral or we will no longer transact with the counterparty until the exposure drops below the unsecured credit threshold.

We have various master netting arrangements in the form of multiple contracts with various single counterparties that are subject to contractual agreements that provide for the net settlement of all contracts through a single payment. Those arrangements reduce our exposure to a counterparty in the event of default on or termination of any one contract. For financial statement presentation, we offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

Certain of our derivative instruments contain provisions that require us to maintain an investment grade credit rating on our debt from each of the major credit rating agencies. If our debt were to fall below investment grade, it would be in violation of those provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on December 31, 2024 is \$0.1 million for which we have posted collateral.

**Note 13. Fair Value of Financial Instruments and Fair Value Measurements**

The estimated fair value of debt amounted to \$3,186 million and \$2,720 million as of December 31, 2024 and 2023, respectively. The estimated fair value was determined, in most cases, by discounting the future cash flows at market interest rates. The interest rate curve used to make these calculations takes into account the risks associated with the electricity industry and the credit ratings of the borrowers in each case. The fair value hierarchy for the fair value of debt is considered as Level 2.

**Notes to Financial Statements**

**Assets and liabilities measured at fair value on a recurring basis**

The financial instruments measured at fair value as of December 31, 2024 and 2023 consisted of:

Description (Thousands)	(Level 1)	(Level 2)	(Level 3)	Netting	Total
<b>As of December 31, 2024</b>					
<b>Assets</b>					
Non-current investments available for sale, primarily money market funds	\$ 9,316	\$ —	\$ —	\$ —	9,316
Derivatives					
Commodity contracts:					
Electricity	27,481	—	—	(15,122)	12,359
Natural gas	571	—	—	(435)	136
<b>Total</b>	<b>\$ 37,368</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (15,557)</b>	<b>\$ 21,811</b>
<b>Liabilities</b>					
Derivatives					
Commodity contracts:					
Electricity	\$ (15,123)	\$ —	\$ —	\$ 15,123	\$ —
Natural gas	(549)	—	—	549	—
<b>Total</b>	<b>\$ (15,672)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 15,672</b>	<b>\$ —</b>
<b>As of December 31, 2023</b>					
<b>Assets</b>					
Non-current investments available for sale, primarily money market funds	\$ 8,779	\$ —	\$ —	\$ —	8,779
Derivatives					
Commodity contracts:					
Electricity	10,267	—	—	(10,267)	—
Natural gas	39	—	—	(39)	—
<b>Total</b>	<b>\$ 19,085</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (10,306)</b>	<b>\$ 8,779</b>
<b>Liabilities</b>					
Derivatives					
Commodity contracts:					
Electricity	\$ (27,074)	\$ —	\$ —	\$ 27,074	\$ —
Natural gas	(3,251)	—	—	3,251	—
<b>Total</b>	<b>\$ (30,325)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 30,325</b>	<b>\$ —</b>

We had no transfers to or from Level 1 and 2 during the years ended December 31, 2024 and 2023. Our policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that causes a transfer, if any.

## Notes to Financial Statements

*Valuation techniques:* We measure the fair value of our non-current investments available for sale using quoted market prices in active markets for identical assets and include the measurements in Level 1. The investments which are Rabbi Trusts for deferred compensation plans primarily consist of money market funds.

We determine the fair value of our derivative assets and liabilities utilizing market approach valuation techniques:

- We enter into electric energy derivative contracts to hedge the forecasted purchases required to serve their electric load obligations. We hedge our electric load obligations using derivative contracts that are settled based upon Locational Based Marginal Pricing published by the NYISO. We hedge approximately 70% of their electric load obligations using contracts for a NYISO location where an active market exists. The forward market prices used to value the companies' open electric energy derivative contracts are based on quoted prices in active markets for identical assets or liabilities with no adjustment required and therefore we include the fair value in Level 1.
- We enter into natural gas derivative contracts to hedge the forecasted purchases required to serve our natural gas load obligations. The forward market prices used to value our open natural gas derivative contracts are exchange-based prices for the identical derivative contracts traded actively on the New York Mercantile Exchange. Because we use prices quoted in an active market, we include those fair value measurements in Level 1.

### Note 14. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss for the years ended December 31, 2024 and 2023, consisted of:

	Balance, December 31, 2022	Change 2023	Balance, December 31, 2023	Change 2024	Balance, December 31, 2024
<i>(Thousands)</i>					
Amortization of pension cost for non-qualified plans and current year actuarial gain (loss), net of income tax expense (benefit) of \$9 for 2023 and (\$27) for 2024	\$ (603)	\$ 24	\$ (579)	\$ (108)	\$ (687)
Unrealized gain (loss) on derivatives qualified as hedges:					
Reclassification adjustment for loss on settled cash flow treasury hedges, net of income tax benefit of (\$183) for 2023 and (\$0) for 2024		227		—	
Net unrealized gain (loss) on derivatives qualified as hedges	(217)	227	10	—	10
<b>Accumulated Other Comprehensive Loss</b>	<b>\$ (820)</b>	<b>\$ 251</b>	<b>\$ (569)</b>	<b>\$ (108)</b>	<b>\$ (677)</b>

### Note 15. Post-retirement and Similar Obligations

We have funded non-contributory defined benefit pension plans that cover all eligible employees. For employees hired before 2002, the plans provide defined benefits based on years of service and final average salary. Employees hired in 2002 or later are covered under a cash balance plan or formula where their benefit accumulates based on a percentage of annual salary and credited interest. During 2013, we announced that we would stop the cash balance accruals for all non-

### **Notes to Financial Statements**

union employees covered under the cash balance plans effective December 31, 2013. NYSEG's unionized employees covered under the cash balance plans ceased to receive accruals as of December 31, 2015. Their earned balances would continue to accrue interest, but would no longer be increased by a percentage of earnings. In place of the pension benefit for those employees, they will receive a minimum contribution to their account under their respective company's defined contribution plan. During 2022, the Company decided to freeze pension benefit accruals and contribution credits for non-union employees and transition their retirement benefits to the 401(k) Plan. During 2024, the Company decided to freeze pension benefit accruals for union employees.

The company maintains a 401(k) Savings and Retirement Plan (the Plan) for all eligible employees as defined in the Plan agreement. Participants in the Plan may contribute a percentage of their compensation and the Company may match a predetermined percentage of the participant contributions. Expenses under the Plan for the Company totaled approximately \$19.5 million for 2024 and \$16.7 million for 2023.

We also have other postretirement health care benefit plans covering substantially all of our employees. The health care plans are contributory with participants' contributions adjusted annually.

#### **Non-Qualified Retirement Benefit Plans**

We also sponsor various unfunded non-qualified pension plans for certain current employees, former employees and former directors. The total liability for these plans, which is included in Other non-current liabilities on our balance sheets, was \$2.2 million and \$2.4 million at December 31, 2024 and 2023, respectively.

#### **Qualified Retirement Benefit Plans**

Obligations and funded status as of December 31, 2024 and 2023 consisted of:

<b>As of December 31,</b>	<b>Pension Benefits</b>		<b>Postretirement Benefits</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
(Thousands)				
<b>Change in benefit obligation</b>				
Benefit obligation at January 1	\$ 1,159,963	\$ 1,136,121	\$ 94,493	\$ 95,760
Service cost	3,112	3,695	298	332
Interest cost	50,161	56,209	3,739	4,632
Amendments	—	—	(14,593)	—
Actuarial (gain) loss	(55,754)	57,264	(1,600)	6,238
Curtailments	(13,169)	—	—	—
Benefits paid	(95,052)	(93,326)	(12,783)	(12,469)
<b>Benefit obligation at December 31</b>	<b>\$ 1,049,261</b>	<b>\$ 1,159,963</b>	<b>\$ 69,554</b>	<b>\$ 94,493</b>
<b>Change in plan assets</b>				
Fair value of plan assets at January 1	\$ 1,114,333	\$ 1,115,006	\$ 20,238	\$ 29,337
Actual return on plan assets	14,528	92,653	2,931	4,658
Employer & plan participants' contributions	—	—	1,476	—
Benefits paid	(95,052)	(93,326)	(12,783)	(13,757)
<b>Fair value of plan assets at December 31</b>	<b>\$ 1,033,809</b>	<b>\$ 1,114,333</b>	<b>\$ 11,862</b>	<b>\$ 20,238</b>
<b>Funded status</b>	<b>\$ (15,452)</b>	<b>\$ (45,630)</b>	<b>\$ (57,692)</b>	<b>\$ (74,255)</b>

**Notes to Financial Statements**

During 2024, the pension benefit obligation had an actuarial gain of \$55.8 million. This gain was primarily driven by \$63.9 million gain from increase in discount rates. During 2024, the pension benefit obligation had a reduction of \$13.2 million from curtailments. The curtailments were driven by a Company decision to freeze pension benefit accruals for union employees. During 2024, the postretirement benefit obligation had an actuarial gain of \$1.6 million. This gain was primarily driven by \$3.2 million gain from increase in discount rates. During 2024, the postretirement benefit obligation had a reduction of \$14.6 million from plan amendments.

During 2023, the pension benefit obligation had an actuarial loss of \$57.3 million. This loss was primarily driven by \$53.4 million loss from decrease in discount rates. During 2023, the postretirement benefit obligations had an actuarial loss of \$6.2 million. This loss was primarily driven by \$3.3 million loss from decrease in discount rates.

Amounts recognized in the balance sheet as of December 31, 2024 and 2023 consisted of:

As of December 31, (Thousands)	Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023
Noncurrent liabilities	\$ (15,452)	\$ (45,630)	\$ (57,692)	\$ (74,255)

We have determined that we are allowed to defer as regulatory assets or regulatory liabilities items that would otherwise be recorded in accumulated other comprehensive income pursuant to the accounting requirements concerning defined benefit pension and other postretirement plans.

Amounts recognized as regulatory assets or regulatory liabilities consist of:

As of December 31, (Thousands)	Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023
Net actuarial loss (gain)	\$ 76,952	\$ 99,656	\$ (38,130)	\$ (37,088)
Prior service credit	\$ —	\$ —	\$ (13,118)	\$ —

Our accumulated benefit obligation for all qualified defined benefit pension plans was \$1,049 million and \$1,146 million as of December 31, 2024 and 2023, respectively. NYSEG's postretirement benefits were partially funded as of December 31, 2024 and 2023.

The projected benefit obligation exceeded the fair value of pension plan assets for our qualified plans as of December 31, 2024 and 2023. The accumulated benefit obligation exceeded the fair value of pension plan assets as of December 31, 2024 and 2023. The following table shows the aggregate projected and accumulated benefit obligations and the fair value of plan assets as of December 31, 2024 and 2023.

As of December 31, (Thousands)	2024		2023	
Projected benefit obligation	\$	1,049,261	\$	1,159,963
Accumulated benefit obligation	\$	1,049,261	\$	1,145,637
Fair value of plan assets	\$	1,033,809	\$	1,114,333

**Notes to Financial Statements**

The postretirement benefits obligation for all the qualified plans exceeded the fair value of plan assets as of December 31, 2024 and 2023.

Components of net periodic benefit cost and other amounts recognized in regulatory assets and regulatory liabilities for the years ended December 31, 2024 and 2023 consisted of:

Years Ended December 31, (Thousands)	Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023
<b>Net periodic benefit cost</b>				
Service cost	\$ 3,112	\$ 3,695	\$ 298	\$ 332
Interest cost	50,161	56,209	3,739	4,632
Expected return on plan assets	(84,615)	(75,845)	(950)	(1,165)
Amortization of prior service credit	—	—	(1,475)	—
Amortization of actuarial net loss (gain)	23,868	1,626	(2,540)	(6,537)
<b>Net periodic benefit cost</b>	<b>\$ (7,474)</b>	<b>\$ (14,315)</b>	<b>\$ (928)</b>	<b>\$ (2,738)</b>
<b>Other changes in plan assets and benefit obligations recognized in regulatory assets and regulatory liabilities</b>				
Current year actuarial net loss (gain)	\$ 14,333	\$ 40,455	\$ (3,582)	\$ 2,745
Amortization of actuarial net (loss) gain	(23,868)	(1,626)	2,540	6,537
Amortization of prior service credit	—	—	1,475	—
Effect of curtailments on gain	(13,169)	—	—	—
Current year prior service (credit) cost	\$ —	\$ —	\$ (14,593)	\$ —
<b>Total recognized in regulatory assets and regulatory liabilities</b>	<b>\$ (22,704)</b>	<b>\$ 38,829</b>	<b>\$ (14,160)</b>	<b>\$ 9,282</b>
<b>Total recognized in net periodic benefit cost and regulatory assets and regulatory liabilities</b>	<b>\$ (30,178)</b>	<b>\$ 24,514</b>	<b>\$ (15,088)</b>	<b>\$ 6,544</b>

We include the net periodic benefit cost in other operating expenses for the service component and other deductions for the non-service component. The net periodic benefit cost for postretirement benefits represents the amount expensed for providing health care benefits to retirees and their eligible dependents.

The weighted-average assumptions used to determine benefit obligations as of December 31, 2024 and 2023 consisted of:

As of December 31,	Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023
Discount rate	5.33 %	4.65 %	5.26 %	4.65 %
Rate of compensation increase	N/A	2.50% Union	N/A	N/A
Interest crediting rate	3.50 %	3.50 %	N/A	N/A

The discount rate is the rate at which the benefit obligations could presently be effectively settled. We determined the discount rate developing a yield curve derived from a portfolio of high grade non-callable bonds with yields that closely matches the duration of the expected cash flows of our benefit obligations.

The weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2024 and 2023 consisted of:

**Notes to Financial Statements**

Years Ended December 31,	Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023
Discount rate	4.65% / 4.38%	5.17%	4.65% / 4.35%	5.10 %
Expected long-term return on plan assets	7.25%	6.00%	4.60 %	3.97 %
Rate of compensation increase	2.50% Union	3.00% Union	N/A	N/A

We developed our expected long-term rate of return on plan assets assumption based on a review of long-term historical returns for the major asset classes, the target asset allocations and the effect of rebalancing of plan assets discussed below. That analysis considered current capital market conditions and projected conditions. Our policy is to calculate the expected return on plan assets using the market related value of assets. We amortize unrecognized actuarial gains and losses over 10 years from the time they are incurred.

Assumed health care cost trend rates to determine benefit obligations as of December 31, 2024 and 2023 consisted of:

As of December 31,	2024	2023
Health care cost trend rate (pre 65/post 65)	8.90% / 10.60%	8.10% / 8.60%
Rate to which cost trend rate is assumed to decline (the ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2039 / 2039	2031 / 2032

**Contributions:** In accordance with our funding policy, we make annual contributions of not less than the minimum required by applicable regulations. We do not expect to contribute to our pension and postretirement benefit plans in 2025.

**Estimated future benefit payments:** Our expected benefit payments and expected Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act) subsidy receipts, which reflect expected future service, as appropriate, are:

(Thousands)	Pension Benefits	Postretirement Benefits	Medicare Act Subsidy Receipts
2025	\$ 98,678	\$ 8,908	\$ —
2026	\$ 96,313	\$ 7,842	\$ —
2027	\$ 93,997	\$ 7,292	\$ —
2028	\$ 92,121	\$ 6,801	\$ —
2029	\$ 89,675	\$ 6,283	\$ —
2030-2034	\$ 406,028	\$ 25,337	\$ —

**Plan assets:** Our pension benefits plan assets are held in a master trust providing for a single trustee/custodian, a uniform investment manager lineup, and an efficient, cost-effective means of allocating expenses and investment performance to each plan under the master trust. Our primary investment objective is to have diversified asset allocation policy that mitigates risk and volatility while meeting or exceeding our projected expected return to ensure that current and future benefit obligations are adequately funded. Further diversification and risk mitigation is achieved within each asset class by avoiding significant concentrations in certain markets, utilizing a combination of passive and active investment managers with unique skills and expertise, a systematic

**Notes to Financial Statements**

allocation to various asset classes and providing broad exposure to different segments of the equity, fixed income and alternative investment markets.

The asset allocation policy is the most important consideration in achieving our objective of superior investment returns while minimizing risk. We have established a target asset allocation policy within allowable ranges for our pension benefits plan assets within broad categories of asset classes made up of Return-Seeking and Liability-Hedging investments. We have targets of 15%-70% for Return-Seeking assets and 30%-85% for Liability-Hedging assets. Return-Seeking investments generally consist of domestic, international and emerging equity, real estate, global asset allocation strategies and hedge funds. Liability-Hedging investments generally consist of long-term corporate bonds, annuity contracts, long-term treasury STRIPS, and opportunistic fixed income investments. Systematic rebalancing within the target ranges increases the probability that the annualized return on the investments will be enhanced, while realizing lower overall risk, should any asset categories drift outside their specified ranges.

The fair values of pension benefits plan assets as of December 31, 2024, by asset category, consisted of:

Asset Category (Thousands)	Total	Fair Value Measurements		
		(Level 1)	(Level 2)	(Level 3)
<b>As of December 31, 2024</b>				
Cash and cash equivalents	\$ 44,027	\$ 841	\$ 43,186	\$ —
U.S. government securities	165,058	165,058	—	—
Common stocks	15,455	15,455	—	—
Registered investment companies	24,510	24,510	—	—
Corporate bonds	424,497	—	424,497	—
Common collective trusts	237,795	—	237,795	—
Other, principally annuity, fixed income	24,825	—	24,825	—
	<b>\$ 936,167</b>	<b>\$ 205,864</b>	<b>\$ 730,303</b>	<b>\$ —</b>
Other investments measured at net asset value	97,642			
<b>Total</b>	<b>\$ 1,033,809</b>			

The fair values of pension benefits plan assets as of December 31, 2023, by asset category, consisted of:

## Notes to Financial Statements

Asset Category	Total	Fair Value Measurements		
		(Level 1)	(Level 2)	(Level 3)
(Thousands)				
<b>As of December 31, 2023</b>				
Cash and cash equivalents	\$ 33,606	\$ 84	\$ 33,522	\$ —
U.S. government securities	168,562	168,562	—	—
Common stocks	16,699	16,699	—	—
Registered investment companies	53,384	53,384	—	—
Corporate bonds	437,407	—	437,407	—
Common collective trusts	144,801	—	144,801	—
Other, principally annuity, fixed income	23,503	—	23,503	—
	<b>\$ 877,962</b>	<b>\$ 238,729</b>	<b>\$ 639,233</b>	<b>\$ —</b>
Other investments measured at net asset value	236,371			
<b>Total</b>	<b>\$ 1,114,333</b>			

## Valuation Techniques

We value our pension benefits plan assets as follows:

- Cash and cash equivalents - Level 1: at cost, plus accrued interest, which approximates fair value. Level 2: proprietary cash associated with other investments, based on yields currently available on comparable securities of issuers with similar credit ratings.
- U.S. government securities - at the closing price reported in the active market in which the security is traded.
- Common stock - at the closing price reported in the active market in which the individual investment is traded.
- Corporate bonds - based on yields currently available on comparable securities of issuers with similar credit ratings.
- Registered investment companies - at the closing price reported in the active market in which the individual investment is traded.
- Common collective trusts - the fair value is primarily derived from the quoted prices in active markets of the underlying securities. Because the fund shares are offered to a limited group of investors, they are not considered to be traded in an active market.
- Other investments, principally annuity and fixed income - based on yields currently available on comparable securities of issuers with similar credit ratings.
- Other investments measured at net asset value (NAV) - fund shares offered to a limited group of investors and alternative investments, such as private equity and real estate oriented investments, partnership/joint ventures and hedge funds are valued using the NAV as a practical expedient.

Our postretirement benefits plan assets are held with trustees in multiple voluntary employees' beneficiary association (VEBA) and 401(h) arrangements and are invested among and within various asset classes to achieve sufficient diversification in accordance with our risk tolerance. This is achieved for our postretirement benefits plan assets through the utilization of multiple institutional mutual and money market funds, providing exposure to different segments of the fixed income, equity and short-term cash markets. NYSEG's postretirement benefits plan assets are invested in a VEBA arrangement that is subject to income taxes.

We have established a target asset allocation policy within allowable ranges for postretirement benefits plan assets of 49% - 69% for equity securities and 31%- 51% for fixed income

### **Notes to Financial Statements**

investments. Equity investments are diversified across U.S. and non-U.S. stocks, investment styles, and market capitalization ranges. Fixed income investments are primarily invested in U.S. bonds and may also include some non-U.S. bonds. We primarily minimize the risk of large losses through diversification but also through monitoring and managing other aspects of risk through quarterly investment portfolio reviews. Systematic rebalancing within target ranges increases the probability that the annualized return on investments will be enhanced, while realizing lower overall risk, should any asset categories drift outside their specified ranges.

The fair value of other postretirement benefits plan assets, by asset category, as of December 31, 2024 consisted of:

<b>Asset Category</b>	<b>Total</b>	<b>Fair Value Measurements</b>		
		<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
<i>(Thousands)</i>				
<b>As of December 31, 2024</b>				
Cash and cash equivalents	\$ 1,786	\$ —	\$ 1,786	\$ —
Registered investment companies	10,076	10,076	—	—
<b>Total</b>	<b>\$ 11,862</b>	<b>\$ 10,076</b>	<b>\$ 1,786</b>	<b>\$ —</b>

The fair value of other postretirement benefits plan assets, by asset category, as of December 31, 2023 consisted of:

<b>Asset Category</b>	<b>Total</b>	<b>Fair Value Measurements</b>		
		<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
<i>(Thousands)</i>				
<b>As of December 31, 2023</b>				
Cash and cash equivalents	\$ 1,387	\$ —	\$ 1,387	\$ —
Registered investment companies	18,851	18,851	—	—
<b>Total</b>	<b>\$ 20,238</b>	<b>\$ 18,851</b>	<b>\$ 1,387</b>	<b>\$ —</b>

### **Valuation Techniques**

We value our postretirement benefits plan assets as follows:

- Cash and cash equivalents - Level 1: at cost, plus accrued interest, which approximates fair value. Level 2: proprietary cash associated with other investments, based on yields currently available on comparable securities of issuers with similar credit ratings.
- Registered investment companies - at the closing price reported in the active market in which the individual investment is traded.

Pension and postretirement benefit plan equity securities did not include any Iberdrola common stock as of both December 31, 2024 and 2023.

### **Note 16. Other Income and Other Deductions**

Other income and deductions for the years ended December 31, 2024 and 2023, consisted of:

**Notes to Financial Statements**

Years Ended December 31, (Thousands)	2024	2023
Interest and dividend income	\$ 2,654	\$ —
Carrying costs on regulatory assets	37,908	22,756
Allowance for funds used during construction	32,393	24,305
Miscellaneous	4,696	2,577
<b>Total other income</b>	<b>\$ 77,651</b>	<b>\$ 49,638</b>
Pension non-service components	\$ 9,155	\$ 19,143
Miscellaneous	(1,872)	(5,515)
<b>Total other (deductions) income, net</b>	<b>\$ 7,283</b>	<b>\$ 13,628</b>

**Note 17. Related Party Transactions**

Certain Networks subsidiaries, including NYSEG, borrow from AGR, the parent of Networks, through intercompany revolving credit agreements. For NYSEG, the intercompany revolving credit agreements provide access to supplemental liquidity. See Note 7 for further detail on the credit facility with AGR.

Avangrid Service Company provides administrative and management services to Networks operating utilities, including NYSEG, pursuant to service agreements. The cost of those services is allocated in accordance with methodologies set forth in the service agreements. The cost allocation methodologies vary depending on the type of service provided. Management believes such allocations are reasonable. The charge for operating and capital services provided to NYSEG by AGR and its affiliates was approximately \$155.8 million for 2024 and \$145.7 million for 2023. Cost for services includes amounts capitalized in utility plant, which was approximately \$26.7 million in 2024 and \$21.1 million in 2023. The remainder was primarily recorded as operations and maintenance expense. The charges for services provided by NYSEG to AGR and its subsidiaries were approximately \$24.6 million for 2024 and \$19.6 million for 2023. All charges for services are at cost. All of the charges associated with services provided are recorded as revenues to offset other operating expenses on the financial statements.

The balance in accounts payable to affiliates of \$54.2 million at December 31, 2024 and \$120.6 million at December 31, 2023 is mostly payable to Avangrid Service Company. The balance in accounts receivable from affiliates of \$2.4 million at December 31, 2024 and \$4.9 million at December 31, 2023 is from various companies. The balance in notes receivable from affiliates of \$41.3 million is due from CMP. There were no notes receivable from affiliates at December 31, 2023. Notes receivable from affiliates relate to the Virtual Money Pool Agreement as discussed in Note 7 of these financial statements.

Networks holds an approximate 20% ownership interest in the regulated New York TransCo. Through New York TransCo, Networks has formed a partnership with Central Hudson Gas and Electric Corporation, Consolidated Edison, Inc., National Grid, plc and Orange and Rockland Utilities, Inc. to develop a portfolio of interconnected transmission lines and substations to fulfill the objectives of the New York energy highway initiative, which is a proposal to install up to 3,200 MW of new electric generation and transmission capacity in order to deliver more power generated from upstate New York power plants to downstate New York. In 2016 NYSEG received approximately \$67 million from New York TransCo in the form of \$43 million for assets constructed and transferred to the New York TransCo, \$22 million in contributions in aid of construction and approximately \$2 million in advanced lease payments for a 99 year lease of land and attachment rights. We had no outstanding receivable from New York TransCo as of December 31, 2024 and 2023.

**Notes to Financial Statements**

**Note 18. Subsequent Events**

The company has performed a review of subsequent events through March 21, 2025, which is the date these financial statements were available to be issued.

On February 11, 2025, NYSEG Storm Funding, LLC, a company wholly-owned and consolidated by NYSEG, issued storm cost recovery bonds of \$711 million pursuant to the Storm Recovery Cost Financing Order issued by the NYPSC. The bonds have interest rates ranging from 4.71% to 5.16% and final maturity ranging from May 2031 to May 2037. NYSEG Storm Funding, LLC was created in November 2024 to facilitate the securitization process and did not have any activity until the issuance of the storm cost recovery bonds in February 2025.

**Rochester Gas and Electric Corporation**  
**Financial Statements**  
**As of and for the Years Ended December 31, 2024 and 2023**

## **Rochester Gas and Electric Corporation**

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KPMG LLP  
345 Park Avenue  
New York, NY 10154-0102

## Independent Auditors' Report

Stockholder and Board of Directors  
Rochester Gas and Electric Corporation:

### *Opinion*

We have audited the financial statements of Rochester Gas and Electric Corporation (the Company), which comprise the balance sheets as of December 31, 2024 and 2023, and the related statements of income, comprehensive income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

### *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 Auditors' 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 U.S. generally accepted accounting principles, 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 available to be issued.

### *Auditors' 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 auditors' 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.

*KPMG LLP*

New York, New York  
March 21, 2025

**Rochester Gas and Electric Corporation  
Statements of Income**

<b>Years Ended December 31,</b>	<b>2024</b>	<b>2023</b>
(Thousands)		
<b>Operating Revenues</b>	<b>\$ 1,248,659</b>	<b>\$ 1,221,747</b>
<b>Operating Expenses</b>		
Electricity purchased	197,718	173,544
Natural gas purchased	93,019	122,212
Operations and maintenance	426,392	400,318
Depreciation and amortization	141,945	130,846
Taxes other than income taxes, net	163,589	156,091
<b>Total Operating Expenses</b>	<b>1,022,663</b>	<b>983,011</b>
<b>Operating Income</b>	<b>225,996</b>	<b>238,736</b>
Other income	29,676	19,711
Other deductions	(5,693)	(6,438)
Interest expense, net of capitalization	(67,056)	(54,207)
<b>Income Before Tax</b>	<b>182,923</b>	<b>197,802</b>
Income tax expense	39,713	43,605
<b>Net Income</b>	<b>\$ 143,210</b>	<b>\$ 154,197</b>

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

**Rochester Gas and Electric Corporation  
Statements of Comprehensive Income**

<b>Years Ended December 31,</b>	<b>2024</b>	<b>2023</b>
(Thousands)		
<b>Net Income</b>	<b>\$ 143,210</b>	<b>\$ 154,197</b>
<b>Other Comprehensive Income, Net of Tax</b>		
Amortization of pension cost for non-qualified plans and current year actuarial gain, net of income tax	204	318
Reclassification to net income of loss on settled cash flow treasury hedges, net of income tax	2,716	2,716
<b>Other Comprehensive Income, Net of Tax</b>	<b>2,920</b>	<b>3,034</b>
<b>Comprehensive Income</b>	<b>\$ 146,130</b>	<b>\$ 157,231</b>

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

**Rochester Gas and Electric Corporation  
Balance Sheets**

As of December 31,	2024	2023
(Thousands)		
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 962	\$ 197
Accounts receivable and unbilled revenues, net	216,081	210,138
Accounts receivable from affiliates	2,474	2,858
Notes receivable from affiliates	45,400	—
Fuel and natural gas in storage	9,053	10,453
Materials and supplies	25,519	26,745
Derivative assets	6,821	—
Broker margin accounts	—	6,985
Income tax receivable	—	825
Prepaid property taxes	47,016	43,637
Regulatory assets	96,343	105,460
Other current assets	18,265	13,853
<b>Total Current Assets</b>	<b>467,934</b>	<b>421,151</b>
Utility plant, at original cost	5,661,407	5,381,423
Less accumulated depreciation	(1,463,927)	(1,384,955)
<b>Net Utility Plant in Service</b>	<b>4,197,480</b>	<b>3,996,468</b>
Construction work in progress	466,242	409,669
<b>Total Utility Plant</b>	<b>4,663,722</b>	<b>4,406,137</b>
Operating lease right of use assets	17,268	1,372
<b>Regulatory and Other Assets</b>		
Regulatory assets	557,197	488,461
Other	33,453	42,749
<b>Total Regulatory and Other Assets</b>	<b>590,650</b>	<b>531,210</b>
<b>Total Assets</b>	<b>\$ 5,739,574</b>	<b>\$ 5,359,870</b>

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

**Rochester Gas and Electric Corporation  
Balance Sheets**

As of December 31,	2024	2023
(Thousands)		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Current portion of debt	\$ 150,343	\$ —
Notes payable to affiliates	—	17,100
Accounts payable and accrued liabilities	224,901	202,636
Accounts payable to affiliates	60,440	58,427
Interest accrued	9,871	9,192
Taxes accrued	9,265	2,199
Operating lease liabilities	1,899	1,878
Environmental remediation costs	1,933	17,767
Regulatory liabilities	40,363	79,101
Other	60,545	73,025
<b>Total Current Liabilities</b>	<b>559,560</b>	<b>461,325</b>
<b>Regulatory and Other Liabilities</b>		
Regulatory liabilities	521,092	528,741
<b>Other Non-current Liabilities</b>		
Deferred income taxes	579,715	524,937
Nuclear plant obligations	145,500	138,182
Pension and other postretirement	97,568	98,117
Operating lease liabilities	17,480	1,274
Asset retirement obligations	2,091	2,206
Environmental remediation costs	66,727	62,834
Other	38,407	28,758
<b>Total Regulatory and Other Liabilities</b>	<b>1,468,580</b>	<b>1,385,049</b>
Non-current debt	1,740,119	1,738,065
<b>Total Liabilities</b>	<b>3,768,259</b>	<b>3,584,439</b>
<b>Commitments and Contingencies</b>		
<b>Common Stock Equity</b>		
Common stock (\$5 par value, 50,000,000 shares authorized, 38,885,813 shares outstanding at December 31, 2024 and 2023)	194,429	194,429
Additional paid-in capital	1,405,306	1,305,552
Retained earnings	513,841	420,631
Accumulated other comprehensive loss	(25,023)	(27,943)
Treasury stock, at cost (4,379,300 shares at December 31, 2024 and 2023)	(117,238)	(117,238)
<b>Total Common Stock Equity</b>	<b>1,971,315</b>	<b>1,775,431</b>
<b>Total Liabilities and Equity</b>	<b>\$ 5,739,574</b>	<b>\$ 5,359,870</b>

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

**Rochester Gas and Electric Corporation  
Statements of Cash Flows**

Years Ended December 31,	2024	2023
(Thousands)		
<b>Cash Flow From Operating Activities:</b>		
<b>Net income</b>	<b>\$ 143,210</b>	<b>\$ 154,197</b>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	141,945	130,846
Regulatory assets/liabilities amortization	(41,260)	(43,156)
Regulatory assets/liabilities carrying cost	(6,191)	(1,170)
Amortization of debt issuance costs	2,080	1,630
Deferred taxes	42,770	49,844
Pension cost	4,895	(902)
Accretion expenses	116	122
Gain from disposal of property	(283)	(47)
Other non-cash items	(16,584)	(5,930)
Changes in operating assets and liabilities:		
Accounts receivable, from affiliates, and unbilled revenues	(5,559)	21,796
Inventories	2,626	17,772
Accounts payable, to affiliates, and accrued liabilities	16,129	(54,094)
Taxes accrued	7,891	(14,137)
Other assets/liabilities	11,750	(14,328)
Regulatory assets/liabilities	(76,207)	(157,145)
<b>Net Cash Provided by Operating Activities</b>	<b>227,328</b>	<b>85,298</b>
<b>Cash Flow From Investing Activities:</b>		
Capital expenditures	(384,248)	(421,114)
Contributions in aid of construction	15,663	11,470
Proceeds from sale of property, plant and equipment	4,256	26,498
Notes receivable from affiliates	(45,400)	—
<b>Net Cash Used in Investing Activities</b>	<b>(409,729)</b>	<b>(383,146)</b>
<b>Cash Flow From Financing Activities:</b>		
Non-current debt issuance	152,242	246,084
Repayments of finance leases	(1,976)	(3,843)
Notes payable to affiliates	(17,100)	(59,200)
Capital contributions	100,000	225,000
Dividends paid	(50,000)	(110,000)
<b>Net Cash Provided by Financing Activities</b>	<b>183,166</b>	<b>298,041</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>765</b>	<b>193</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>197</b>	<b>4</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 962</b>	<b>\$ 197</b>

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

**Rochester Gas and Electric Corporation**  
**Statements of Changes in Common Stock Equity**

(Thousands, except per share amounts)	Number of Shares (*)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Common Stock Equity
<b>Balance, December 31, 2022</b>	<b>38,885,813</b>	<b>\$ 194,429</b>	<b>\$ 1,080,703</b>	<b>\$ 376,434</b>	<b>\$ (30,977)</b>	<b>\$ (117,238)</b>	<b>\$ 1,503,351</b>
Net income	—	—	—	154,197	—	—	154,197
Other comprehensive income, net of tax	—	—	—	—	3,034	—	3,034
Comprehensive income	—	—	—	—	—	—	157,231
Stock-based compensation	—	—	(151)	—	—	—	(151)
Common stock dividends	—	—	—	(110,000)	—	—	(110,000)
Capital contributions	—	—	225,000	—	—	—	225,000
<b>Balance, December 31, 2023</b>	<b>38,885,813</b>	<b>\$ 194,429</b>	<b>\$ 1,305,552</b>	<b>\$ 420,631</b>	<b>\$ (27,943)</b>	<b>\$ (117,238)</b>	<b>\$ 1,775,431</b>
Net income	—	—	—	143,210	—	—	143,210
Other comprehensive income, net of tax	—	—	—	—	2,920	—	2,920
Comprehensive income	—	—	—	—	—	—	146,130
Stock-based compensation	—	—	(246)	—	—	—	(246)
Common stock dividends	—	—	—	(50,000)	—	—	(50,000)
Capital contributions	—	—	100,000	—	—	—	100,000
<b>Balance, December 31, 2024</b>	<b>38,885,813</b>	<b>\$ 194,429</b>	<b>\$ 1,405,306</b>	<b>\$ 513,841</b>	<b>\$ (25,023)</b>	<b>\$ (117,238)</b>	<b>\$ 1,971,315</b>

(\*) Par value of share amounts is \$5

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

## **Notes to Financial Statements**

### **Note 1. Summary of Significant Accounting Policies, New Accounting Pronouncements and Use of Estimates**

**Background and nature of operations:** Rochester Gas and Electric Corporation (RG&E, the company, we, our, us), conducts regulated electricity transmission, distribution, and generation operations and regulated natural gas transportation and distribution operations in western New York. RG&E generates electricity from hydroelectric stations. RG&E serves approximately 392,400 electricity and 324,900 natural gas customers as of December 31, 2024, in its service territory of approximately 2,700 square miles. The service territory contains a substantial suburban area and a large agricultural area in parts of nine counties including and surrounding the city of Rochester, New York with a population of approximately one million people. We operate under the authority of the New York State Public Service Commission (NYPSC) and are also subject to regulation by the Federal Energy Regulatory Commission (FERC).

RG&E is a subsidiary of Avangrid Networks, Inc. (Networks), which is a wholly-owned subsidiary of Avangrid, Inc. (AGR), which is a wholly-owned subsidiary of Iberdrola, S.A. (Iberdrola), a corporation organized under the laws of the Kingdom of Spain.

**Agreement and Plan of Merger:** On May 17, 2024, AGR entered into an Agreement and Plan of Merger (the Merger Agreement) with Iberdrola and Arizona Merger Sub, Inc (Merger Sub). As a result of the consummation of the Merger on December 23, 2024 (closing date), Merger Sub merged with and into Avangrid (the Merger), with Avangrid continuing as the surviving corporation and a wholly-owned subsidiary of Iberdrola. On the closing date, each share of common stock issued and outstanding immediately prior to the closing date (other than common stock owned by the Merger, Merger Sub or any other direct or indirect wholly-owned Subsidiary of the Merger, and in each case not held on behalf of the third parties (collectively, the Excluded Shares)) was converted into a right to receive \$35.75 per share of common stock in cash, without interest.

On the closing date, (i) all shares of common stock ceased to be outstanding, were cancelled and ceased to exist and (ii) each Excluded Share ceased to be outstanding and was cancelled without payment of any consideration and ceased to exist. As a result of the consummation of the Merger on December 23, 2024, Iberdrola became the direct owner of 100 shares of common stock of Avangrid which represents the only outstanding capital of the Company. On the closing date, the New York Stock Exchange (NYSE) filed with the Securities and Exchange Commission (the SEC) a notification of removal from listing on Form 25 in order to delist the common stock from the NYSE and deregister the common stock under Section 12(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act). Following the effectiveness of the Form 25, on January 2, 2025, Avangrid filed with the SEC a Form 15 requesting the termination of registration of the common stock under Section 12(g) of the Exchange Act and the suspension of reporting obligations under Section 13 and 15(d) of the Exchange Act with respect to the common stock.

**Basis of presentation:** The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP).

**Significant Accounting Policies:** We consider the following policies to be the most significant in understanding the judgments that are involved in preparing our financial statements:

**Revenue recognition:** We recognize revenues when we transfer control of promised goods or services to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Refer to Note 4 for further details.

## **Notes to Financial Statements**

**Regulatory accounting:** We account for our regulated operations in accordance with the authoritative guidance applicable to entities with regulated operations that meet the following criteria: (i) rates are established or approved by an independent, third-party regulator; (ii) rates are designed to recover the entity's specific costs of providing the regulated services or products and; (iii) there is a reasonable expectation that rates are set at levels that will recover the entity's costs and can be collected from customers. Regulatory assets primarily represent incurred costs that have been deferred because of their probable future recovery from customers through regulated rates. Regulatory liabilities represent: (i) the excess recovery of costs or accrued credits that have been deferred because it is probable such amounts will be returned to customers through future regulated rates; or (ii) billings in advance of expenditures for approved regulatory programs.

We amortize regulatory assets and liabilities and recognize the related expense or revenue in our statements of income consistent with the recovery or refund included in customer rates. We believe it is probable that our currently recorded regulatory assets and liabilities will be recovered or settled in future rates.

**Utility plant:** We account for utility plant at historical cost. In cases where we are required to dismantle installations or to recondition the site on which they are located, we record the estimated cost of removal or reconditioning as an asset retirement obligation (ARO) and add an equal amount to the carrying amount of the asset.

Development and construction of our various facilities are carried out in stages. We expense project costs during early stage development activities. Once we achieve certain development milestones and it is probable that we can obtain future economic benefits from a project, we capitalize salaries and wages for persons directly involved in the project, and engineering, permits, licenses, wind measurement and insurance costs. We periodically review development projects in construction for any indications of impairment.

We transfer assets from "Construction work in progress" to "Utility plant" when they are available for service.

We determine depreciation expense for utility plant in service using the straight-line method, based on the average service lives of groups of depreciable property, which include estimated cost of removal. Consistent with FERC accounting requirements, we charge the original cost of utility plant retired or otherwise disposed of to accumulated depreciation. Our composite rates for depreciation were 2.4% of average depreciable property for 2024 and 2023. We amortize our capitalized software cost, which is included in common plant, using the straight-line method, based on useful lives of 7 to 37 years. Capitalized software costs were approximately \$182.5 million as of December 31, 2024 and \$178.0 million as of December 31, 2023. Depreciation expense was \$133.4 million in 2024 and \$123.1 million in 2023. Amortization of capitalized software was \$8.5 million in 2024 and \$7.7 million in 2023.

We charge repairs and minor replacements to operating expenses, and capitalize renewals and betterments, including certain indirect costs.

Allowance for funds used during construction (AFUDC) is a non-cash item that represents the allowed cost of capital, including a return on equity (ROE), used to finance construction projects. We record the portion of AFUDC attributable to borrowed funds as a reduction of interest expense and record the remainder as other income.

**Notes to Financial Statements**

Our balances of major classes of utility plant and associated useful lives are shown below as of December 31:

Utility Plant (Thousands)	Estimated useful life range (years)	2024	2023
Electric	2-90	\$ 3,739,168	\$ 3,601,110
Natural Gas	7-80	1,284,600	1,229,480
Common	3-60	637,639	550,833
<b>Utility plant at original cost</b>		<b>5,661,407</b>	<b>5,381,423</b>
Less accumulated depreciation		(1,463,927)	(1,384,955)
<b>Net Utility Plant in Service</b>		<b>4,197,480</b>	<b>3,996,468</b>
Construction work in progress		466,242	409,669
<b>Total Utility Plant</b>		<b>\$ 4,663,722</b>	<b>\$ 4,406,137</b>

**Leases:** We determine if an arrangement is a lease at inception. We classify a lease as a finance lease if it meets any one of specified criteria that in essence transfers ownership of the underlying asset to us by the end of the lease term. If a lease does not meet any of those criteria, we classify it as an operating lease. On our balance sheets, we include, for operating leases: "Operating lease right-of-use (ROU) assets" and "Operating lease liabilities (current and non-current)"; and for finance leases: finance lease ROU assets in "Other assets" and liabilities in "Other current liabilities" and "Other liabilities."

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. We recognize lease ROU assets and liabilities at commencement of an arrangement based on the present value of lease payments over the lease term. We use the incremental borrowing rate based on information available at the lease commencement date to determine the present value of future payments, except when the rate implicit in the lease is determinable. A lease ROU asset also includes any lease payments made at or before commencement date, minus any lease incentives received, and includes initial direct costs incurred. We do not record leases with an initial term of 12 months or less on the balance sheet for all classes of underlying assets, and we recognize lease expense for those leases on a straight-line basis over the lease term. We include variable lease payments that depend on an index or a rate in the ROU asset and lease liability measurement based on the index or rate at the commencement date, or upon a modification. We do not include variable lease payments that do not depend on an index or a rate in the ROU asset and lease liability measurement. A lease term includes an option to extend or terminate the lease when it is reasonably certain that we will exercise that option. We recognize lease (rent) expense for operating lease payments on a straight-line basis over the lease term, or we recognize the amount eligible for recovery under our rate plan, such as actual amounts paid. We amortize finance lease ROU assets on a straight-line basis over the lease term and recognize interest expense based on the outstanding lease liability.

We have lease agreements with lease and non-lease components, and account for lease components and associated non-lease components together as a single lease component, for all classes of underlying assets.

**Impairment of long-lived assets:** We evaluate utility plant and other long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment evaluation is based on an undiscounted cash flow analysis at the lowest level to which cash flows of the long-lived assets or asset groups are largely independent of the cash flows of other assets and liabilities. We are required to recognize an impairment loss

### **Notes to Financial Statements**

if the carrying amount of the asset exceeds the undiscounted future net cash flows associated with that asset.

The impairment loss to be recognized is the amount by which the carrying amount of the long-lived asset exceeds the asset's fair value. Depending on the asset, fair value may be determined by use of a discounted cash flow model, with assumptions consistent with a market participant's view of the exit price of the asset.

**Fair value measurement:** 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 as of the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place in either the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset according to its highest and best use, or by selling it to another market participant that would use the asset according to its highest and best use.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy based on the transparency of input to the valuation of an asset or liability as of the measurement date.

The three input levels of the fair value hierarchy are as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability either directly or indirectly, for substantially the full term of the contract.
- Level 3 - one or more inputs to the valuation methodology are unobservable or cannot be corroborated with market data.

Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Certain investments are not categorized within the fair value hierarchy. These investments are measured based on the fair value of the underlying investments but may not be readily redeemable at that fair value.

**Derivatives and hedge accounting:** Derivatives are recognized on our balance sheets at their fair value, except for certain electricity commodity purchases and sales contracts for both capacity and energy (physical contracts) that qualify for, and are elected under, the normal purchases and normal sales exception. To be a derivative under the accounting standards for derivatives and hedging, an agreement would need to have a notional and an underlying, require little or no initial net investment and could be net settled. We recognize changes in the fair value of a derivative contract in earnings unless specific hedge accounting criteria are met.

**Notes to Financial Statements**

Derivatives that qualify and are designated for hedge accounting are classified as cash flow hedges. We report the gain or loss on the derivative instrument as a component of Other Comprehensive Income (OCI) and later reclassify amounts into earnings when the underlying transaction occurs, which we present in the same income statement line item as the earnings effect of the hedged item. If the amounts in OCI are probable of recovery in the ratemaking process, then the OCI is reclassified as a regulatory asset or liability. For all designated and qualifying hedges, we maintain formal documentation of the hedge and effectiveness testing in accordance with the accounting standards for derivatives and hedging. If we determine that the derivative is no longer highly effective as a hedge, we will discontinue hedge accounting prospectively. For cash flow hedges of forecasted transactions, we estimate the future cash flows of the forecasted transactions and evaluate the probability of the occurrence and timing of such transactions. If we determine it is probable that the forecasted transaction will not occur, we immediately recognize in earnings hedge gains and losses previously recorded in OCI.

Changes in conditions or the occurrence of unforeseen events could require discontinuance of the hedge accounting or could affect the timing of the reclassification of gains or losses on cash flow hedges from OCI into earnings. We record changes in the fair value of electric and natural gas hedge contracts to derivative assets or liabilities with an offset to regulatory assets or regulatory liabilities.

We offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

**Cash and cash equivalents:** Cash and cash equivalents include cash, bank accounts, and other highly liquid short-term investments. We consider all highly liquid investments with a maturity date of three months or less when acquired to be cash equivalents and include those investments in “Cash and cash equivalents.” We classify book overdrafts representing outstanding checks in excess of funds on deposit as “Accounts payable and accrued liabilities” on our balance sheets. We report changes in book overdrafts in the operating activities section of our statements of cash flows.

**Concentration of risk:** We maintain our cash and cash equivalents in accounts with major financial institutions in the form of demand deposits and money market accounts. Deposits in these financial institutions may exceed the amount of federal deposit insurance provided on such deposits.

**Statements of cash flows:** Supplemental disclosure of cash flow information is as follows:

	2024	2023
<i>(Thousands)</i>		
<b>Cash paid (refunded) during the years ended December 31:</b>		
Interest, net of amounts capitalized	\$ 67,572	\$ 49,808
Income taxes (refunded) paid, net	\$ (7,691)	\$ 8,421

Of the income taxes (refunded) paid, substantially all was (refunded by) paid to AGR under the tax sharing agreement. Interest capitalized was \$11.2 million in 2024 and \$14.3 million in 2023. Accrued liabilities for utility plant additions were \$76.4 million as of December 31, 2024 and \$65.4 million as of December 31, 2023.

## **Notes to Financial Statements**

**Broker margin accounts:** We maintain accounts with clearing firms that require initial margin deposits upon the establishment of new positions, primarily related to natural gas and electricity derivatives, as well as maintenance margin deposits in the event of unfavorable movements in market valuation for those positions. We show the amount reflecting those activities as broker margin accounts on our balance sheets.

**Trade receivables and unbilled revenue, net of allowance for credit losses:** We record trade receivables at amounts billed to customers and we record unbilled revenues based on an estimate of energy delivered or services provided to customers. The estimates for unbilled revenues are determined based on various assumptions, including current month energy load requirements, billing rates by customer class and delivery loss factors. Changes in those assumptions could significantly affect the estimated amounts of unbilled revenues.

The allowance for credit losses is our best estimate of the amount of probable credit losses in our existing accounts receivable, determined based on experience for each service region. Each month we review our allowance for credit losses and past due accounts by age. When we believe that a receivable will not be recovered, we charge off the account balance against the allowance. Changes in assumptions about input factors and customer receivables, which are inherently uncertain and susceptible to change from period to period, could significantly affect the allowance for credit losses estimates.

Trade receivables at December 31 include unbilled revenues of \$63.5 million for 2024 and \$64.8 million for 2023, and are shown net of an allowance for credit losses at December 31 of \$59.5 million for 2024 and \$44.5 million for 2023. Trade receivables do not bear interest, although late fees may be assessed. Credit loss expense was \$48.8 million in 2024, including \$0.6 million of arrears forgiveness balances. Credit loss expense was \$41.1 million in 2023, including \$17.6 million of arrears forgiveness balances. Arrears forgiveness balances will be recovered through a tariff over a five year period that began August 1, 2022 for Phase 1 and a three and a half year-period that began March 1, 2023 for Phase 2.

Trade receivables include amounts due under deferred payment arrangements (DPAs). When a residential customer becomes delinquent in making payments, the NYPSC requires us to allow the customer to enter into a DPA to settle the account balance. A DPA allows the account balance to be paid in installments over an extended period without interest, which generally exceeds one year, by negotiating mutually acceptable payment terms. Generally, we must continue to serve a customer who cannot pay an account balance in full if the customer: (i) pays a reasonable portion of the balance; (ii) agrees to pay the balance in installments; and (iii) agrees to pay future bills within 30 days until the DPA is paid in full. Failure to make payments on a DPA results in the full amount of a receivable under a DPA being due. These accounts are part of the regular operating cycle and we classify them as short-term.

We establish our allowance for credit losses, including for unbilled revenue (also referred to as contract assets), by using both historical average loss percentages to project future losses, and by establishing a specific allowance for known credit issues or for specific items not considered in the historical average calculation. We also consider whether we need to adjust historical loss rates to reflect the effects of current conditions and forecasted changes considering various economic indicators (e.g., Gross Domestic Product, Personal Income, Consumer Price Index, Unemployment Rate) over the contractual life of the trade receivables. We write off amounts when we have exhausted reasonable collection efforts. The allowance for credit losses for DPAs at December 31 was \$25.3 million in 2024 and \$10.9 million in 2023. DPA receivable balances at December 31 were \$41.6 million in 2024 and \$23.9 million in 2023.

**Notes to Financial Statements**

**Debentures, bonds and bank borrowings:** We record bonds, debentures and bank borrowings as a liability equal to the proceeds of the borrowings. We treat the difference between the proceeds and the face amount of the issued liability as discount or premium and accrete the amounts as interest expense or income over the life of the instrument. We defer incremental costs associated with the issuance of the debt instruments and amortize them over the same period as debt discount or premium. We present bonds, debentures and bank borrowings net of unamortized discount, premium and debt issuance costs on our balance sheets.

**Inventory:** Inventory comprises fuel and natural gas in storage and materials and supplies. We own natural gas that is stored in third-party owned underground storage facilities, which we record as inventory. We price injections of inventory into storage at the market purchase cost at the time of injection, and price withdrawals of working gas from storage at the weighted-average cost in storage. We continuously monitor the weighted-average cost of gas value to ensure it remains at the lower of cost and net realizable value. We report inventories to support gas operations on our balance sheets within "Fuel and natural gas in storage."

We also have materials and supplies inventories that we use for construction of new facilities and repairs of existing facilities. These inventories are carried and withdrawn at the lower of cost and net realizable value and reported on our balance sheets within "Materials and supplies." We combine inventory items for the statement of cash flow presentation purposes.

In addition, stand-alone renewable energy credits that are generated or purchased and held for sale are recorded at the lower of cost or net realizable value and are reported on our balance sheets within "Materials and supplies."

**Government grants:** We record government grants as a reduction to the related utility plant to be recovered through rate base, in accordance with the prescribed FERC accounting.

In accounting for government grants related to operating and maintenance costs, we recognize amounts receivable as an offset to expenses in the statements of income in the period in which we incur the expenses.

The changes in government grants recorded as a reduction to the related utility plant as of December 31, 2024 and 2023 consisted of:

(Thousands)	Government grants		Total
<b>As of December 31, 2022</b>	<b>\$</b>	<b>17,452</b>	<b>\$ 17,452</b>
Disposals		—	—
Recognized in income		(400)	(400)
<b>As of December 31, 2023</b>		<b>17,052</b>	<b>17,052</b>
Disposals		—	—
Recognized in income		(400)	(400)
<b>As of December 31, 2024</b>	<b>\$</b>	<b>16,652</b>	<b>\$ 16,652</b>

We are required to comply with certain terms and conditions applicable to each grant and, if a disqualifying event should occur as specified in the grant's terms and conditions, we are required to repay the grant funds to the government. We believe we are in compliance with each grant's terms and conditions as of December 31, 2024 and 2023.

**Notes to Financial Statements**

**Deferred income:** Apart from government grants, we occasionally receive payments from transactions in advance of the resulting performance obligations arising from the transaction. It is our policy to defer such payments on our balance sheets and amortize them to earnings when revenue recognition criteria are met.

**Asset retirement obligations:** We record the fair value of the liability for an asset retirement obligation (ARO) and a conditional ARO in the period in which it is incurred, capitalizing the cost by increasing the carrying amount of the related long-lived asset. The ARO is associated with our long-lived assets and primarily consists of obligations related to removal or retirement of asbestos, polychlorinated biphenyl-contaminated equipment, gas pipeline, and cast iron gas mains. We adjust the liability periodically to reflect revisions to either the timing or amount of the original estimated undiscounted cash flows over time. We accrete the liability to its present value each period and depreciate the capitalized cost over the useful life of the related asset. Upon settlement we will either settle the obligation at its recorded amount or incur a gain or a loss. We defer any timing differences between rate recovery and depreciation expense and accretion as either a regulatory asset or a regulatory liability.

The term conditional ARO refers to an entity's legal obligation to perform an asset retirement activity in which the timing or method of settlement are conditional on a future event that may or may not be within the entity's control. If an entity has sufficient information to reasonably estimate the fair value of the liability for a conditional ARO, it must recognize that liability at the time the liability is incurred.

The following table reconciles the beginning and ending aggregate carrying amount of the ARO, including our conditional ARO, for the years ended December 31, 2024 and 2023.

<b>Years Ended December 31,</b>	<b>2024</b>	<b>2023</b>
<i>(Thousands)</i>		
ARO, beginning of year	\$ 2,206	\$ 2,312
Liabilities settled during the year	(231)	(229)
Accretion expense	116	123
<b>ARO, end of year</b>	<b>\$ 2,091</b>	<b>\$ 2,206</b>

We have AROs for which we have not recognized a liability because the fair value cannot be reasonably estimated due to indeterminate settlement dates, including: the removal of hydroelectric dams due to structural inadequacy or for decommissioning; the removal of property upon termination of an easement, right-of-way or franchise; and costs for abandonment of certain types of gas mains.

**Accrued removal obligations:** We meet the requirements concerning accounting for regulated operations and recognize a regulatory liability for the difference between removal costs collected in rates and actual costs incurred. We classify those amounts as accrued removal obligations.

**Environmental remediation liability:** In recording our liabilities for environmental remediation costs the amount of liability for a site is the best estimate, when determinable; otherwise it is based on the minimum liability or the lower end of the range when there is a range of estimated losses. We record our environmental liabilities on an undiscounted basis.

**Post-employment and other employee benefits:** We sponsor defined benefit pension plans that cover the majority of our employees. We also provide health care and life insurance benefits through various postretirement plans for eligible retirees.

## **Notes to Financial Statements**

We evaluate our actuarial assumptions on an annual basis and consider changes based on market conditions and other factors. All of our qualified defined benefit plans are funded in amounts calculated by independent actuaries, based on actuarial assumptions proposed by management.

We account for defined benefit pension or other postretirement plans, recognizing an asset or liability for the overfunded or underfunded plan status. For a pension plan, the asset or liability is the difference between the fair value of the plan's assets and the projected benefit obligation. For any other postretirement benefit plan, the asset or liability is the difference between the fair value of the plan's assets and the accumulated postretirement benefit obligation. We generally reflect all unrecognized prior service costs and credits and unrecognized actuarial gains and losses as regulatory assets rather than in OCI, as management believes it is probable that such items will be recoverable through the ratemaking process. Certain nonqualified plan expenses are not recoverable through the ratemaking process and we present the unrecognized prior service costs and credits and unrecognized actuarial gains and losses in accumulated other comprehensive loss. If a plan meets settlement or curtailment accounting criteria, we recognize a regulatory asset or liability if these costs are probable of recovery from ratepayers. We use a December 31st measurement date for our benefits plans.

We amortize prior service costs for both the pension and other postretirement benefits plans on a straight-line basis over the average remaining service period of employees active on the date of the amendment. Prior service cost changes resulting from union bargaining agreements are amortized on a straight-line basis over the period from first recognition to the end of the bargaining agreement. We amortize unrecognized actuarial gains and losses related to the pension and other postretirement benefits plans over 10 years from the time they are incurred as required by the NYPSC. Our policy is to calculate the expected return on plan assets using the market-related value of assets. We determine that value by recognizing the difference between actual returns and expected returns over a five-year period.

**Income taxes:** In August 2022, the Inflation Reduction Act of 2022 ("IRA") was signed into law in the United States. The IRA created a new corporate alternative minimum tax ("CAMT") of 15% on adjusted financial statement income and an excise tax of 1% on the value of certain stock repurchases. The CAMT and other various applicable provisions of the IRA are effective for the Company for periods beginning after December 31, 2022. The impact of CAMT will depend on our facts in each year, as well as on anticipated guidance from the U.S. Department of Treasury.

AGR, the parent company of Networks, files a consolidated federal income tax return and various state income tax returns, some of which are unitary as required or permitted, including all of the activities of its subsidiaries. Each subsidiary company is treated as a member of the consolidated group and determines its current and deferred taxes based on the separate return with benefits for loss method. As a member, RG&E settles its current tax liability or benefit each year directly with AGR pursuant to a tax allocation agreement between AGR and its members.

The aggregate amount of the related party income tax payable balance due to AGR at December 31, 2024 is \$6.5 million. The aggregate amount of the related party income tax receivable balance due from AGR at December 31, 2023 is \$0.8 million.

We use the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities reflect the expected future tax consequences, based on enacted tax laws, of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts. In accordance with U.S. GAAP for regulated industries, we have established regulatory assets

## **Notes to Financial Statements**

and liabilities for the net revenue requirements to be recovered from or refunded to customers for the related future tax expense or benefit associated with certain of these temporary differences. We defer the investment tax credits when earned and amortize them over the estimated lives of the related assets. We also recognize the income tax consequences of intra-entity transfers of assets other than inventory when the transfer occurs. We had no intra-entity transfers of assets other than inventory during the years ended December 31, 2024 and 2023.

Deferred tax assets and liabilities are measured at the expected tax rate for the period in which the asset or liability will be realized or settled, based on legislation enacted as of the balance sheet date. We charge or credit changes in deferred income tax assets and liabilities that are associated with components of OCI directly to OCI. Significant judgment is required in determining income tax provisions and evaluating tax positions. Our tax positions are evaluated under a more-likely-than-not recognition threshold before they are recognized for financial reporting purposes. We record valuation allowances to reduce deferred tax assets when it is not more likely than not that we will realize all or a portion of a tax benefit. We consider the effect of the alternative minimum tax system in determining the need for a valuation allowance for deferred taxes. Deferred tax assets and liabilities are netted and classified as non-current in our balance sheets.

We record the excess of state franchise tax computed as the higher of a tax based on income or a tax based on capital in "Taxes other than income taxes" and "Taxes accrued" in our financial statements.

Positions taken or expected to be taken on tax returns, including the decision to exclude certain income or transactions from a return, are recognized in the financial statements when it is more likely than not the tax position can be sustained based solely on the technical merits of the position. The amount of a tax return position that is not recognized in the financial statements is disclosed as an unrecognized tax benefit. Changes in assumptions on tax benefits may also impact interest expense or interest income and may result in the recognition of tax penalties. Interest and penalties related to unrecognized tax benefits are recorded within "Interest expense, net of capitalization" and "Other Income" and "Other Deductions" in the statements of income.

Uncertain tax positions have been classified as non-current unless expected to be paid within one year. Our policy is to recognize interest and penalties on uncertain tax positions as a component of interest expense in the statements of income.

Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management's best assessment of estimated current and future taxes to be paid. Significant judgments and estimates are required in determining the consolidated income tax components of the financial statements.

**Limited voting junior preferred stock:** We have a class of preferred stock having one share and a par value of \$1, which is issued and outstanding and has voting authority only with respect to whether RG&E may file a voluntary bankruptcy petition.

**Stock-based compensation:** Stock-based compensation represents costs related to stock-based awards granted to employees. We account for stock-based payment transactions based on the estimated fair value of awards reflecting forfeitures when they occur. The recognition period for these costs begins at either the applicable service inception date or grant date and continues throughout the requisite service period, or until the employee becomes retirement eligible, if earlier.

## **Notes to Financial Statements**

### **Adoption of New Accounting Pronouncements**

Although we are not a public business entity, we adopt new accounting standards based on public business entity guidance aside from the effective dates in certain situations where we may follow the effective dates for private entities.

There have been no new accounting pronouncements adopted as of and for the year ended December 31, 2024 that are expected to have a material impact on RG&E's financial statements.

### **Accounting Pronouncements Issued But Not Yet Adopted**

The following are new accounting pronouncements not yet adopted that we have evaluated or are evaluating to determine their effect on RG&E's financial statements.

#### **(a) Improvements to Income Tax Disclosures**

In December 2023, the FASB issued guidance to enhance income tax disclosures. The standard is required to be adopted by private entities for the annual periods beginning after December 15, 2025. Early adoption is permitted. The two primary enhancements relate to disaggregation of the annual effective tax rate reconciliation and income taxes paid disclosures. For the rate reconciliation, it requires additional disaggregation of information in a tabular format using both percentages and amounts broken out into specific categories (e.g., state and local income tax net of federal income tax effect, foreign tax effects, effect of changes in tax laws, tax credits, changes in valuation allowances, nontaxable or nondeductible items, and changes in unrecognized tax benefits). For income taxes paid, it requires disaggregation by jurisdiction (e.g., federal, state and foreign). We do not expect the new guidance to have a material impact on our results of operations, financial position and cash flows.

**Use of estimates and assumptions:** The preparation of our financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but not limited to: (1) allowance for credit losses and unbilled revenues; (2) asset impairments; (3) depreciable lives of assets; (4) income tax valuation allowances; (5) uncertain tax positions; (6) reserves for professional, workers' compensation, and comprehensive general insurance liability risks; (7) contingency and litigation reserves; (8) earnings sharing mechanism (ESM); (9) environmental remediation liabilities; (10) pension and other postretirement employee benefits (OPEB); (11) fair value measurements and (12) AROs. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our financial statements will change as new events occur, as more experience is acquired, as additional information is obtained, and as our operating environment changes. We evaluate and update our assumptions and estimates on an ongoing basis and may employ outside specialists to assist in our evaluations, as considered necessary. Actual results could differ from those estimates.

**Union collective bargaining agreements:** Approximately 43% of our employees are covered by a collective bargaining agreement. We have no agreements that will expire within the coming year.

### **Note 2. Industry Regulation**

**Notes to Financial Statements**

**Electricity and Natural Gas Distribution**

Our revenues are regulated, being based on tariffs established in accordance with administrative procedures set by the NYPSC. The tariffs are applied to regulated activities and are approved by the NYPSC and are based on the cost of providing service. Our revenues are set to be sufficient to cover all operating costs, including energy costs, finance costs, and the costs of equity, the last of which reflects our capital ratio and a reasonable return on equity (ROE).

Energy costs that are set on the New York wholesale markets are passed on to consumers. The difference between energy costs that are budgeted and those that are actually incurred by the utilities is offset by applying reconciliation procedures that result in either immediate or deferred tariff adjustments. Reconciliation procedures apply to other costs, which are in many cases exceptional, such as the effects of extreme weather conditions, environmental factors, regulatory and accounting changes, and treatment of vulnerable customers. Revenues that allow us to exceed target returns, usually the result of better than expected cost efficiency, are generally shared with our customers, resulting in future tariff reductions.

**2023 RG&E Rate Case Filing**

On May 26, 2022, RG&E made an initial filing to the NYPSC requesting increases to the delivery rates for its electric business of 19.0% and for its gas business of 20.9%. This initial filing started a lengthy process guided by NYPSC regulations. The Department of Public Service Staff and other parties to the rate cases submitted testimony on September 26, 2022.

On October 18, 2022, the Companies submitted rebuttal testimony responding to testimony of Department of Public Service Staff and other parties to the proceedings. On October 19, 2022, the Companies filed a notice of impending settlement negotiations. A Joint Proposal for a three year rate plan term was filed on June 14, 2023. The NYPSC issued an Order on October 12, 2023 approving the Joint Proposal in its entirety with one modification to acknowledge that the “make whole” period would be effective from May 1, 2023 through November 1, 2023, rather than October 1, 2023, as originally proposed in the Joint Proposal. The effective date of new tariffs was November 1, 2023 with make-whole back to May 1, 2023. An Order was issued on April 18, 2024 approving the Companies’ filed tariff amendments on a permanent basis. The Joint Proposal bases delivery revenues on an 9.20% ROE and 48% equity ratio; however, for the proposed earnings sharing mechanism, the equity ratio is the lower of the actual equity ratio or 50%. The approved Joint Proposal was signed in whole or in part by eight parties, and includes levelized delivery rate increases as summarized below:

	May 1, 2023		May 1, 2024		May 1, 2025	
	Rate Increase (Millions)	Delivery Rate Increase* %	Rate Increase (Millions)	Delivery Rate Increase* %	Rate Increase (Millions)	Delivery Rate Increase* %
<b>Electric</b>	\$51.0	11.0%	\$56.6	11.0%	\$65.3	11.0%
<b>Gas</b>	\$18.2	10.2%	\$20.1	10.2%	\$22.4	10.2%

\* Based on “net base delivery” revenues, which consist of gross base delivery revenue plus Bill Issuance Payment Process (BIPP), plus Gross Revenue Tax (GRT).

The approved Joint Proposal also reflects increased energy efficiency programs and distribution vegetation management, along with investments in aging infrastructure, resiliency, continued implementation of Advanced Metering Infrastructure (AMI), and increases in the Company’s workforce. The approved Joint Proposal reflects the continued recovery of deferred RG&E

### **Notes to Financial Statements**

Electric storm costs and continued reserve accounting for qualifying Major Storms (\$4.5 million in Rate Year 1, \$6.0M in Rate Year 2 and \$7.6M in Rate Year 3). Incremental maintenance costs incurred to restore service in will be chargeable to the Major Storm Reserve provided they meet certain thresholds for each storm event.

The approved Joint Proposal continued the electric reliability performance measures (and associated potential negative revenue adjustments for failing to meet established performance levels) which include the system average interruption frequency index (SAIFI) and the customer average interruption duration index (CAIDI). The Proposal also maintains certain gas safety performance measures at the company, including those relating to the replacement of leak prone main, leak backlog management, emergency response, and damage prevention. The approved Joint Proposal established threshold performance levels for designated aspects of customer service quality, with increases to potential negative revenue adjustments. The approved Joint Proposal continues bill reduction and arrears forgiveness Low Income Programs. Certain REV-related incremental costs and fees will be included in the revenue adjustment mechanism (RAM) to the extent cost recovery is not provided for elsewhere. Under the approved Joint Proposal, RG&E continues the RAM, which is applicable to all customers, to return or collect RAM Eligible Deferrals and Costs, including: (1) property taxes; (2) Major Storm deferral balances; (3) gas leak prone pipe replacement; (4) REV costs and fees which are not covered by other recovery mechanisms; (5) costs associated with the implementation of any Commission-ordered EV program which are not covered by any other cost recovery mechanism; and (6) Covid-related uncollectibles (Rate Years 1 and 2 only).

The Proposal provided for partial or full reconciliation of certain expenses including, but not limited to: pension and other postretirement benefits; property taxes; variable rate debt and new fixed rate debt; gas research and development; environmental remediation costs; Major Storms; nuclear electric insurance limited credits; economic development; Low Income Programs, and Covid-related Uncollectible Expense. The Proposal also includes downward-only Net Plant AMI and Resiliency Program reconciliations. In addition, the Proposal included downward-only reconciliations for the costs of: electric distribution and gas vegetation management; pipeline integrity; and other incremental maintenance programs. The Proposal provided that the Company continue the electric and gas revenue decoupling mechanisms (RDM) on a total revenue per class basis.

The Proposal provides that with few exceptions, the provisions for electric and gas service under the Proposal for Rate Year 3 (the twelve-month period ending April 30, 2026) shall continue unless and until such provisions and base delivery rates for electric or gas service are changed by subsequent order of the New York Public Service Commission. Thus, from May 1, 2023, until such time as new rates are approved by the Commission, the current rates and terms for Rate Year 3 of the prior Proposal remain in effect.

### **Reforming the Energy Vision (REV)**

In April 2014, the NYPSC commenced a proceeding entitled REV, which is a wide-ranging initiative to reform New York State's energy industry and regulatory practices. REV was divided into two tracks, Track 1 for Market Design and Technology, and Track 2 for Regulatory Reform. REV and its related proceedings have and will continue to propose regulatory changes that are intended to promote more efficient use of energy, deeper penetration of renewable energy resources such as wind and solar and wider deployment of distributed energy resources (DER), such as micro grids, on-site power supplies and storage.

### **Notes to Financial Statements**

The NYPSC issued a 2015 order in Track 1, which acknowledged the utilities' role as a Distribution System Platform provider, and required the utilities to file an initial Distribution System Implementation Plan (DSIP) followed by bi-annual updates. The next scheduled DSIP update is June 30, 2025.

A Track 2 order was issued in May 2016, and included guidance related to the potential for Earnings Adjustment Mechanisms (EAMs), Platform Service Revenues, innovative rate designs and data utilization and security. EAMs were approved by the Commission on November 19, 2020 in its Order approving RG&E's 2020 Rate Plan. Modifications to EAMs were approved by the Commission on October 12, 2023 in its Order approving RG&E's 2023 Rate Plan.

In 2017, the NYPSC approved a transition from traditional Net Energy Metering (NEM) towards a more values-based approach (Value Stack) for compensating DER. Since that time, the Commission has issued a number of orders on additional Value of Distributed Energy Resources matters. On January 16, 2024, the NYPSC Staff issued a proposal on Community Distributed Generation (CDG) Billing and Crediting Performance Metrics and Negative Revenue Adjustments (NRA). The NYPSC Staff recommends six CDG performance metrics with associated NRAs that would incent improvements to the CDG billing processes. At this time, the outcome of this proceeding is unknown. On May 16, 2024, the NYPSC issued an Order approving a statewide Solar for All program, effective December 1, 2025, whereby utilities would aggregate bill credits generated by participating CDG projects and distribute them among customers automatically enrolled in the utility's low-income energy affordability programs that are located in a disadvantaged community. Also on May 16, 2024, the NYPSC issued an Order that permits CDG projects to offer up to three distinct CDG savings rates to CDG subscribers beginning June 1, 2025.

Other REV-related orders pertaining to electric vehicles (EV), an Integrated Energy Data Resource (IEDR) platform and energy storage are summarized below.

- The NYPSC issued an Order on April 20, 2023 instituting a proceeding to advance infrastructure for medium and heavy-duty vehicles. The Joint Utilities filed an implementation plan with the NYPSC for the medium and heavy-duty pilot program. The Joint Utilities are awaiting the NYPSC's approval of the implementation plan.
- On February 11, 2021, the NYPSC issued an Order to implement an Integrated Energy Data Resource platform, where NYSERDA was designated as the Program Sponsor of the platform. The Order established a combined cost cap of \$12 million for NYSEG and RG&E for Phase 1, to be deferred and recovered in the next rate case filing after Phase 1 is complete. On January 19, 2024, the NYPSC issued an Order approving Phase 2 budget, with costs up to the combined cost cap deferred for future recovery in the same manner as Phase 1.
- An order was issued on July 16, 2020 approving a \$700 million statewide program (NYSEG and RG&E combined share is approximately \$118 million) funded by customers to accelerate the deployment of EV charging stations. On November 16, 2023, the Commission issued its Order Approving Midpoint Review Whitepaper's Recommendations with Modifications. The Order increased the total budget to \$1.243 billion for the statewide program (NYSEG and RG&E combined share is approximately \$131 million).
- On December 13, 2018, the NYPSC issued an Order for utilities to file implementation plans detailing a competitive procurement process and cost recovery for deploying

**Notes to Financial Statements**

qualified storage systems. RG&E has tariffs in effect to collect costs for the procurement of qualified energy storage assets. On June 20, 2024, the NYPSC issued an Order establishing an updated storage goal and deployment policy.

- On April 18, 2024 the NYPSC instituted a proceeding intended to transition New York to a more connected, affordable, resilient, and clean electric grid. During the proceeding, Public Service Commission staff will engage with stakeholders to develop a comprehensive New York Grid of the Future plan that establishes targets for the deployment of flexible resources such as virtual power plants and identifies the utility investments needed to enable the grid of the future. The NYPSC is commencing this proceeding to establish a clear set of needed grid capabilities, establish targets for deployment of those capabilities, identify required investments to effectuate those targets, and identify the anticipated customer benefits and savings achievable from meeting those targets. NYPSC Staff filed a Grid Flexibility Study on January 31, 2025 and will develop and file the first iteration of the “New York Grid of the Future Plan” (Plan) by February 28, 2025.
- On August 15, 2024, the NYPSC issued an Order Establishing Proactive Planning Proceeding. The Order directs utilities to develop and propose a framework for a process to proactively plan for electric vehicles and electrification, and to identify urgent projects that may need to be deployed before the planning process is completed. On December 13, 2024, the Joint Utilities filed a long-term proactive planning framework.

**Customer Arrearages Reduction Order**

On June 16, 2022, the NYPSC issued an order (Phase 1) authorizing an arrearages reduction program targeting low-income customers to provide COVID-19-related relief through a one-time bill credit to eliminate accrued arrearages through May 1, 2022. A portion of the targeted arrearages will be funded via direct contributions from the State of New York, and the remainder to be received via a surcharge to all customers. The surcharge recovery is over five years for RG&E beginning on August 1, 2022.

On January 19, 2023, the NYPSC issued a subsequent order (Phase 2) providing bill relief for customers who did not receive a credit as part of the Phase 1 Program approved in 2022 (Low Income Program participants). Qualifying residential and small business customers are eligible to have any past-due balance from bills for service through May 1, 2022, reduced through a one time bill credit, up to a maximum credit below:

<b>Residential</b>	<b>Total Forecast Residential Credits (Millions)</b>	<b>Small Business</b>	<b>Total Forecast Small Business Credits (Millions)</b>
Up to \$1,500	\$15.2	Up to \$1,500	\$0.6

The New York State Budget for 2023-2024 included an appropriation of \$200 million designated to provide prompt utility bill relief. On February 15, 2024, the NYPSC issued an order authorizing and directing utilities, including RG&E, to provide one-time bill credits to customers to achieve the stated purpose of the budget appropriation. The February 15, 2024 NYPSC Order provides \$7.2 million and \$3.7 million, for RG&E Electric and Gas customers, respectively, to be distributed in the form of one-time credits to customers as shown below:

**Notes to Financial Statements**

Service	Number of Customers	RG&E Allocation (Millions)	Estimated Credit (per customer)
Electric	390,454	\$7.209	\$18.46
Gas	322,924	\$3.663	\$11.34

**Community Leadership and Climate Protection Act Transmission**

Pursuant to the Community Leadership and Climate Protection Act of 2019 (CLCPA) and Accelerated Renewable Energy Growth and Community Benefit Act of 2020, the Commission has issued orders addressing investment in transmission by RG&E to support the state achieving the CLCPA's goal of 70% renewable energy by 2030. On February 16, 2023, the Commission issued an Order approving the investment of approximately \$157 million by RG&E through 2030 in CLCPA "Phase 2" transmission projects. Phase 2 transmission projects are upgrades to the RG&E local transmission system that are being developed primarily to allow for the interconnection and delivery of renewable energy in the Southern Tier, an area that the Commission has designated as an "Area of Concern" for renewable energy development because there is substantial renewable energy development interest but inadequate transmission. Unlike other transmission owned by RG&E, the cost of CLCPA Phase 2 transmission will be recovered pursuant to a formula rate under the jurisdiction of the Federal Energy Regulatory Commission (FERC) so that costs can be allocated statewide. RG&E and other transmission-owning utilities in New York negotiated a Cost Sharing and Recovery Agreement (CSRA), which was approved by the Commission on May 12, 2022, and by FERC on August 22, 2022. Under the terms of the CSRA the cost of CLCPA Phase 2 transmission projects approved by the Commission will be recovered through the New York Independent System Operator tariff, with ROE and capital structure determined by the Commission, subject to an ROE ceiling set by FERC. The CSRA requires utilities to obtain authorization from the Commission prior to seeking recovery of a 100% construction work in progress (CWIP) incentive associated with CLCPA Phase 2 projects. In an April 19, 2024 Order, the Commission granted the Company's request for authorization to seek a 100% CWIP incentive for its CLCPA Phase 2 projects. On July 5, 2024, FERC conditionally accepted RG&E's application for CWIP and the 100% Abandoned Plant incentive (Abandoned Plant), subject to further compliance, for projects that are subject to subsequent permitting approval by the NYPSC under Article VII of New York State's Public Service Law, effective July 8, 2024, and denied the application for CWIP and Abandoned Plant for projects not subject to Article VII permitting approval. RG&E is assessing the July 5, 2024 FERC order and the impacts on the companies. On August 2, 2024, RG&E sought clarification, or in the alternative rehearing, of the July 5, 2024 order. Rehearing was denied after 30 days by operation of law, and the order denying rehearing states that the issue will be addressed in a future order. On October 1, FERC ruled on RG&E's request for clarification/rehearing. FERC confirmed that any projects that receive state siting approval orders that include the required reliability and/or congestion reduction determinations can qualify for incentives, not limited to the projects listed in the July order as Article VII projects. FERC denied clarification and rehearing to include CWIP in rate base prior to FERC's acceptance of the state siting orders.

**Minimum Equity Requirements for Regulated Subsidiaries**

RG&E is subject to a minimum equity ratio requirement that is tied to the capital structure assumed in establishing revenue requirements. Pursuant to these requirements, RG&E must maintain a minimum equity ratio equal to the ratio in its currently effective rate plan or decision measured using a trailing 13-month average. On a monthly basis, RG&E must maintain a minimum equity ratio of no less than 300 basis points below the equity ratio used to set rates. The minimum equity ratio requirement has the effect of limiting the amount of dividends that

### **Notes to Financial Statements**

may be paid and may, under certain circumstances, require that the parent contribute equity capital. RG&E is prohibited by regulation from lending to unregulated affiliates. RG&E has also agreed to minimum equity ratio requirements in certain short-term borrowing agreements. These requirements are lower than the regulatory requirements.

#### **Note 3. Regulatory Assets and Liabilities**

Pursuant to the requirements concerning accounting for regulated operations we capitalize, as regulatory assets, incurred and accrued costs that are probable of recovery in future electric and natural gas rates. We base our assessment of whether recovery is probable on the existence of regulatory orders that allow for recovery of certain costs over a specific period, or allow for reconciliation or deferral of certain costs. When costs are not treated in a specific order we use regulatory precedent to determine if recovery is probable. We also record, as regulatory liabilities, obligations to refund previously collected revenue or to spend revenue collected from customers on future costs. Of the total regulatory assets net of regulatory liabilities, approximately \$119.1 million represents the offset of accrued liabilities for which funds have not been expended. The remainder is either included in rate base or accruing carrying costs.

Details of regulatory assets and regulatory liabilities are shown in the tables below. They result from various regulatory orders that allow for the deferral and/or reconciliation of specific costs. Regulatory assets and regulatory liabilities are classified as current when recovery or refund in the coming year is allowed or required through a specific order or when the rates related a specific regulatory asset or regulatory liability are subject to automatic annual adjustment.

On October 12, 2023, the NYPSC approved the proposal in connection with a three-year rate plan for electric and gas service at RG&E effective May 1, 2023. Following the approval of the proposal RG&E's plant related tax items are amortized over the life of associated plant, and unfunded deferred taxes being amortized over a period of forty-three years. A majority of the other items related to RG&E will be amortized over a three-year period. In accordance with the Schedule of Regulatory Amortizations included in the approved Joint Proposal, net amortization revenue for RG&E is approximately \$60.2 million for the year ended December 31, 2024.

Regulatory assets at December 31, 2024 and 2023 consisted of:

**Notes to Financial Statements**

December 31,	2024	2023
<b>(Thousands)</b>		
Asset retirement obligation	\$ 3,204	\$ 3,207
Debt rate reconciliations	20,841	8,128
Decommissioning	—	274
Deferred meter replacement costs	11,232	10,803
Delivery rate shaping	21,291	16,594
Electric supply reconciliation	5,473	—
Environmental remediation costs	76,453	66,671
Federal tax depreciation normalization adjustment	40,748	42,154
Gas supply charges	5,007	—
Hedge losses	724	13,991
Low income program	2,139	10,684
Low income arrears forgiveness	22,488	31,238
Make-whole provision	15,559	29,566
Pension and other postretirement benefits	21,200	22,288
Pension and other postretirement benefits cost deferrals	13,926	9,286
Post term amortization	195	781
Rate adjustment mechanism	2,660	7,769
Revenue decoupling mechanism	26,072	15,503
Storm costs	64,844	52,413
Unamortized losses on reacquired debt	3,233	3,676
Uncollectible reserve	66,311	41,986
Unfunded future income taxes	160,777	157,192
Value of Distributed Energy Resources (VDER) Program	19,648	16,730
Other	49,515	32,987
<b>Total regulatory assets</b>	<b>653,540</b>	<b>593,921</b>
Less: current portion	96,343	105,460
<b>Total non-current regulatory assets</b>	<b>\$ 557,197</b>	<b>\$ 488,461</b>

Asset retirement obligations represent the differences in timing of the recognition of costs associated with our AROs and the collection of such amounts through rates. This amount is being amortized at the related depreciation and accretion amounts of the underlying liability.

Debt rate reconciliations represent the over/under collection of costs related to fixed and variable rate debt instruments identified in the rate case. Costs would include interest, commissions and fees versus amounts included in rates.

Decommissioning represents amounts to be collected in rates for the decommissioning of shut down plants.

Deferred meter replacement costs represent the deferral of the net book value of retired meters that were replaced by advanced metering infrastructure meters. This amount is being amortized at the related existing depreciation amounts.

Delivery rate shaping adjusts the New York delivery rate increases across the three-year plan to avoid unnecessary spikes and offsetting dips in customer rates. A portion of this balance is

### **Notes to Financial Statements**

amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

Electric supply reconciliation represents over/under collection of costs related to electric supply in which RG&E supplies electricity as the default service option for customers.

Environmental remediation costs include spending that has occurred and is eligible for future recovery in customer rates. Environmental costs are currently recovered through a reserve mechanism whereby projected spending is included in rates with any variance recorded as a regulatory asset or a regulatory liability. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases. The amortization period will be established in future proceedings and will depend upon the timing of spending for the remediation costs. It also includes the anticipated future rate recovery of costs that are recorded as environmental liabilities since these will be recovered when incurred. Because no funds have yet been expended for the regulatory asset related to future spending, it does not accrue carrying costs and is not included within rate base.

Federal tax depreciation normalization adjustment represents the revenue requirement impact of the difference in the deferred income tax expense required to be recorded under the IRS normalization rules and the amount of deferred income tax expense that was included in cost of service for rate years covering 2011 forward. The recovery period is being amortized over a thirty-two year period starting in 2023.

Gas supply charge reflects the actual costs of purchasing, transporting and storing of natural gas. Gas supply reconciliation is determined by comparing actual gas supply expenses to the monthly gas cost recoveries in rates. Prior rate year balances are collected/returned to customers beginning the next calendar year.

Hedge losses represents deferred fair value losses on electric and gas hedge contracts.

Low income programs represent various hardship and payment plan programs approved for recovery. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

Low income arrears forgiveness program represents deferred bill credits in the State of New York based on the order issued by PSC on June 16, 2022, approving deferral of bill credits for low-income customers (Phase 1), and additional deferred bill credits for other residential and small commercial customers who did not qualify for Phase 1 based on the order issued by PSC on January 19, 2023 (Phase 2). The Phase 1 regulatory asset will be recovered from all customers over five years through a surcharge that began August 1, 2022. The Phase 2 regulatory asset will be recovered from all customers over three and a half years through a surcharge that began March 1, 2023.

Make-whole provision represents the regulatory asset to recover revenues that would have been received by RG&E had Rate Year 1 rates approved in the 22-E-0317 et al. joint proposal gone into effect on the effective date of May 1, 2023. The balance is being recovered through a separately stated make-whole rate, effective November 1, 2023, over 6-30 months.

Pension and other postretirement benefits represent the actuarial losses on the pension and other postretirement plans that will be reflected in customer rates when they are amortized and recognized in future pension expenses. Because no funds have yet been expended for this regulatory asset, it does not accrue carrying costs and is not included within the rate base.

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Pension and other postretirement benefits cost deferrals include the difference between actual expense for pension and other postretirement benefits and the amount provided for in rates. The recovery of these amounts will be determined in future proceedings.

Post term amortization represents the amortization costs deferred from previous rate cases. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

Rate adjustment mechanism (RAM) represents a mechanism each business implements to return or collect the net balance of RAM eligible deferrals and costs. The primary driver of RAM collections is storm costs, but this also includes property taxes and REV costs and fees not covered in other recovery mechanisms.

Revenue decoupling mechanism represents the mechanism established to disassociate the utility's profits from its delivery/commodity sales.

Storm costs are allowed in rates based on an estimate of the routine costs of service restoration. RG&E is also allowed to defer unusually high levels of service restoration costs resulting from major storms when they meet certain criteria for severity and duration.

Unamortized losses on reacquired debt represent deferred losses on debt reacquisitions that will be recovered over the remaining original amortization period of the reacquired debt.

Uncollectible reserve includes the anticipated future rate recovery of costs that are recorded as uncollectible since those will be recovered when incurred. Because no funds have yet been expended for the regulatory asset related to future uncollectible expense, it does not accrue carrying costs and is not included within rate base. It also includes the variance between actual uncollectible expense and uncollectible expense included in rates that is eligible for future recovery in customer rates. The amortization period will be established in future proceedings.

Unfunded future income taxes represent unrecovered federal and state income taxes primarily resulting from regulatory flow through accounting treatment. The income tax benefits or charges for certain plant related timing differences, such as removal costs, are immediately flowed through to, or collected from, customers. This amount is being amortized as the amounts related to temporary differences that give rise to the deferrals are recovered in rates.

Value Distributed Energy Resource represent a mechanism to compensate energy created by distributed energy resources, like solar.

Other includes items such as earnings sharing mechanism, methane detection program, danger tree, inside service line inspection and electric vehicle.

Regulatory liabilities at December 31, 2024 and 2023 consisted of:

**Notes to Financial Statements**

December 31,	2024	2023
<b>(Thousands)</b>		
Accrued removal obligations	\$ 172,311	\$ 173,561
Asset retirement obligation	5,059	4,955
Carrying costs on deferred income tax bonus depreciation	514	3,043
Deferred property taxes	17,550	15,276
Deferred transmission congestion contracts	17,974	26,489
Earnings sharing	1,705	4,563
Economic development	—	4,520
Electric supply reconciliation	—	4,247
Energy efficiency programs	2,259	4,196
Gas supply charge	—	1,092
Mixed use 263(a)	388	1,554
NEIL (Nuclear Electric Insurance Limited) credits	—	4,817
Net plant reconciliation	7,876	12,158
Pension and other postretirement benefits	18,799	17,723
Pension and other postretirement benefits cost deferrals	2,112	3,501
Positive benefit adjustment	2,176	8,704
Service quality performance mechanism	19,015	15,692
Tax Act – remeasurement	246,736	252,887
Theoretical reserve flow through impact	419	1,674
Other	46,562	47,190
<b>Total regulatory liabilities</b>	<b>561,455</b>	<b>607,842</b>
Less: current portion	40,363	79,101
<b>Total non-current regulatory liabilities</b>	<b>\$ 521,092</b>	<b>\$ 528,741</b>

Accrued removal obligations represent the differences between asset removal costs recorded and amounts collected in rates for those costs. The amortization period is dependent upon the asset removal costs of underlying assets and the life of the utility plant.

Carrying costs on deferred income tax bonus depreciation represent the carrying costs benefit of increased accumulated deferred income taxes created by the change in tax law allowing bonus depreciation. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

Deferred property taxes represent the customer portion of the difference between actual expense for property taxes and the amount provided for in rates. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

Deferred transmission congestion contracts represent the deferral of the right to collect day-ahead market congestions rents going forward in time. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

### **Notes to Financial Statements**

Earning sharing provisions represents the annual earnings over the earning sharing threshold. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

Economic development represents the economic development program which enables RG&E to foster economic development through attraction, expansion, and retention of businesses within its service territory. If the level of actual expenditures for economic development allocated to RG&E varies in any rate year from the level provided for in rates, the difference is refunded to ratepayers. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

Electric supply reconciliation represents over/under collection of costs related to electric supply in which RG&E supplies electricity as the default service option for customers.

Energy efficiency programs standard represents the difference between revenue billed to customers through an energy efficiency charge and the costs of our energy efficiency programs as approved by the state authorities. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

Gas supply charge reflects the actual cost of purchasing, transporting and storing natural gas for those customers who receive their natural gas supply from RG&E.

Mixed services 263(a) represent the carrying costs benefit of increased accumulated deferred income taxes created by Section 263(a) IRC. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

NEIL (Nuclear Electric Insurance Limited) credits represents the difference between insurance credit amounts reflected in rates and actual credits received.

Net plant reconciliation represents the reconciliation of the actual electric and gas net plant and book depreciation to the targets set forth in the Joint Proposal. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

Positive benefit adjustment resulted from Iberdrola's 2008 acquisition of AVANGRID (formerly Energy East Corporation). A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

Service Quality Performance Mechanism represents positive or negative revenue adjustments from metric standards either missed or achieved. The standards are established in the rate case. A portion of this balance is amortized through current rates, the remaining portion will be refunded in future periods through future rate cases.

Tax Act - remeasurement represents the impact from remeasurement of deferred income tax balances as a result of the Tax Act enacted by the U.S. federal government on December 22, 2017. Reductions in accumulated deferred income tax balances due to the reduction in the corporate income tax rates from 35% to 21% under the provisions of the Tax Act will result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers, generally through reductions in future rates.

Theoretical reserve flow through impact represents the difference from the rate allowance for applicable federal and state flow through impacts related to the excess depreciation reserve

### **Notes to Financial Statements**

amortization. It also represents the carrying cost on the differences. A portion of this balance is amortized through current rates; the remaining portion will be refunded in future periods through future rate cases.

Other includes items such as Clean Energy Fund (CEF), manhole maintenance and vegetation management.

#### **Note 4. Revenue**

We recognize revenue when we have satisfied our obligations under the terms of a contract with a customer, which generally occurs when the control of promised goods or services transfers to the customer. We measure revenue as the amount of consideration we expect to receive in exchange for providing those goods or services. Contracts with customers may include multiple performance obligations. For such contracts, we allocate revenue to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to customers. Certain revenues are not within the scope of ASC 606, such as revenues from leasing, derivatives, other revenues that are not from contracts with customers and other contractual rights or obligations, and we account for such revenues in accordance with the applicable accounting standards. We exclude from revenue amounts collected on behalf of third parties, including any such taxes collected from customers and remitted to governmental authorities. We do not have any material significant payment terms because we receive payment at or shortly after the point of sale.

The following describes the principal activities from which we generate revenue.

RG&E derives its revenue primarily from tariff-based sales of electricity and natural gas service to customers in New York with no defined contractual term. For such revenues, we recognize revenues in an amount derived from the commodities delivered to customers. Other major sources of revenue are electricity transmission and wholesale sales of electricity and natural gas.

Tariff-based sales are subject to the corresponding state regulatory authorities, which determine prices and other terms of service through the ratemaking process. In New York, customers have the option to obtain the electricity or natural gas commodity directly from the utility or from another supplier. For customers that receive their commodity from another supplier, the utility acts as an agent and delivers the electricity or natural gas provided by that supplier. Revenue in those cases is only for providing the service of delivery of the commodity.

Transmission revenue results from others' use of the utility's transmission system to transmit electricity and is subject to FERC regulation, which establishes the prices and other terms of service. Long-term wholesale sales of electricity are based on individual bilateral contracts. Short-term wholesale sales of electricity are generally on a daily basis based on market prices and are administered by the NYISO or PJM Interconnection, LLC (PJM), as applicable. Wholesale sales of natural gas are generally short-term based on market prices through contracts with the specific customer.

The performance obligation in all arrangements is satisfied over time because the customer simultaneously receives and consumes the benefits as RG&E delivers or sells the electricity or natural gas or provides the transmission service.

RG&E records revenue from Alternative Revenue Programs (ARPs), which is not ASC 606 revenue. Such programs represent contracts between the utilities and their regulators. The

**Notes to Financial Statements**

RG&E ARPs include revenue decoupling mechanisms, other ratemaking mechanisms, annual revenue requirement reconciliations, and other demand side management programs.

RG&E also has various other sources of revenue including billing, collection, other administrative charges, sundry billings, rent of utility property, and miscellaneous revenue. It classifies such revenues as other ASC 606 revenues to the extent they are not related to revenue generating activities from leasing, ARPs, or other activities.

We have contract liabilities for revenue from transmission congestion contract (TCC) auctions, for which we receive payment at the beginning of an auction period, and amortize ratably each month into revenue over the applicable auction period. The auction periods range from six months to two years. TCC contract liabilities totaled \$0.2 million at December 31, 2024, and \$0.6 million at December 31, 2023, and are presented in "Other current liabilities" on our balance sheets. We recognized \$0.7 million as revenue in 2024 and \$1.0 million in 2023.

We apply a practical expedient to expense as incurred costs to obtain a contract when the amortization period is one year or less. We record costs incurred to obtain a contract within operating expenses, including amortization of capitalized costs.

Revenues disaggregated by major source for the years ended December 31, 2024 and 2023 are as follows:

<b>Years Ended December 31,</b>	<b>2024</b>	<b>2023</b>
<b>(Thousands)</b>		
Regulated operations – electricity	\$ 867,619	\$ 835,405
Regulated operations – natural gas	325,224	345,250
Other (a)	21,457	14,945
<b>Revenue from contracts with customers</b>	<b>1,214,300</b>	<b>1,195,600</b>
Leasing revenue	82	68
Alternative revenue programs	26,822	20,670
Other revenue	7,455	5,409
<b>Total operating revenues</b>	<b>\$ 1,248,659</b>	<b>\$ 1,221,747</b>

(a) Primarily includes certain intra-month trading activities, billing, collection, and administrative charges, sundry billings, and other miscellaneous revenue.

**Note 5. Income Taxes**

Current and deferred taxes charged to expense for the years ended December 31, 2024 and 2023 consisted of:

**Notes to Financial Statements**

<b>Years Ended December 31,</b>	<b>2024</b>	<b>2023</b>
<b>(Thousands)</b>		
<b>Current</b>		
Federal	\$ (3,342)	\$ (5,892)
State	285	(347)
<b>Current taxes charged to benefit</b>	<b>(3,057)</b>	<b>(6,239)</b>
<b>Deferred</b>		
Federal	32,200	37,738
State	10,570	12,106
<b>Deferred taxes charged to expense</b>	<b>42,770</b>	<b>49,844</b>
<b>Total Income Tax Expense</b>	<b>\$ 39,713</b>	<b>\$ 43,605</b>

The differences between tax expense per the statements of income and tax expense at the 21% statutory federal tax rate for the years ended December 31, 2024 and 2023, respectively, consisted of:

<b>Years Ended December 31,</b>	<b>2024</b>	<b>2023</b>
<b>(Thousands)</b>		
Tax expense at federal statutory rate	\$ 38,414	\$ 41,538
Equity AFUDC tax impacts not normalized	(2,830)	(1,916)
Excess ADIT amortization	(3,403)	(5,557)
State tax expense, net of federal benefit	8,575	9,290
Other, net	(1,043)	250
<b>Total Income Tax Expense</b>	<b>\$ 39,713</b>	<b>\$ 43,605</b>

Income tax expense for the year ended December 31, 2024 was \$1.3 million higher than it would have been at the statutory federal income tax rate of 21% due predominately to state tax expense, partially offset by excess Accumulated Deferred Income Tax (ADIT) amortization and Equity AFUDC tax effects. This resulted in an effective tax rate of 21.7%. Income tax expense for the year ended December 31, 2023, was \$2.1 million higher than it would have been at the statutory federal income tax rate of 21% due predominately to state tax expense, partially offset by Excess ADIT amortization and Equity AFUDC tax effects. This resulted in an effective tax rate of 22.0%.

In 2020, RG&E began refunding previously deferred protected and unprotected Excess ADITs, established as a result of the 2017 Tax Act as part of the 2020 Joint Proposal and as determined by the NYPSC and IRS normalization rules.

Deferred tax assets and liabilities as of December 31, 2024 and 2023 consisted of:

**Notes to Financial Statements**

December 31,	2024	2023
(Thousands)		
<b>Non-current Deferred Income Tax Liabilities (Assets)</b>		
Property related	\$ 646,164	\$ 614,015
Unfunded future income taxes	41,138	39,394
Storms	16,947	13,701
Regulatory liability due to "Tax Cuts and Jobs Act"	(64,484)	(66,104)
Pension and other postretirement benefits	(23,527)	(24,957)
Derivative assets	(8,777)	(9,740)
Environmental	2,037	(3,641)
Federal and state net operating loss	(78,236)	(67,630)
Other	48,453	29,899
<b>Total Non-current Deferred Income Tax Liabilities</b>	<b>\$ 579,715</b>	<b>\$ 524,937</b>
Deferred tax assets	\$ 175,024	\$ 172,072
Deferred tax liabilities	754,739	697,009
<b>Net Accumulated Deferred Income Tax Liabilities</b>	<b>\$ 579,715</b>	<b>\$ 524,937</b>

RG&E has gross federal net operating losses of \$242.0 million and gross New York state net operating losses of \$528.4 million for the year ended December 31, 2024. RG&E has gross federal net operating losses of \$214.5 million and gross New York state net operating losses of \$439.9 million for the year ended December 31, 2023.

In 2024 the IRS issued private letter rulings ("PLRs") 20242002, 20242003, and 20242004 to three affiliated utilities (unrelated to RG&E) which held that the normalization rules do not permit a utility's Net Operating Loss Carryforward ("NOLC") Deferred Tax Asset ("DTA") related to certain depreciation differences to be reduced by intercompany tax allocation payments. RG&E performed an analysis of its federal NOLs and recorded an excess ADIT remeasurement adjustment of \$1.2 million as a result in order to comply with the IRS rulings.

Uncertain tax positions have been classified as non-current unless expected to be paid within one year. Our policy is to recognize interest and penalties on uncertain tax positions as a component of interest expense in the statements of income.

The reconciliation of unrecognized income tax benefits for the years ended December 31, 2024 and 2023 consisted of:

Years Ended December 31,	2024	2023
(Thousands)		
<b>Beginning Balance</b>	<b>\$ 48,526</b>	<b>\$ 48,813</b>
Reduction for tax positions related to prior years	(287)	(287)
<b>Ending Balance</b>	<b>\$ 48,239</b>	<b>\$ 48,526</b>

Unrecognized income tax benefits represent income tax positions taken on income tax returns but not yet recognized in the financial statements. The accounting guidance for uncertainty in income taxes provides that the financial effects of a tax position shall initially be recognized in the financial statements when it is more likely than not based on the technical merits that the position will be sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information.

### Notes to Financial Statements

There were no additional accruals for interest and penalties on tax reserves as of December 31, 2024 and December 31, 2023.

#### **Note 6. Long-term Debt**

Long-term debt as of December 31, 2024 and 2023 consisted of:

As of December 31, (Thousands, except interest rates)	Maturity Dates	2024		2023	
		Balances	Interest Rates	Balances	Interest Rates
First mortgage bonds (a)	2025-2053	\$ 1,815,500	1.85%-8.00%	\$ 1,660,500	1.85%-8.00%
Unsecured pollution control notes - fixed	2025	91,900	3.00%	91,900	3.00%
Unamortized debt issuance cost and discount		(16,938)		(14,335)	
<b>Total Debt</b>		<b>1,890,462</b>		<b>1,738,065</b>	
Less: debt due within one year, included in current liabilities		150,343		—	
<b>Total Non-current Debt</b>		<b>\$ 1,740,119</b>		<b>\$ 1,738,065</b>	

(a) The first mortgage bonds are secured by a first mortgage lien on substantially all of Net Utility Plant In Service. We have no other secured indebtedness. None of our other debt obligations are guaranteed or secured by any of our affiliates.

On December 13, 2023, RG&E issued a total \$250 million aggregate principal amount of green private bonds, consisting of \$100 million maturing in 2028 at an interest rate of 5.62%, \$25 million maturing in 2034 at an interest rate of 5.89%, \$50 million maturing in 2036 at an interest rate of 5.99% and \$75 million maturing in 2053 at an interest rate of 6.22%.

On November 20, 2024, RG&E issued a total \$155 million aggregate principal amount of green mortgage bonds, consisting of \$77 million maturing in 2035 at an interest rate of 5.41%, \$78 million maturing in 2038 at an interest rate of 5.51%.

Long-term debt, including sinking fund obligations, due over the next five years and thereafter consist of:

2025	2026	2027	2028	2029	Total
(Thousands)					
\$ 150,343	\$ —	\$ 450,000	\$ 100,000	\$ —	\$ 700,343

We have no financial debt covenant requirements related to our long-term debt at December 31, 2024 and 2023.

#### **Note 7. Bank Loans and Other Borrowings**

RG&E had no outstanding balance as of December 31, 2024 and \$17.1 million of notes payable outstanding as of December 31, 2023. RG&E funds short-term liquidity needs through an agreement among Avangrid's regulated utility subsidiaries (the Virtual Money Pool Agreement), a bi-lateral intercompany credit agreement with Avangrid (the Bi-Lateral Intercompany Facility), and a bank provided credit facility to which RG&E is a party (the AGR Credit Facility), each of which are described below.

### **Notes to Financial Statements**

The Virtual Money Pool Agreement is an agreement among the investment grade-rated, regulated utility subsidiaries of Avangrid under which the parties to this agreement may lend to or borrow from each other. This Agreement allows Avangrid to optimize cash resources within the regulated utility companies which are prohibited by regulation from lending to unregulated affiliates. The interest rate on transactions under this agreement is the A2/P2 non-financial 30-day commercial paper rate published by the Federal Reserve. RG&E has a lending/borrowing limit of \$100 million under this agreement. RG&E had no outstanding balance under this agreement as of December 31, 2024 and 2023.

The Bi-Lateral Intercompany Facility provides for borrowing of up to \$500 million from Avangrid at the A2/P2 non-financial 30-day commercial paper rate published by the Federal Reserve. RG&E had no outstanding balance under this agreement as of December 31, 2024 and \$17.1 million as of December 31, 2023.

On November 23, 2021, AGR and its investment-grade rated utility subsidiaries (New York State Electric and Gas Corporation (“NYSEG”), Rochester Gas and Electric Corporation (“RG&E”), Central Maine Power Company (“CMP”), The United Illuminating Company (“UI”), Connecticut Natural Gas Corporation (“CNG”), The Southern Connecticut Gas Company (“SCG”) and The Berkshire Gas Company (“BGC”)) executed a new credit facility with an aggregate limit of \$3,575 million and a termination date of November 23, 2026.

Under the terms of the Avangrid Credit Facility, each borrower has a maximum borrowing entitlement, or sublimit, which can be periodically adjusted to address specific short-term capital funding needs, subject to the maximum limit contained in the agreement. NYSEG has a maximum sublimit of \$700 million, RG&E has \$300 million, CMP has \$200 million and UI has a maximum sublimit of \$250 million, CNG and SCG have maximum sublimits of \$150 million, and BGC has a maximum sublimit of \$50 million. Effective on November 23, 2021, the AGR Credit Facility was amended to increase AGR’s maximum sublimit to \$2,500 million and to establish minimum sublimits of \$500 million for NYSEG, \$200 million for RG&E, \$100 million for CMP, \$150 million for UI, \$50 million for CNG and SCG, and \$25 million for BGC. On July 17, 2023, the Avangrid Credit Facility was amended and restated to, among other things, provide for the replacement of LIBOR-based rates with SOFR-based rates. Under the AGR Credit Facility, each of the borrowers are charged a facility fee that is dependent on their credit rating. The facility fees range from 10.0 to 22.5 basis points. RG&E had not borrowed under this agreement as of both December 31, 2024 and 2023.

In the AGR Credit Facility we covenant not to permit, without the consent of the lender, our ratio of total indebtedness to total capitalization to exceed 0.65 to 1.00 at any time. For purposes of calculating the maximum ratio of indebtedness to total capitalization, the facility excludes from net worth the balance of accumulated other comprehensive loss as it appears on the balance sheet. The facility contains various other covenants, including a restriction on the amount of secured indebtedness we may maintain. Continued un-remedied failure to comply with those covenants for five business days after written notice of such failure from the lender constitutes an event of default and would result in acceleration of maturity. Our ratio of indebtedness to total capitalization pursuant to the revolving credit facility was 0.50 to 1.00 at December 31, 2024. We are not in default as of December 31, 2024.

### **Note 8. Leases**

We have operating leases for office buildings, facilities, vehicles and certain equipment. Our finance leases are primarily related to electric generation, distribution, transmission and other. Certain of our lease agreements include rental payments adjusted periodically for inflation or are

**Notes to Financial Statements**

based on other periodic input measures. Our leases do not contain any material residual value guarantees or material restrictive covenants. Our leases have remaining lease terms of 1 year to 12 years, some of which may include options to extend the leases for up to 30 years, and some of which may include options to terminate the leases within one year. We consider extension or termination options in the lease term if it is reasonably certain we will exercise the option.

The components of lease cost and other information related to leases were as follows:

<b>For the Years Ended December 31,</b>	<b>2024</b>	<b>2023</b>
<i>(Thousands)</i>		
<b>Lease cost</b>		
Finance lease cost		
Amortization of right-of-use assets	\$ 2,484	\$ 4,208
Interest on lease liabilities	846	1,006
<b>Total finance lease cost</b>	<b>3,330</b>	<b>5,214</b>
Operating lease cost		
Short-term lease cost	1,579	822
Variable lease cost	562	367
Intercompany	73	72
<b>Total lease cost</b>	<b>\$ 7,546</b>	<b>\$ 6,991</b>

Balance sheet and other information for the years ended December 31, 2024 and 2023 was as follows:

<b>As of December 31,</b>	<b>2024</b>	<b>2023</b>
<i>(Thousands, except lease term and discount rate)</i>		
<b>Operating Leases</b>		
Operating lease right-of-use assets	\$ 17,268	\$ 1,372
Operating lease liabilities, current		
Operating lease liabilities, long-term	1,899	1,878
<b>Total operating lease liabilities</b>	<b>\$ 19,379</b>	<b>\$ 3,152</b>
<b>Finance Leases</b>		
Other assets	\$ 30,378	\$ 40,868
Other current liabilities		
Other non-current liabilities	2,270	21,624
<b>Total finance lease liabilities</b>	<b>\$ 30,061</b>	<b>\$ 39,977</b>
<b>Weighted-average Remaining Lease Term (years):</b>		
Finance leases	10.85	6.69
Operating leases	6.88	4.64
<b>Weighted-average Discount Rate:</b>		
Finance leases	3.38 %	2.26 %
Operating leases	4.76 %	4.24 %

Supplemental cash flows information related to leases was as follows:

**Notes to Financial Statements**

For the Years Ended December 31,	2024	2023
(Thousands)		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 2,202	\$ 236
Operating cash flows from finance leases	\$ 911	\$ 970
Financing cash flows from finance leases	\$ 1,976	\$ 3,843
Right-of-use assets obtained in exchange for lease obligations:		
Finance leases	\$ (7,941)	\$ —
Operating leases	\$ 17,255	\$ 1,402

As of December 31, 2024, maturities of lease liabilities were as follows:

	Finance Leases	Operating Leases
(Thousands)		
<b>Years ending December 31,</b>		
2025	\$ 3,104	\$ 2,549
2026	3,129	2,636
2027	3,159	2,718
2028	3,189	2,683
2029	3,236	2,590
Thereafter	19,942	10,358
<b>Total lease payments</b>	<b>35,759</b>	<b>23,534</b>
Less: imputed interest	(5,698)	(4,155)
<b>Total</b>	<b>\$ 30,061</b>	<b>\$ 19,379</b>

Most of our leases do not provide an implicit rate in the lease; thus we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments.

**Note 9. Commitments and Contingencies**

**Purchase power and natural gas contracts, including non-utility generators**

RG&E is the provider of last resort for customers. As a result, the company buys physical energy and capacity from the NYISO. In accordance with the NYPSC's February 26, 2008 Order, RG&E is required to hedge on behalf of non-demand billed customers. The physical electric capacity purchases we make from parties other than the NYISO are to comply with the hedge requirement for electric capacity. The company enters into financial swaps to comply with the hedge requirement for physical electric energy purchases. RG&E also makes purchases from other independent power producers and New York Power Authority (NYPA) under existing contracts or long-term supply agreements in order to comply with the company's Public Utility Regulatory Policies Act (PURPA) purchase obligation.

RG&E satisfies its natural gas supply requirements through purchases from various producers and suppliers, withdrawals from natural gas storage, capacity contracts and winter peaking supplies and resources. The company operates diverse portfolios of gas supply, firm

### **Notes to Financial Statements**

transportation capacity, gas storage and peaking resources. Actual gas costs incurred by the company are passed through to customers through state regulated purchased gas adjustment mechanisms, subject to regulatory review.

The company purchases the majority of its natural gas supply at market prices under seasonal, monthly or mid-term supply contracts and the remainder is acquired on the spot market. The company acquires firm transportation capacity on interstate pipelines under long-term contracts and utilizes that capacity to transport both natural gas supply purchased and natural gas withdrawn from storage to the local distribution system. The company acquires firm underground natural gas storage capacity using long-term contracts and fills the storage facilities with gas in the summer months for subsequent withdrawal in the winter months.

We recognized expenses of approximately \$60.9 million for Normal Purchase Normal Sale (NPNS) purchase power and natural gas contracts including non-utility generators in 2024 and \$56.4 million in 2023.

#### **Note 10. Environmental Liability**

From time to time environmental laws, regulations and compliance programs may require changes in our operations and facilities and may increase the cost of electric and natural gas service.

##### **Waste sites**

The Environmental Protection Agency (EPA) and the New York State Department of Environmental Conservation (NYSDEC), as appropriate, have notified us that we are among the potentially responsible parties that may be liable for costs incurred to remediate certain hazardous substances at nine waste sites. The nine sites do not include sites where coal gas was manufactured in the past, which are discussed below. With respect to the nine sites, eight sites are included in the New York State Registry of Inactive Hazardous Waste Disposal Sites and two sites are also included on the National Priorities list.

Any liability may be joint and several for certain of those sites. We have recorded an estimated liability of \$0.1 million at December 31, 2024, related to eight sites. We have recorded an estimated liability of \$4.9 million related to another six sites where we believe it is probable that we will incur remediation costs and/or monitoring costs. It is possible the ultimate cost to remediate the sites may be significantly more than the accrued amount. Our estimate for costs to remediate these sites ranges from \$4.5 million to \$5.3 million as of December 31, 2024. Factors affecting the estimated remediation amount include the remedial action plan selected, the extent of site contamination and the portion attributed to us. It is anticipated that costs would be recovered in rates, typical of historical Site Investigation and Remediation rate recovery.

##### **Manufactured gas plants**

We have a program to investigate and perform necessary remediation and/or monitoring at our eleven sites where coal gas was manufactured in the past. The Company has advanced work under an existing order on consent with the NYSDEC at three of the sites, with a fourth site with the potential to be added to the order in 2025. The order requires us to investigate and, where necessary, remediate and/or monitor our eleven sites. Seven sites were advanced under NYS's former Voluntary Cleanup Program (VCP) that was discontinued in 2018. Work at those sites continues, as applicable in accordance with Site Management Plans (SMPs) and institutional controls.

## **Notes to Financial Statements**

Our estimate for costs related to investigation and remediation and/or monitoring of the eleven sites ranges from \$59.2 million to \$82.6 million at December 31, 2024. The estimate could change materially based on facts and circumstances derived from site investigations, changes in required remedial action, changes in technology relating to remedial alternatives, changes due to property use and changes to current laws and regulations.

The liability to investigate and perform remediation and/or monitoring, as necessary, at the known inactive coal gas manufacturing sites was \$63.7 million at December 31, 2024, and \$75.3 million at December 31, 2023. We recorded a corresponding regulatory asset, net of insurance recoveries, because we expect to recover the net costs in rates.

Our environmental liabilities are recorded on an undiscounted basis and are expected to be paid through the year 2056.

### **First Energy**

RG&E sued FirstEnergy under the Comprehensive Environmental Response, Compensation, and Liability Act to recover environmental cleanup costs at two former manufactured coal gas sites, which are included in the discussion above. In 2008, the District Court issued a decision and order in RG&E's favor requiring FirstEnergy to pay RG&E for past and future clean-up costs at the two manufactured gas plant sites. As such, FirstEnergy is liable for a share of clean up expenses at the two sites. Based on current projections, FirstEnergy's share is estimated at approximately \$4.7 million. This amount is being treated as a contingent asset and has not been recorded as either a receivable or a decrease to the environmental provision. Any recovery will be flowed through to RG&E ratepayers.

### **Note 11. Accounting for Derivative Instruments and Hedging Activities**

We are exposed to certain risks relating to our ongoing business operations. The primary risk we manage by using derivative instruments is commodity price risk. In accordance with the accounting requirements concerning derivative instruments and hedging activities, we recognize all derivative instruments as either assets or liabilities at fair value on our balance sheet.

The financial instruments we hold or issue are not for trading or speculative purposes.

**Commodity price risk:** Commodity price risk, due to volatility experienced in the wholesale energy markets, is a significant issue for the electric and natural gas utility industries. We manage this risk through a combination of regulatory mechanisms, such as the pass-through of the market price of electricity and natural gas to customers, and through comprehensive risk management processes. Those measures mitigate our commodity price exposure, but do not completely eliminate it. Owned electric generation and long-term supply contracts reduce our exposure to market fluctuations.

We have electricity commodity purchases and sales contracts for both capacity and energy (physical contracts) that have been designated and qualify for the normal purchases and normal sales exception in accordance with the accounting requirements concerning derivative instruments and hedging activities.

We currently have a non by-passable wires charge adjustment that allows us to pass through rates any changes in the market price of electricity. We use electricity contracts, both physical and financial, to manage fluctuations in electricity commodity prices in order to provide price stability to customers. We include the cost or benefit of those contracts in the amount expensed for electricity purchased when the related electricity is sold. We record changes in the fair value

**Notes to Financial Statements**

of electric hedge contracts to derivative assets and/or liabilities with an offset to regulatory assets and/or regulatory liabilities in accordance with the requirements concerning accounting for regulated operations.

We have a purchased gas adjustment clause that allows us to recover through rates any changes in the market price of purchased natural gas, substantially eliminating our exposure to natural gas price risk. We use natural gas futures and forwards to manage fluctuations in natural gas commodity prices in order to provide price stability to customers. We include the cost or benefit of natural gas futures and forwards in the commodity cost that is passed on to customers when the related sales commitments are fulfilled. We record changes in the fair value of natural gas hedge contracts to derivative assets and/or liabilities with an offset to regulatory assets and/or regulatory liabilities in accordance with the requirements concerning accounting for regulated operations.

The amounts for electricity hedge contracts and natural gas hedge contracts recognized in regulatory liabilities and assets as of December 31, 2024 and 2023 and amounts reclassified from regulatory assets and liabilities into income for the years ended December 31, 2024 and 2023 are as follows:

(Thousands)	Loss (Gain) Recognized in Regulatory Assets/ Liabilities		Location of Loss (Gain) Reclassified from Regulatory Assets/ Liabilities into Income	Years Ended December 31,	
				2024	2023
As of	Electricity	Natural Gas		Electricity	Natural Gas
<b>December 31, 2024</b>					
Regulatory assets	\$ —	\$ 724	Electricity and natural gas purchased	\$ 11,245	\$ 9,587
Regulatory liabilities	\$ (7,453)	\$ (444)			
<b>December 31, 2023</b>					
Regulatory assets	\$ 5,212	\$ 8,779	Electricity and natural gas purchased	\$ 26,911	\$ 9,139
Regulatory liabilities	\$ —	\$ —			

Our derivative volumes by commodity type that are expected to settle each year are:

Years to settle	Electricity Contracts	Natural Gas Contracts
	Mwhs	Dths
<b>As of December 31, 2024</b>		
2025	1,613,575	6,530,000
2026	186,550	1,030,000
<b>As of December 31, 2023</b>		
2024	1,500,775	6,630,000
2025	321,000	1,030,000

The offsetting of derivatives, location in the balance sheet and amounts of derivatives as of December 31, 2024 and 2023, respectively, consisted of:

**Notes to Financial Statements**

<b>December 31, 2024</b>	<b>Derivative Assets Current</b>	<b>Derivative Assets Non-current</b>	<b>Derivative Liabilities Current</b>	<b>Derivative Liabilities Non-current</b>
<b>(Thousands)</b>				
Not designated as hedging instruments				
Derivative assets	\$ 12,824	\$ 1,852	\$ 6,003	\$ 775
Derivative liabilities	(6,003)	(775)	(6,727)	(775)
	6,821	1,077	(724)	—
Designated as hedging instruments				
Derivative assets	—	—	—	—
Derivative liabilities	—	—	—	—
	—	—	—	—
Total derivatives before offset of cash collateral	6,821	1,077	(724)	—
Cash collateral receivable	—	—	724	—
<b>Total derivatives as presented in the balance sheet</b>	<b>\$ 6,821</b>	<b>\$ 1,077</b>	<b>\$ —</b>	<b>\$ —</b>

<b>December 31, 2023</b>	<b>Derivative Assets Current</b>	<b>Derivative Assets Non-current</b>	<b>Derivative Liabilities Current</b>	<b>Derivative Liabilities Non-current</b>
<b>(Thousands)</b>				
Not designated as hedging instruments				
Derivative assets	\$ 4,130	\$ 1,057	\$ 4,130	\$ 1,057
Derivative liabilities	(4,130)	(1,057)	(15,987)	(3,191)
	—	—	(11,857)	(2,134)
Designated as hedging instruments				
Derivative assets	—	—	—	—
Derivative liabilities	—	—	—	—
	—	—	—	—
Total derivatives before offset of cash collateral	—	—	(11,857)	(2,134)
Cash collateral receivable	—	—	11,857	2,134
<b>Total derivatives as presented in the balance sheet</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

As of both December 31, 2024 and 2023, the derivative assets - non-current are presented within other non-current assets of the balance sheet. The derivative liabilities - non-current are presented within other non-current liabilities of the balance sheet.

*Derivatives designated as hedging instruments*

The effect of derivatives in cash flow hedging instruments on OCI and income for the years ended December 31, 2024 and 2023, respectively, consisted of:

**Notes to Financial Statements**

Years Ended December 31,	(Loss) Gain Recognized in OCI on Derivatives	Location of Loss Reclassified From Accumulated OCI into Income	Loss (Gain) Reclassified From Accumulated OCI into Income	Total Amount per Income Statement
(Thousands)				
<b>2024</b>				
Interest rate contracts	\$ —	Interest expense	\$ (3,678)	\$ 67,056
<b>Total</b>	<b>\$ —</b>		<b>\$ (3,678)</b>	
<b>2023</b>				
Interest rate contracts	\$ —	Interest expense	\$ (3,678)	\$ 54,207
<b>Total</b>	<b>\$ —</b>		<b>\$ (3,678)</b>	

The amount in AOCI related to previously settled forward starting interest rate swaps and accumulated amortization at December 31, 2024 is a net loss of \$33.6 million as compared to \$37.3 million at December 31, 2023. For the year ended December 31, 2024, we recorded \$3.7 million in net derivative losses related to discontinued cash flow hedges. We will amortize approximately \$3.7 million of discontinued cash flow hedges in 2025.

We face risks related to counterparty performance on hedging contracts due to counterparty credit default. We have developed a matrix of unsecured credit thresholds that are dependent on a counterparty's or the counterparty guarantor's applicable credit rating (normally Moody's or Standard & Poor's). When our exposure to risk for counterparty exceeds the unsecured credit threshold, the counterparty is required to post additional collateral or we will no longer transact with the counterparty until the exposure drops below the unsecured credit threshold.

We have various master netting arrangements in the form of multiple contracts with various single counterparties that are subject to contractual agreements that provide for the net settlement of all contracts through a single payment. Those arrangements reduce our exposure to a counterparty in the event of default on or termination of any one contract. For financial statement presentation, we offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

Certain of our derivative instruments contain provisions that require us to maintain an investment grade credit rating on our debt from each of the major credit rating agencies. If our debt were to fall below investment grade, it would be in violation of those provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on December 31, 2024 is \$0.7 million for which we have posted collateral.

**Note 12. Fair Value of Financial Instruments and Fair Value Measurements**

The estimated fair value of debt amounted to \$1,826 million as of December 31, 2024 and \$1,703 million as of December 31, 2023. The estimated fair value was determined, in most cases, by discounting the future cash flows at market interest rates. The interest rate curve used to make these calculations takes into account the risks associated with the electricity industry and the credit ratings of the borrowers in each case. The fair value of these unsecured pollution

**Notes to Financial Statements**

control notes-variable are determined using unobservable interest rates as the market for these notes is inactive. The fair value hierarchy for the fair value of debt is considered as Level 2.

The financial instruments measured at fair value as of December 31, 2024 and 2023 consisted of:

Description	Level 1	Level 2	Level 3	Netting	Total
(Thousands)					
<b>As of December 31, 2024</b>					
<b>Assets</b>					
Derivatives					
Commodity contracts:					
Electricity	\$ 13,372	\$ —	\$ —	\$ (5,919)	\$ 7,453
Natural Gas	1,304	—	—	(859)	445
<b>Total</b>	<b>\$ 14,676</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (6,778)</b>	<b>\$ 7,898</b>
<b>Liabilities</b>					
Derivatives					
Commodity contracts:					
Electricity	\$ (5,919)	\$ —	\$ —	\$ 5,919	\$ —
Natural gas	(1,583)	—	—	1,583	—
<b>Total</b>	<b>\$ (7,502)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 7,502</b>	<b>\$ —</b>

Description	Level 1	Level 2	Level 3	Netting	Total
(Thousands)					
<b>As of December 31, 2023</b>					
<b>Assets</b>					
Derivatives					
Commodity contracts:					
Electricity	\$ 5,091	\$ —	\$ —	\$ (5,091)	\$ —
Natural Gas	96	—	—	(96)	—
<b>Total</b>	<b>\$ 5,187</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (5,187)</b>	<b>\$ —</b>
<b>Liabilities</b>					
Derivatives					
Commodity contracts:					
Electricity	\$ (10,303)	\$ —	\$ —	\$ 10,303	\$ —
Natural gas	(8,875)	—	—	8,875	—
<b>Total</b>	<b>\$ (19,178)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 19,178</b>	<b>\$ —</b>

We had no transfers to or from Level 1 and 2 during the year ended December 31, 2024. Our policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that causes a transfer, if any.

**Valuation techniques:**

We determine the fair value of our various derivative assets and liabilities utilizing market approach valuation techniques:

**Notes to Financial Statements**

- We enter into electric energy derivative contracts to hedge the forecasted purchases required to serve our electric load obligations. We hedge our electric load obligations using derivative contracts that are settled based upon Locational Based Marginal Pricing published by the NYISO. We hedge approximately 70% of their electric load obligations using contracts for a NYISO location where an active market exists. The forward market prices used to value the companies' open electric energy derivative contracts are based on quotes prices in active markets for identical assets or liabilities with no adjustment required and therefore we include the fair value in Level 1.
- We enter into natural gas derivative contracts to hedge the forecasted purchases required to serve our natural gas load obligations. The forward market prices used to value our open natural gas derivative contracts are exchange-based prices for the identical derivative contracts traded actively on the New York Mercantile Exchange. Because we use prices quoted in an active market, we include those fair value measurements in Level 1.

**Note 13. Accumulated Other Comprehensive Loss**

Accumulated other comprehensive loss for the years ended December 31, 2024 and 2023, consisted of:

	Balance December 31, 2022	2023 Change	Balance December 31, 2023	2024 Change	Balance December 31, 2024
<b>(Thousands)</b>					
Amortization of pension cost for non-qualified plans and current year actuarial gain, net of tax expense of \$113 for 2023 and \$72 for 2024	\$ (738)	\$ 318	\$ (420)	\$ 204	\$ (216)
Unrealized gain (loss) on derivatives qualified as hedges:					
Reclassification adjustment for loss on settled cash flow treasury hedges included in net income, net of income tax expense of \$962 for 2023 and \$962 for 2024		2,716		2,716	
Net unrealized gain on derivatives qualified as hedges	(30,239)	2,716	(27,523)	2,716	(24,807)
<b>Accumulated Other Comprehensive Loss</b>	<b>\$ (30,977)</b>	<b>\$ 3,034</b>	<b>\$ (27,943)</b>	<b>\$ 2,920</b>	<b>\$ (25,023)</b>

**Note 14. Postretirement and Similar Obligations**

We have funded non-contributory defined benefit pension plans that cover the eligible employees. For most employees, generally those hired before 2002, the plans provide defined benefits based on years of service and final average salary. Employees hired in 2002 or later are covered under a cash balance plan or formula where their benefit accumulates based on a percentage of annual salary and credited interest. During 2013 the company announced that we would freeze the benefits for all non-union employees covered under the cash balance plans effective December 31, 2013. Their earned balances would continue to accrue interest, but would no longer be increased by a percentage of earnings. In place of the pension benefit for these employees, they will receive a minimum contribution to their account under their respective company's defined contribution plan. During 2022, the Company decided to freeze pension benefit accruals and contribution credits for non-union employees and transition their retirement benefits to the 401(k) Plan.

## **Notes to Financial Statements**

The company maintains a 401(k) Savings and Retirement Plan (the Plan) for all eligible employees as defined in the Plan agreement. Participants in the Plan may contribute a percentage of their compensation and the company may match a predetermined percentage of the participant contributions. Expenses under the Plan for the Company totaled approximately \$10.3 million in 2024 and \$9.1 million in 2023.

We also have other postretirement health care benefit plans covering substantially all of our employees. The health care plans are contributory with participants' contributions adjusted annually.

### **Non-Qualified Retirement Benefit Plans**

We also sponsor various unfunded pension plans for certain current employees, former employees and former directors. The total liability for these plans, which is included in Other non-current liabilities on our balance sheets, was \$7.4 million and \$8.0 million at December 31, 2024 and 2023, respectively.

### **Qualified Retirement Benefit Plans**

Obligations and funded status as of December 31, 2024 and 2023 consisted of:

<b>As of December 31,</b>	<b>Pension Benefits</b>		<b>Postretirement Benefits</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
<i>(Thousands)</i>				
<b>Change in benefit obligation</b>				
Benefit obligation at January 1	\$ 243,974	\$ 252,879	\$ 43,362	\$ 44,661
Service cost	—	—	54	56
Interest cost	10,236	11,921	1,912	2,146
Settlements	(14,149)	—	—	—
Actuarial (gain) loss	(4,131)	11,548	(3,091)	25
Benefits paid	(20,414)	(32,374)	(3,486)	(3,526)
<b>Benefit obligation at December 31</b>	<b>\$ 215,516</b>	<b>\$ 243,974</b>	<b>\$ 38,751</b>	<b>\$ 43,362</b>
<b>Change in plan assets</b>				
Fair value of plan assets at January 1	\$ 184,499	\$ 201,556	\$ —	\$ —
Actual return on plan assets	2,298	15,317	—	—
Employer and plan participants' contributions	—	—	3,486	3,526
Settlements	(14,149)	—	—	—
Benefits paid	(20,414)	(32,374)	(3,486)	(3,526)
<b>Fair value of plan assets at December 31</b>	<b>\$ 152,234</b>	<b>\$ 184,499</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Funded status</b>	<b>\$ (63,282)</b>	<b>\$ (59,475)</b>	<b>\$ (38,751)</b>	<b>\$ (43,362)</b>

During 2024, the pension benefit obligation had an actuarial gain of \$4.1 million, primarily due to a \$5.4 million gain from decrease in discount rates. In 2024, the pension benefit obligation had a reduction of \$14.1 million from settlements. The settlements were lump sum payments made within the pension plan guidelines at the discretion of the plan participants who opted to retire. There were no significant gains or losses relating to the postretirement benefit obligations.

During 2023, the pension benefit obligation had an actuarial loss of \$11.5 million, primarily due to a \$5.4 million loss from increase in discount rates. There were no significant gains or losses relating to the postretirement benefit obligations.

**Notes to Financial Statements**

Amounts recognized in the balance sheet as of December 31, 2024 and 2023 consisted of:

Amounts recognized in the balance sheet December 31,	Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023
(Thousands)				
Other current liabilities	\$ —	\$ —	\$ (4,465)	\$ (4,720)
Pension and other postretirement benefits	(63,282)	(59,475)	(34,286)	(38,642)
<b>Total</b>	<b>\$ (63,282)</b>	<b>\$ (59,475)</b>	<b>\$ (38,751)</b>	<b>\$ (43,362)</b>

We have determined that we are allowed to defer as regulatory assets or regulatory liabilities items that would otherwise be recorded in accumulated other comprehensive income pursuant to the accounting requirements concerning defined benefit pension and other postretirement plans. Amounts recognized as regulatory assets or regulatory liabilities consist of:

December 31,	Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023
(Thousands)				
Net loss (gain)	\$ 21,200	\$ 22,288	\$ (17,786)	\$ (16,486)
Prior service credit	—	—	(1,013)	(1,237)

Our accumulated benefit obligation for all qualified defined benefit pension plans was \$215.5 million at December 31, 2024 and \$244.0 million at December 31, 2023.

The projected benefit obligation and the accumulated benefit obligation exceeded the fair value of pension plan assets for all of our qualified plans as of both December 31, 2024 and 2023. The following table shows the aggregate projected and accumulated benefit obligations and the fair value of plan assets of our plans as of December 31, 2024 and 2023.

December 31,	2024	2023
(Thousands)		
Projected benefit obligation	\$ 215,516	\$ 243,974
Accumulated benefit obligation	\$ 215,516	\$ 243,974
Fair value of plan assets	\$ 152,234	\$ 184,499

The postretirement benefits obligation for all qualified plans exceeded the fair value of plan assets as of December 31, 2024 and 2023.

Components of net periodic benefit cost and other changes in plan assets and benefit obligations recognized in income and regulatory assets and liabilities for the years ended December 31, 2024 and 2023 consisted of:

**Notes to Financial Statements**

Years Ended December 31,	Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023
(Thousands)				
<b>Net periodic benefit cost</b>				
Service cost	\$ —	\$ —	\$ 54	\$ 56
Interest cost	10,236	11,921	1,912	2,146
Expected return on plan assets	(13,006)	(13,265)	—	—
Amortization of prior service credit	—	—	(224)	(224)
Amortization of net loss (gain)	6,319	441	(1,791)	(2,087)
Settlement charge	1,345	—	—	—
<b>Net periodic benefit cost</b>	<b>\$ 4,894</b>	<b>\$ (903)</b>	<b>\$ (49)</b>	<b>\$ (109)</b>
<b>Other changes in plan assets and benefit obligations recognized in regulatory assets and regulatory liabilities</b>				
Net loss (gain)	\$ 6,576	\$ 9,495	\$ (3,091)	\$ 24
Amortization of net (gain) loss	(6,319)	(441)	1,791	2,087
Settlement charge	(1,345)	—	—	—
Amortization of prior service credit	—	—	224	224
<b>Total recognized in regulatory assets and regulatory liabilities</b>	<b>\$ (1,088)</b>	<b>\$ 9,054</b>	<b>\$ (1,076)</b>	<b>\$ 2,335</b>
<b>Total recognized in net periodic benefit cost and regulatory assets and regulatory liabilities</b>	<b>\$ 3,806</b>	<b>\$ 8,151</b>	<b>\$ (1,125)</b>	<b>\$ 2,226</b>

We include the service component of net periodic benefit cost in other operating expenses and the non-service component in other income and deductions. The net periodic benefit cost for postretirement benefits represents the amount expensed for providing health care benefits to retirees and their eligible dependents.

The weighted-average assumptions used to determine benefit obligations as of December 31, 2024 and 2023 consisted of:

	Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023
Discount rate	5.12%	4.70%	5.19%	4.66%
Rate of compensation increase	N/A	N/A	N/A	N/A
Interest crediting rate	3.00%	2.75%	N/A	N/A

The discount rate is the rate at which the benefit obligations could presently be effectively settled. We determined the discount rate by developing a yield curve derived from a portfolio of high grade non-callable bonds with above median yields that closely matches the duration of the expected cash flows of our benefit obligations.

The weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2024 and 2023 consisted of:

**Notes to Financial Statements**

	Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023
Discount rate	4.70% / 4.22%	5.08%	4.66%	5.08%
Expected long-term return on plan assets	7.25%	6.00%	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A

We developed our expected long-term rate of return on plan assets assumption based on a review of long-term historical returns for the major asset classes, the target asset allocations and the effect of rebalancing of plan assets discussed below. That analysis considered current capital market conditions and projected conditions. Our policy is to calculate the expected return on plan assets using the market related value of assets. We amortize unrecognized actuarial gains and losses over 10 years from the time they are incurred.

Assumed health care cost trend rates used to determine benefit obligations as of December 31, 2024 and 2023 consisted of:

	2024	2023
Health care cost trend rate (pre 65/post 65)	8.90% / 10.60%	8.10% / 8.60%
Rate to which cost trend rate is assumed to decline (the ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2039 / 2039	2031 / 2032

**Contributions:** In accordance with our funding policy, we make annual contributions of not less than the minimum required by applicable regulations. We do not expect to contribute to our pension benefit plan in 2025. We expect to contribute \$4.5 million to our postretirement benefit plans during 2025.

**Estimated future benefit payments:** Our expected benefit payments and expected Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act) subsidy receipts, which reflect expected future service, as appropriate, are:

	Pension Benefits		Postretirement Benefits		Medicare Act Subsidy Receipts	
(Thousands)						
2025	\$	31,834	\$	4,465	\$	—
2026	\$	27,590	\$	4,329	\$	—
2027	\$	25,374	\$	4,153	\$	—
2028	\$	23,127	\$	3,959	\$	—
2029	\$	20,947	\$	3,748	\$	—
2030-2034	\$	78,189	\$	15,657	\$	—

**Plan assets:** Our pension benefits plan assets are held in a master trust providing for a single trustee/custodian, a uniform investment manager lineup, and an efficient, cost-effective means of allocating expenses and investment performance to each plan under the master trust. Our primary investment objective is to ensure that current and future benefit obligations are adequately funded and with volatility commensurate with our tolerance for risk. Preservation of capital and achievement of sufficient total return to fund accrued and future benefits obligations are of highest concern. Our primary means for achieving capital preservation is through

**Notes to Financial Statements**

diversification of the trust's investments while avoiding significant concentrations of risk in any one area of the securities markets. Within each asset group, further diversification is achieved through utilizing multiple asset managers and systematic allocation to various asset classes; providing broad exposure to different segments of the equity, fixed-income and alternative investment markets.

The asset allocation policy is the most important consideration in achieving our objective of superior investment returns while minimizing risk. We have established a target asset allocation policy within allowable ranges for our pension benefits plan assets within broad categories of asset classes made up of Return-Seeking and Liability-Hedging investments. We have targets of 15%-70% for Return-Seeking assets and 30%-85% for Liability-Hedging assets. Return-Seeking investments generally consist of domestic, international, global, and emerging market equities invested in companies across all market capitalization ranges. Return-Seeking assets also include investments in real estate, global asset allocation strategies and hedge funds. Liability-Hedging investments generally consist of long-term corporate bonds, annuity contracts, long-term treasury STRIPS, and opportunistic fixed income investments. Systematic rebalancing within the target ranges increases the probability that the annualized return on the investments will be enhanced, while realizing lower overall risk, should any asset categories drift outside their specified ranges.

The fair values of pension benefits plan assets, by asset category, as of December 31, 2024, consisted of:

Asset Category	Total	Fair Value Measurements at December 31, Using		
		Level 1	Level 2	Level 3
(Thousands)				
<b>2024</b>				
Cash and cash equivalents	\$ 6,101	\$ (32)	\$ 6,133	\$ —
U.S. government securities	19,868	19,868	—	—
Common stocks	7,015	7,015	—	—
Registered investment companies	13,300	13,300	—	—
Corporate bonds	18,894	—	18,894	—
Common collective trusts	53,438	—	53,438	—
Other investments, principally annuity and fixed income	2,310	—	2,310	—
	<b>\$ 120,926</b>	<b>\$ 40,151</b>	<b>\$ 80,775</b>	<b>\$ —</b>
Other investments measured at net asset value	31,308			
<b>Total</b>	<b>\$ 152,234</b>			

The fair values of pension benefits plan assets, by asset category, as of December 31, 2023, consisted of:

**Notes to Financial Statements**

Asset Category (Thousands)	Fair Value Measurements at December 31, Using			
	Total	Level 1	Level 2	Level 3
<b>2023</b>				
Cash and cash equivalents	\$ 5,068	\$ (5)	\$ 5,073	\$ —
U.S. government securities	28,474	28,474	—	—
Common stocks	2,874	2,874	—	—
Registered investment companies	8,879	8,879	—	—
Corporate bonds	70,520	—	70,520	—
Common collective trusts	24,123	—	24,123	—
Other investments, principally annuity and fixed income	1,885	—	1,885	—
	<b>\$ 141,823</b>	<b>\$ 40,222</b>	<b>\$ 101,601</b>	<b>\$ —</b>
Other investments measured at net asset value	42,676			
<b>Total</b>	<b>\$ 184,499</b>			

Valuation techniques: We value our pension benefits plan assets as follows:

- Cash and cash equivalents - Level 1: at cost, plus accrued interest, which approximates fair value. Level 2: proprietary cash associated with other investments, based on yields currently available on comparable securities of issuers with similar credit ratings.
- U.S. government securities, common stocks and registered investment companies - at the closing price reported in the active market in which the security is traded.
- Corporate bonds - based on yields currently available on comparable securities of issuers with similar credit ratings.
- Preferred stocks - at the closing price reported in the active market in which the individual investment is traded.
- Equity commingled funds – the fair value is primarily derived from the quoted prices in active markets of the underlying securities. Because the fund shares are offered to a limited group of investors, they are not considered to be traded in an active market.
- Other investments, principally annuity and fixed income - Level 1: at the closing price reported in the active market in which the individual investment is traded. Level 2: based on yields currently available on comparable securities of issuers with similar credit ratings. Level 3: when quoted prices are not available for identical or similar instruments, under a discounted cash flows approach that maximizes observable inputs such as current yields of similar instruments but includes adjustments for certain risks that may not be observable such as credit and liquidity risks.
- Other investments measured at net asset value (NAV) – alternative investments, such as private equity and real estate oriented investments, partnership/joint ventures and hedge funds are valued using the NAV as a practical expedient.

Pension plan equity securities did not include any Iberdrola common stock as of both December 31, 2024 and 2023.

**Note 15. Other Income and Other Deductions**

Other income and deductions for the years ended December 31, 2024 and 2023, consisted of:

**Notes to Financial Statements**

Years Ended December 31, (Thousands)	2024	2023
Interest and dividend income	\$ 544	\$ —
Allowance for funds used during construction	15,999	11,321
Carrying costs on regulatory assets	12,747	7,812
Miscellaneous	386	578
<b>Total other income</b>	<b>\$ 29,676</b>	<b>\$ 19,711</b>
Pension non-service components	\$ (4,839)	\$ 666
Miscellaneous	(854)	(7,104)
<b>Total other deductions</b>	<b>\$ (5,693)</b>	<b>\$ (6,438)</b>

**Note 16. Related Party Transactions**

Certain Networks subsidiaries borrow from AGR, the parent of Networks, through intercompany revolving credit agreements, including RG&E. For RG&E the intercompany revolving credit agreements provide access to supplemental liquidity. See Note 7 for further detail on the credit facility with AGR.

Avangrid Service Company provides some administrative and management services to Networks operating utilities, including RG&E, pursuant to service agreements. The cost of those services is allocated in accordance with methodologies set forth in the service agreements. The cost allocation methodologies vary depending on the type of service provided. Management believes such allocations are reasonable. The cost for services provided to RG&E by AGR and its affiliates was approximately \$82.8 million in 2024 and \$83.7 million in 2023. Cost for services includes amounts capitalized in utility plant, which was approximately \$14.6 million in 2024 and \$13.4 million in 2023. The remainder was primarily recorded as operations and maintenance expense. The charge for services provided by RG&E to AGR and its subsidiaries was approximately \$26.9 million in 2024 and \$22.8 million in 2023. All charges for services are at cost. All of the charges associated with services provided are recorded as revenues to offset other operating expenses on the financial statements.

The balance in accounts payable to affiliates of \$60.4 million at December 31, 2024 and \$58.4 million at December 31, 2023 is mostly payable to Avangrid Service Company. The balance in accounts receivable from affiliates of \$2.5 million at December 31, 2024 and \$2.9 million at December 31, 2023 is from various companies.

Notes receivable from affiliates at December 31, 2024 and at December 31, 2023 were \$45.4 million and \$0, respectively. Notes receivable from affiliates relate to the Virtual Money Pool Agreement as discussed in Note 7 of these financial statements.

AGR, on behalf of RG&E, guarantees \$123 million to fund the clean-up of the Ginna Nuclear Power Plant, LLC.

**Note 17. Subsequent Events**

The company has performed a review of subsequent events through March 21, 2025, which is the date these financial statements were available to be issued.

On February 14, 2025, RG&E Storm Funding, LLC, a company wholly-owned and consolidated by RG&E, issued storm cost recovery bonds of \$75 million pursuant to the Storm Recovery Cost Financing Order issued by the NYPSC. The bonds have an interest rate of 4.93% and a final

**Notes to Financial Statements**

maturity of May 2037. RG&E Storm Funding, LLC was created in November 2024 to facilitate the securitization process and did not have any activity until the issuance of the storm cost recovery bonds in February 2025.

Tear Sheet:

# Avangrid Inc.'s Recent Developments Will Provide More Financial Flexibility

January 14, 2025

**What's new:** In late December 2024, Iberdrola S.A. successfully completed its acquisition of the remaining shares of Avangrid, securing full ownership of the U.S. utility company. This strategic move positions Iberdrola to enhance its operational control and financial oversight of Avangrid. Other developments include the New York Public Service Commission's (NYPSC) recent approval to securitize deferred storm costs. The securitization will result in about \$785 million in proceeds for both utilities combined.

**Why it matters:** Iberdrola's acquisition of Avangrid is poised to provide financial flexibility, enabling Avangrid to effectively fund its ambitious capital expenditure program, projected at around \$32 billion through 2030. With Iberdrola's full ownership, we anticipate flexibility that would allow for more credit-supportive funding such as equity infusions and dividend reductions. The private ownership mitigates concerns of equity dilution and alleviates pressure from other investors.

S&P Global Ratings views the NYPSC's securitization approval as a credit-positive development for Avangrid's New York utilities. This securitization will facilitate immediate access to funds while simultaneously lowering costs for ratepayers. Specifically, New York State Gas & Electric plans to issue about \$710 million in securitization bonds, while Rochester Gas & Electric is set to issue approximately \$75 million. These financial resources will bolster the credit profiles of both utilities, which have been recovering deferred storm costs over a ten-year period.

## Primary contacts

**Omar El Gamal, CFA**

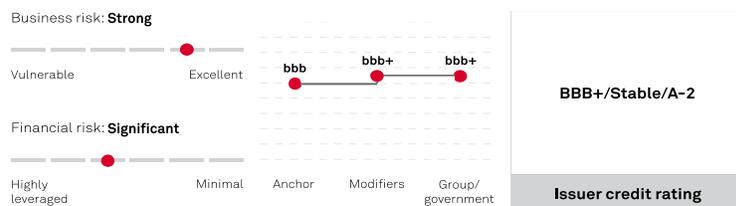
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**Avangrid Inc.'s Recent Developments Will Provide More Financial Flexibility**

## Ratings Score Snapshot



## Company Description

Avangrid is an intermediate holding company that owns Avangrid Networks Inc. (Networks; 75%) and Avangrid Renewables Holdings Inc. (ARHI; 25%). Through its utility subsidiaries, Avangrid provides services to approximately 2.3 million electricity customers in Connecticut, Maine, New York, and Massachusetts and approximately 1 million natural gas customers in Massachusetts, Connecticut, Maine, and New York. Avangrid is owned by Iberdrola and comprises about 20% of Iberdrola's operations.

## Outlook

The stable outlook on Avangrid mirrors that of parent Iberdrola. The stable outlook follows our expectation that Iberdrola will post funds from operations (FFO) to debt comfortably above 17% throughout 2025-2026. It also reflects our view that the group will continue investing in regulated activities and renewables in a balanced way, confirming its position as an energy transition leader. Over the next two to three years, we believe Iberdrola will pursue growth opportunities that use its accumulated financial headroom, particularly in the U.K. and U.S. Our base case incorporates our view that Iberdrola's balance sheet can absorb the financial support to ENWL and Avangrid, which we assume will bring these two subsidiaries to a level commensurate with the group's leverage. We expect Iberdrola's financial policy will remain consistent with our 'BBB+' rating.

### Downside scenario

We could lower our rating on Avangrid if we lower our rating on Iberdrola. The rating could come under pressure if FFO to debt dips below 17% without signs of recovery. This could come from a harsher regulatory environment in Iberdrola's key markets than we currently expect. Although not in our base-case scenario, a significant acceleration in debt-financed growth, or a significant uptick in shareholder remuneration could also pressure the rating.

### Upside scenario

We could upgrade Avangrid if we upgrade Iberdrola. We could upgrade Iberdrola if the group posts FFO to debt consistently above 20%, backed by a financial policy that commits to delivering this consistently. However, we expect the group will use its headroom as it captures

**Avangrid Inc.'s Recent Developments Will Provide More Financial Flexibility**

growth opportunities in its core markets, which is why we do not see upside pressure despite the stronger metrics. For example, we think Iberdrola could accelerate growth in the U.S. beyond what is already captured in its business plan, given Avangrid's investment needs and Iberdrola successfully acquiring the remaining 18.4% shares. Also, a favorable regulatory reset in Spain, which we expect to obtain more information on during 2025, could prompt higher investments in regulated distribution activities in that market beyond 2026.

**Rating Component Scores**

<b>Foreign currency issuer credit rating</b>	<b>BBB+/Stable/A-2</b>
<b>Local currency issuer credit rating</b>	<b>BBB+/Stable/A-2</b>
<b>Business risk</b>	<b>Strong</b>
Country risk	Very Low
Industry risk	Low
Competitive position	Strong
<b>Financial risk</b>	<b>Significant</b>
Cash flow/leverage	Significant
<b>Anchor</b>	<b>bbb</b>
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Positive (no impact)
Comparable rating analysis	Positive (+1 notch)
<b>Stand-alone credit profile</b>	<b>bbb+</b>

**Related Criteria**

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

**Avangrid Inc.'s Recent Developments Will Provide More Financial Flexibility**

- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

### Avangrid Inc.'s Recent Developments Will Provide More Financial Flexibility

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# MOODY'S RATINGS

Infrastructure and Project Finance

## CREDIT OPINION

31 March 2025

Update

 Send Your Feedback

### RATINGS

#### Avangrid, Inc.

Domicile	Orange, Connecticut, United States
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Avangrid, Inc.

### Update to credit analysis

#### Summary

Avangrid's credit quality is supported by 1) a portfolio of low-risk, electric and gas transmission and distribution utility subsidiaries, 2) diversity of utility companies across four states with material operations regulated by the Federal Energy Regulatory Commission (FERC), 3) the diversity and long-term contracted nature of its 9.7 GW unregulated power generation segment, most of which is renewable assets (8.8 GW) with creditworthy utility offtakers and 4) its strategic importance to Iberdrola S.A. (Baa1 stable), a supportive owner.

The company's credit is constrained by very weak financial ratios, including single-digit cash flow from operations before changes in working capital (CFO pre-WC) to debt in 2024 and higher-risk capital projects for the 800 MW Vineyard Wind offshore wind farm and 1,200 megawatt electric transmission line in Maine - both of which are behind original schedule and above initial budget.

#### Recent Events

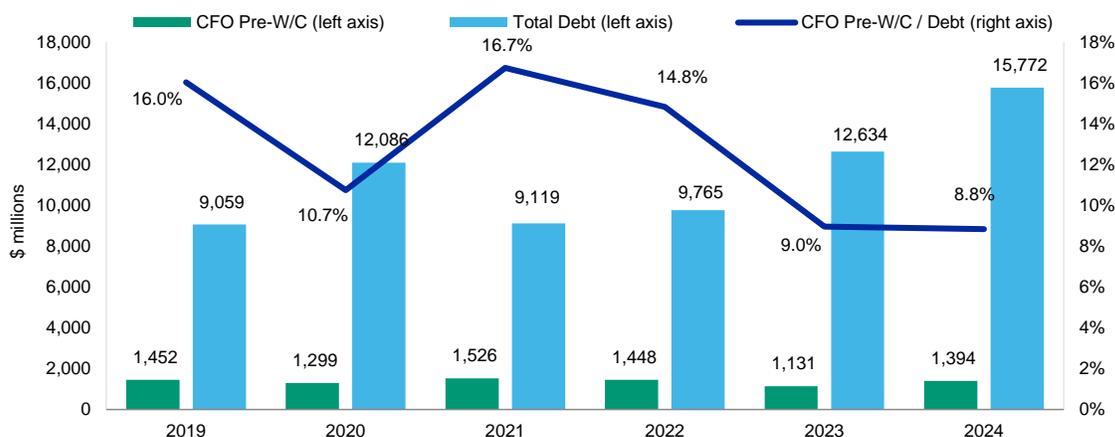
On 23 December 2024, Avangrid became a wholly owned subsidiary of Iberdrola, following the latter's buyout of Avangrid's public and other private shareholders. 100% ownership by Iberdrola is credit positive for Avangrid, since it underscores Avangrid's strategic importance to Iberdrola - a more highly rated, larger company. Moreover, on 30 January 2025, Iberdrola contributed \$1.9 billion of equity to Avangrid as a show of support, which will provide Avangrid with more financial flexibility and improve its financial metrics, which have been extremely weak for the past two years.

In February, the company completed storm cost securitization totaling over \$785 million between its two New York utilities. The development is positive since it recovers the costs immediately, applies a low-rate financing for customers and is done with non-recourse debt. As such, we remove the debt in a non-standard adjustment from Avangrid's financial metrics.

Moody's Ratings

Infrastructure and Project Finance

Exhibit 1  
Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt



All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. Historical Debt and CFO pre-WC to Debt figures are not adjusted for joint-venture debt (i.e., its share of the draws under the \$2.3 billion Vineyard Wind construction loan). However, we include this debt, which is guaranteed by Avangrid, in our credit and metric threshold considerations.  
Source: Moody's Financial Metrics™

**Credit strengths**

- » Low business risk regulated utilities generate roughly 75% of consolidated cash flow
- » Good asset diversity with distribution utility rate base in four states, federally regulated electric transmission and roughly 8.8 gigawatts of renewable generation disbursed throughout the US
- » Unregulated business is mostly contracted with long-term agreements and creditworthy counterparties
- » Avangrid is a strategic asset for Iberdrola SA (Baa1 stable), evidenced by the acquisition of the minorities' stake, followed by a \$1.9 billion equity infusion

**Credit challenge**

- » Weak financial metrics in recent years; expected to improve in 2025
- » Execution risks associated with offshore wind
- » Uncertainties created by fluidity in US energy policy
- » The networks segment has exposure to frequent storms, due to its geographical footprint in the northeast
- » Regulatory lag for some utility expenditures has pressured cash flow production in recent years

**Rating outlook**

Avangrid's stable outlook reflects the recent buy-in executed by Iberdrola. As a wholly owned subsidiary, we expect that equity infusions and liquidity support will help Avangrid's cash flow and leverage metrics to improve.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Moody's Ratings

Infrastructure and Project Finance

### Factors that could lead to upgrade

- » The ratio of CFO pre-WC to debt remaining above 16% on a consistent basis
- » Material improvement in the credit supportiveness of the regulatory frameworks within which Avangrid's utilities operate
- » Eliminating major project construction risk
- » Sufficient credit support evidenced by Iberdrola, resulting in material financial improvement for Avangrid

### Factors that could lead to downgrade

- » The ratio of CFO pre-WC to debt remaining below 13% on a consistent basis
- » Continued delay in the construction of, or cost overruns related to, major capital projects
- » A deterioration in the regulatory support for its utility operations
- » A material weakening in the credit quality of Iberdrola or increased dividend payments from Avangrid to its shareholder

### Key indicators

Exhibit 2

Avangrid, Inc.

	2019	2020	2021	2022	2023	2024
CFO Pre-W/C + Interest / Interest	4.7x	4.3x	5.4x	4.8x	3.1x	3.0x
CFO Pre-W/C / Debt	16.0%	10.7%	16.7%	14.8%	9.0%	8.8%
CFO Pre-W/C – Dividends / Debt	9.3%	6.2%	9.9%	7.7%	3.4%	4.1%
Debt / Capitalization	34.4%	40.6%	29.4%	30.2%	35.4%	40.2%

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. Historical Debt and CFO pre-WC to Debt figures are not adjusted for joint-venture debt (i.e., its share of the draws under the \$2.3 billion Vineyard Wind construction loan). However, we include this debt, which is guaranteed by Avangrid, in our credit and threshold considerations.

Source: Moody's Financial Metrics™

### Profile

Headquartered in Orange, CT with approximately \$47 billion in assets and operations in 24 US states, Avangrid has two primary lines of business: Avangrid Networks and Avangrid Power.

The Networks segment is comprised of 8 regulated utilities involved in electric transmission and distribution (T&D) as well as local distribution of natural gas (LDCs) across four states: New York, Connecticut, Maine and Massachusetts. Networks is also a 20% owner of New York TransCo, which focuses on the development and operation of transmission assets in the state of New York. Management estimated 2024 year-end rate base to be roughly \$15.2 billion.

The Power segment includes around 8 gigawatts (GW) of onshore wind capacity, 1.4 gigawatts (GW) of solar generation and around 636 MW of gas-fired resources. Around 76% of Power's capacity is sold under long-term contracts with mostly utilities and about 24% of resources are sold on a merchant basis; however, the company generally hedges roughly half of its open exposure. Power also runs a proprietary trading business that speculates on commodity and basis volatility in the US commodity markets.

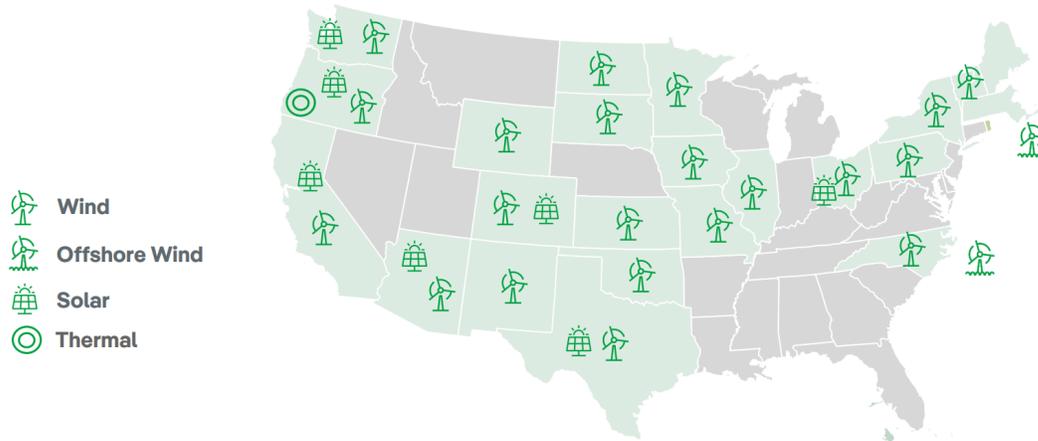
The Network asset location is concentrated in the Northeast, but the Power segment is widely diversified across the US, as illustrated in the exhibit below.

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Exhibit 3

Avangrid is the third largest wind and solar operator in the US, with assets located in 24 states



Source: Iberdrola SA 2024 Factbook

Avangrid is wholly owned by Iberdrola, a global diversified energy company with total assets of approximately \$158 billion as of 31 December 2024. Its primary holdings are located in Spain, the United Kingdom, the United States, Mexico and Brazil.

**Detailed credit consideration**

**Iberdrola's 100% ownership is credit positive**

Iberdrola's \$2.6 billion buyout of minority shareholders in December 2024, followed by a \$1.9 billion equity contribution to Avangrid in January 2025, evidence Iberdrola's commitment and support for its US investment. The \$1.9 billion equity infusion represents over 5% of Avangrid's total capitalization at 31 December 2024.

This support, plus a more flexible upstream dividend policy should help Avangrid's currently weak financial profile (e.g., about 8.8% CFO pre-WC to debt in 2024, when considering a proportional consolidation of estimated Vineyard Wind construction debt, but also when removing about \$785 million of non-recourse storm securitization debt in New York) to improve and be more reflective of its current Baa2 rating. We note that Avangrid had been paying approximately \$681 million of shareholder dividends annually. Stronger retained cash flow to debt ratios will also help Avangrid to be better positioned versus peers that have relatively fixed dividend commitments.

We note that prior to Avangrid's 2015 IPO, the former company, Iberdrola USA, had credit quality linked to that of Iberdrola, its ultimate parent; however, the legacy company also had cash flow to debt metrics that were often above 30% and benefitted from certain guarantees and integrated liquidity facilities. Furthermore, while affiliate intermediate holding company Scottish Power Limited's Baa1 rating is equal to Iberdrola's, the UK intermediate holding company also generates robust CFO pre-WC to debt metrics that have averaged around 26% since 2020.

As such, more evidence of Avangrid's financial improvement will be required to consider the company's credit quality as tantamount to the parent. Iberdrola's 24 September 2025 Capital Markets Day will be instrumental to understanding the enterprise-wide financial goals and policies over the next several years.

**Weak financial metrics will improve**

Avangrid's cash flow coverage metrics, including CFO pre-WC to debt of 8.8% in 2024, are well below the financial metric thresholds we have indicated would be supportive of its current Baa2 rating.

We expect that Avangrid's \$1.9 billion equity infusion, coupled with ongoing rate relief and storm cost securitization in New York will spur a financial rebound in 2025; however, we note that the cash recovery lag of certain regulatory accounts could continue to

## Moody's Ratings

## Infrastructure and Project Finance

weigh on the full cash flow potential of the company. For example, cash outflows from long-term assets and liabilities have weighted on Avangrid's reported CFO by roughly \$521 million in 2023 and \$479 million in 2024. The primary causes of this include delayed recovery for items such as storm costs and customer uncollectibles, while customer credits for accounts like tax legislation have drained cash.

**Execution of higher-risk capital projects expected to be completed in 2025**

Avangrid's capital investment plan has included multiple long lead-time projects, which increase credit risk due to the execution risk and prolonged exposure to a variety of potential setbacks, including permitting challenges, construction delays, cost increases, changing economic circumstances and workforce productivity. While these risks have come to fruition for two of the company's projects - the 800 MW Vineyard Wind 1 offshore wind project and the \$1.5 billion, 1.2 GW transmission line New England Clean Energy Connect (NECEC) - management expects both to be materially completed in 2025.

**Vineyard Wind**

The company is nearing completion of the 800-MW Vineyard Wind project, which began construction in November 2021 near Nantucket, Massachusetts, and started producing power in January 2024. The US Department of the Interior's Bureau of Safety and Environmental Enforcement (BSEE) ordered a suspension in operations in July 2024, after a blade broke off from one of the project's wind turbines. As required by the BSEE order, Vineyard Wind submitted a revised construction and operating plan (COP), outlining corrective measures, commitments and reporting requirements. After the Interior Department's Bureau of Ocean Energy Management (BOEM) approved the revised COP on 17 January 2025, the BSEE lifted the final suspension order because Vineyard Wind's revised COP incorporated the remaining terms of the order.

As a result, the project has resumed some blade removal and installation work and will continue to report its progress (e.g., ensuring that its turbine blades meet design criteria and that the turbines are fit for service). It is our understanding that blade manufacturer GE Vernova is responsible for the blade installation activities and has secured vessels necessary to complete the work.

A BSEE investigation into the blade incident and a study of the environmental harm caused by the blade failure have not been concluded. The company believes that no further regulatory or federal reviews are required for project completion, given the scope of the executive order and the 20 January Order No. 3415 from the Acting Secretary of the Interior.

The company has not disclosed a final budget for the project, which was originally expected to cost around \$4 billion. As of 31 December 2024, Avangrid had a carrying value of nearly \$1.1 billion via two variable interest entities in the project.

**Uncertainties created by fluidity in US energy policy**

As one of the largest renewable developers in the US, Avangrid faces an overhang of uncertainty associated with changes to US federal energy policies, including various challenges to renewable generation investments.

Despite the uncertainties, we view Avangrid as generally well positioned to navigate the current renewable landscape for several reasons: 1) it has already acquired the land, equipment and permitting necessary to execute its planned projects over the next three years, 2) construction activities are underway for planned investment (i.e., solar development and wind repowering), thereby solidifying their tax credit positions and 3) US power demand projections have spiked over the past 12-18 months, requiring all forms of generation construction to provide adequate supply.

The largest impediment to Avangrid's power development is higher tariffs and the ultimate cost impact to customers. Here, we view Avangrid's approach to development as credit-supportive, since any new projects (where exposure to rising costs is the highest) will be vetted and proceed only on an economic basis, absent growth targets previously committed to.

**Diverse asset profile of low-risk utilities and contracted assets**

Avangrid is one of the most diversified utility holding companies in the US, with no single state's operations consisting of more than 25% of consolidated cash flow. The company's credit quality is underpinned by the strong diversity of its low-risk, electric and gas transmission and distribution utility subsidiaries in New York, Connecticut, Maine and Massachusetts as well as material transmission operations (i.e. about 18% of rate base that are regulated by the FERC).

Moody's Ratings

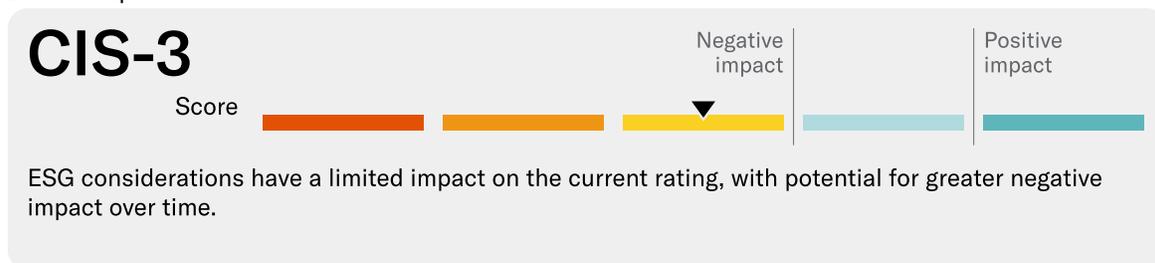
Infrastructure and Project Finance

The company's unregulated renewable generation portfolio is toward the lower-end of the risk spectrum, as well, since it consists of mainly onshore wind generation assets across 24 states, where sales are mostly contracted with creditworthy utility offtakers.

ESG considerations

Avangrid, Inc.'s ESG credit impact score is CIS-3

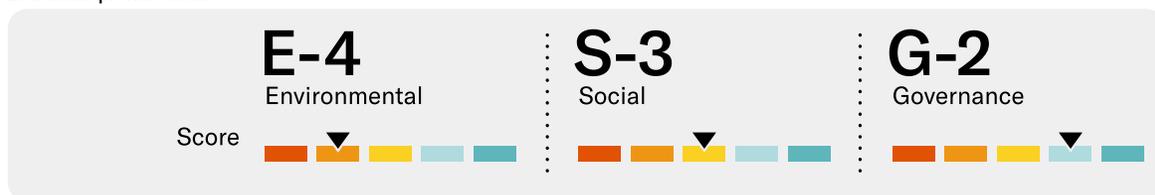
Exhibit 4  
ESG credit impact score



Source: Moody's Ratings

Avangrid's CIS-3 indicates that ESG considerations have a limited impact on the current credit rating with greater potential for future negative impact over time. Physical climate risks such as storms and increased exposure demographic and social trends, including a less supportive regulatory environment and customer affordability concerns, could weaken credit quality over the long-term.

Exhibit 5  
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Avangrid's E-4 score is driven by its utility segment's (which represents roughly 75% of the company's cash flow) geographical concentration in the northeastern US, which exposes the company to material and extreme weather events. We also note the company's neutral-to-low carbon transition risk owed to its 8.7-gigawatt (GW) renewable electric generation portfolio that is located across 24 states.

Social

Avangrid's S-3 core reflects the fundamental utility risk that demographics and societal trends could include social pressures or public concern around affordability, utility reputational or environmental concerns. In turn, these pressures could result in adverse political intervention into utility operations or regulatory changes.

Governance

Avangrid's G-2 score and governance analysis reflects that of its sole owner, Iberdrola SA (G-2), which exhibits credit-supportive financial policies for Avangrid. Iberdrola's G-2 reflects risks related to its organizational structure, given some structural subordination and some presence of minorities in its subsidiaries, predominantly in the US and Brazil. However, these risks are moderated by neutral to low risks on financial strategy and risk management, management credibility and track record, compliance and reporting, and board structure policies and procedures.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

### Liquidity analysis

Avangrid's liquidity is adequate, given our expectations for ongoing support from Iberdrola.

Generally, the company's capital investment exceeds its cash flow generation, so external liquidity sources are necessary to supplement the negative free cash flow. However, as a wholly owned subsidiary of Iberdrola, we expect that the company will have access to ample sources of liquidity for investment and operating purposes. As of 31 December 2024, Iberdrola had cash and cash equivalents of approximately €4 billion and access to nearly €15 billion in available committed credit lines.

Avangrid's external liquidity sources consist primarily of a \$3.575 billion revolving credit facility expiring on 22 November 2026, with borrowing allotments for the parent company (Avangrid's maximum sublimit is \$2.5 billion) and its utility subsidiaries. The bank credit facility is a backstop to Avangrid's \$2.0 billion commercial paper program (\$1.8 billion outstanding at 31 December 2024) and does not include an ongoing material adverse change clause, with the only negative financial covenant being a maximum allowed debt to capital ratio of 65% for each borrower. As of 31 December 2024, Avangrid reported that all the borrowing entities under the revolver were in compliance with the financial covenant.

Avangrid also has a \$750 million credit facility with affiliate Iberdrola Financiacion, S.A.U. (Baa1 stable), which matures on 18 June 2028. As of 31 December 2024, Avangrid had no amount outstanding under this credit facility.

Avangrid employs a centralized approach to managing its liquidity, with the utilities optimizing their cash balances through a virtual money pool arrangement. Under the terms of this agreement, and per regulatory restrictions, utilities may lend to each other but not to their unregulated affiliates or parent. The bank facility effectively serves as a committed lender of last resort.

Avangrid's next parent level long-term debt maturity is \$750 million of senior unsecured debt due in April 2025 and approximately \$152 million of pollution control revenue bonds due in July 2025.

Moody's Ratings

Infrastructure and Project Finance

Methodology and scorecard

We use our global Regulated Electric and Gas Utilities rating methodology as the primary methodology for analysing Avangrid, Inc.

Exhibit 6

Methodology scorecard factors  
Avangrid, Inc.

Regulated Electric and Gas Utilities Industry			Current FY 12/31/2024		Moody's 12-18 Month Forward View	
Factor 1 : Regulatory Framework (25%)	Measure	Score	Measure	Score	Measure	Score
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A	A	A
<b>Factor 2 : Ability to Recover Costs and Earn Returns (25%)</b>						
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa	Baa	Baa
<b>Factor 3 : Diversification (10%)</b>						
a) Market Position	Aa	Aa	Aa	Aa	Aa	Aa
b) Generation and Fuel Diversity	A	A	A	A	A	A
<b>Factor 4 : Financial Strength (40%)</b>						
a) CFO pre-WC + Interest / Interest (3 Year Avg)	3.4x	Baa	3.2x - 3.6x	Baa	3.2x - 3.6x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	10.4%	Ba	13% - 14%	Baa	13% - 14%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	4.8%	Ba	13% - 14%	Baa	13% - 14%	Baa
d) Debt / Capitalization (3 Year Avg)	35.6%	A	35% - 45%	A	35% - 45%	A
<b>Rating:</b>						
Scorecard-Indicated Outcome Before Notching Adjustment		Baa1		Baa1		Baa1
HoldCo Structural Subordination Notching		-1		-1		-1
a) Scorecard-Indicated Outcome		Baa2		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2		Baa2

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.  
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.  
Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

Appendix

Exhibit 7

Peer comparison  
Avangrid, Inc.

(In \$ millions)	Avangrid, Inc. Baa2 Stable			NextEra Energy, Inc. Baa1 Stable			Xcel Energy Inc. Baa1 Stable			Eversource Energy Baa2 Negative		
	FY Dec-22	FY Dec-23	FY Dec-24	FY Dec-22	FY Dec-23	FY Dec-24	FY Dec-22	FY Dec-23	FY Dec-24	FY Dec-22	FY Dec-23	FY Dec-24
Revenue	7,923	8,309	8,698	20,956	28,114	24,753	15,310	14,206	13,441	12,289	11,911	11,901
CFO Pre-W/C	1,448	1,131	1,394	10,108	11,439	12,269	4,594	5,094	5,139	2,920	2,409	2,710
Total Debt	9,765	12,634	15,772	64,810	72,206	80,599	25,140	26,692	29,594	23,133	26,958	29,316
CFO Pre-W/C + Interest / Interest	4.8x	3.1x	3.0x	15.0x	4.2x	5.9x	5.9x	6.0x	5.0x	5.2x	3.8x	3.3x
CFO Pre-W/C / Debt	14.8%	9.0%	8.8%	15.6%	15.8%	15.2%	18.3%	19.1%	17.4%	12.6%	8.9%	9.2%
CFO Pre-W/C – Dividends / Debt	7.7%	3.4%	4.1%	10.3%	10.5%	9.8%	14.2%	15.0%	13.4%	8.9%	5.5%	5.8%
Debt / Capitalization	30.2%	35.4%	40.2%	52.2%	50.5%	51.8%	54.0%	54.3%	54.4%	52.9%	58.0%	58.9%

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology.  
Historical Debt and CFO pre-WC to Debt figures are not adjusted for joint-venture debt (i.e., draws under the \$2.3 billion Vineyard Wind construction loan). However, we include this debt, which is guaranteed by Avangrid, in our credit and threshold considerations.  
Source: Moody's Financial Metrics™

Moody's Ratings

Infrastructure and Project Finance

Exhibit 8

Moody's-adjusted cash flow reconciliation

Avangrid, Inc.

(in \$ millions)	2019	2020	2021	2022	2023	2024
FFO	1,554.2	1,529.8	1,746.1	1,624.6	1,682.0	1,758.6
+/- Other	(102.0)	(231.0)	(220.0)	(177.0)	(551.0)	(365.0)
<b>CFO Pre-WC</b>	<b>1,452.2</b>	<b>1,298.8</b>	<b>1,526.1</b>	<b>1,447.6</b>	<b>1,131.0</b>	<b>1,393.6</b>
+/- ΔWC	124.0	(13.0)	11.0	(452.0)	(309.0)	(149.0)
<b>CFO</b>	<b>1,576.2</b>	<b>1,285.8</b>	<b>1,537.1</b>	<b>995.6</b>	<b>822.0</b>	<b>1,244.6</b>
- Div	608.0	550.0	623.0	691.0	697.0	745.0
- Capex	2,652.2	2,701.8	2,828.1	2,365.6	2,760.0	3,540.6
<b>FCF</b>	<b>(1,684.0)</b>	<b>(1,966.0)</b>	<b>(1,914.0)</b>	<b>(2,061.0)</b>	<b>(2,635.0)</b>	<b>(3,041.0)</b>
(CFO Pre-W/C) / Debt	16.0%	10.7%	16.7%	14.8%	9.0%	8.8%
(CFO Pre-W/C - Dividends) / Debt	9.3%	6.2%	9.9%	7.7%	3.4%	4.1%
FFO / Debt	17.2%	12.7%	19.1%	16.6%	13.3%	11.2%
RCF / Debt	10.4%	8.1%	12.3%	9.6%	7.8%	6.4%
Revenue	6,336.0	6,320.0	6,974.0	7,923.0	8,309.0	8,698.0
Interest Expense	391.2	394.4	350.6	381.7	550.5	704.8
Net Income	526.4	549.2	677.2	615.4	665.5	728.5
Total Assets	34,343.0	37,772.0	39,471.0	41,070.0	43,874.0	47,484.0
Total Liabilities	19,233.1	22,603.3	20,421.1	21,731.9	24,316.9	27,634.7
Total Equity	15,109.9	15,168.7	19,049.9	19,338.1	19,557.2	19,849.3

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology.

Historical Debt and CFO pre-WC to Debt figures are not adjusted for joint-venture debt (i.e., draws under the \$2.3 billion Vineyard Wind construction loan). However, we include this debt, which is guaranteed by Avangrid, in our credit and threshold considerations.

Source: Moody's Financial Metrics™

Moody's Ratings

Infrastructure and Project Finance

Ratings

Exhibit 9

Category	Moody's Rating
<b>AVANGRID, INC.</b>	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Commercial Paper	P-2
<b>PARENT: IBERDROLA S.A.</b>	
Outlook	Stable
Issuer Rating	Baa1
ST Issuer Rating	P-2
<b>NEW YORK STATE ELECTRIC AND GAS CORPORATION</b>	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
<b>ROCHESTER GAS &amp; ELECTRIC CORPORATION</b>	
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured	A2
LT IRB/PC	Baa1
Underlying Senior Secured	A2
<b>CENTRAL MAINE POWER COMPANY</b>	
Outlook	Stable
Issuer Rating	A2
Senior Unsecured	A2
Pref. Stock	Baa1
<b>SOUTHERN CONNECTICUT GAS COMPANY</b>	
Outlook	Negative
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured	A2
<b>CONNECTICUT NATURAL GAS CORPORATION</b>	
Outlook	Negative
Senior Unsecured	A3
<b>UNITED ILLUMINATING COMPANY (THE)</b>	
Outlook	Stable
Issuer Rating	Baa1
LT IRB/PC	Baa1
<b>BERKSHIRE GAS COMPANY</b>	
Outlook	Negative
Issuer Rating	A3

Source: Moody's Ratings

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Moody's Ratings

Infrastructure and Project Finance

REPORT NUMBER 1439955

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# AVANGRID, Inc.

Avangrid, Inc.'s (BBB+/Stable) ratings and Outlook consider the rating linkage with ultimate corporate parent Iberdrola, S.A. (BBB+/Stable) and the resulting rating uplift from Avangrid's Standalone Credit Profile (SCP) under Fitch Ratings' Parent and Subsidiary Linkage Rating Criteria.

Avangrid's FFO leverage is weak and expect to exceed Fitch's downgrade threshold of 5.5x over the outlook horizon. The company is in the midst of a private takeover from Iberdrola, which already owns 81.6% of it. The Stable Outlook on Avangrid reflects the expectation of greater financial support and flexibility upon the completion of the Iberdrola private takeover transaction.

## Key Rating Drivers

**Weak Financial Metrics:** Avangrid's credit metrics were weak in 2023 with FFO leverage of 5.9x mainly due to underperformance from utilities in New York and Connecticut. Over the forecast period, absent any external support, Fitch estimates Avangrid's FFO leverage will remain high at about 6.3x in 2024, and 5.7x in 2025 and 2026, above its downgrade sensitivity. The elevated leverage can be attributed to large capital spending, which totals to about \$11.5 billion over the next three years, and requires material external financing.

**Private Takeover from Iberdrola:** On May 17, 2024, Iberdrola reached an agreement to acquire the remaining 18.4% interest in Avangrid for \$2.6 billion. Iberdrola already owns 81.6% of the company. Post-transaction, Iberdrola intends to take Avangrid private. The proposed transaction has been approved by Avangrid's board of directors and shareholders; pending regulatory approval.

Fitch views the transaction as potentially credit positive for Avangrid because it could benefit from the financial flexibility of Iberdrola, one of the large utilities holding companies in the world with total assets of about \$162.7 billion (€154.9 billion) while Avangrid's total assets is about \$46.7 billion as of 3Q24. In Fitch's view, financial flexibility at Avangrid could come in the form of unrestrained timely equity injection or right-sizing dividends to the parent as needed to preserve cash for large capital plan and to improve the company's weak financial measures.

**Uplift from Iberdrola Support:** Fitch determines Avangrid's SCP to be 'bbb' based upon consolidated metrics, which is one notch below Iberdrola's 'BBB+' rating. The linkage between the two follows a strong parent/weak subsidiary approach. Fitch considers legal incentives are medium as about 20% of Iberdrola's total debt has cross-default provisions or wind-up provisions with Avangrid. Strategic incentives are medium as Iberdrola owns 81.6% of Avangrid, which has received material financial contributions from Iberdrola accounting for more than \$3 billion in the last three years. Furthermore, around 40% of Iberdrola's growth is expected to come from Avangrid.

Operational incentives are low, as 70% of Avangrid's EBITDA is derived from regulated U.S. entities with minimal synergies with Iberdrola's other businesses, besides the offshore wind projects. There is a level of integration between management teams but Avangrid has an independent treasury function. As a result, Fitch equalized Avangrid's rating with Iberdrola. If Avangrid's SCP were to be two or more notches lower than Iberdrola under the same linkage factors, Fitch would limit Avangrid's rating uplift to one notch lower than Iberdrola. Absent additional incentives, we do not expect the private takeover by Iberdrola would impact the linkage between the two entities.

**Corporates**  
Electric-Corporate  
**United States**

## Ratings

Long-Term IDR	BBB+
Short-Term IDR	F2
Senior Unsecured Debt - Long-Term Rating	BBB+
Senior Unsecured Debt - Short-Term Rating	F2
<b>Outlook</b>	
Long-Term Foreign Currency IDR	Stable

[Click here for the full list of ratings](#)

## ESG and Climate

Highest ESG Relevance Scores	
Environmental	3
Social	3
Governance	3
2035 Climate Vulnerability Signal: 30	

## Applicable Criteria

- [Corporate Recovery Ratings and Instrument Ratings Criteria \(August 2024\)](#)
- [Sector Navigators - Addendum to the Corporate Rating Criteria \(December 2024\)](#)
- [Corporate Rating Criteria \(December 2024\)](#)
- [Parent and Subsidiary Linkage Rating Criteria \(June 2023\)](#)
- [Corporate Hybrids Treatment and Notching Criteria \(November 2020\)](#)

## Related Research

- [Global Corporates Macro and Sector Forecasts - September 2024 \(September 2024\)](#)
- [North American Utilities Monitor: 2Q24 \(August 2024\)](#)
- [North American Utilities, Power & Gas Dashboard: 3Q24 \(October 2024\)](#)
- [North American Utilities Outlook 2024 \(December 2024\)](#)

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Corporates  
Electric-Corporate  
United States

**Mostly Regulated Business Mix:** Avangrid's utilities provide electric transmission and distribution and natural gas distribution service in parts of New York, Connecticut, Maine and Massachusetts. Fitch considers the low risk nature of the operations to be supportive of credit quality. Central Maine Power Company (CMP; BBB+/Stable) and The United Illuminating Company (UI; A-/Negative) have a large, beneficial exposure to electric transmission assets regulated by the Federal Energy Regulatory Commission (FERC), which account for nearly 21% of Avangrid's consolidated rate base.

Fitch believes Avangrid's renewable energy business (mostly contracted 9.3GW, accounting for 20% of 2023 EBITDA) has a moderately higher risk profile than the company's regulated utilities. Fitch views favorably the company's decision to find a 60% partner for its onshore renewable growth going forward, as it mitigates need for growth financing.

**Weak Regulatory Environment:** Fitch considers Avangrid's utility operations to be of relatively low risk, but the regulatory environments in Maine and Connecticut are considered more challenging, as reflected in recent rate case outcomes and utility performances. Also, authorized ROEs tend to be below the nationwide average, particularly for the New York and Connecticut utilities. Nonetheless, Avangrid's utilities continue to benefit from cost-recovery and revenue-stabilizing mechanisms, such as revenue decoupling, to reduce regulatory lag and provide cash flow stability.

**Vineyard Wind Construction Delay:** On July 13, 2024, one of the turbine blades from the Vineyard Wind project shattered and fell into the ocean. As a result, the U.S. Bureau of Safety and Environmental Enforcement (BSEE) issued a suspension order that halted construction and operations at the Vineyard wind farm. Initial investigation indicates the issue is likely related to a manufacturing defect of the blade by GE. On August 13, the BSEE allowed limited construction at Vineyard and on October 22, 2024, the project resumed blade installation and operation.

**Large Capex Plan:** Capex is elevated at the regulated utilities and the renewable energy business, totaling about \$11.5 billion over the next three years. The electric and natural gas utilities are ramping up infrastructure spending primarily to enhance safety and grid resilience, comprising around 70% of the total with the remaining spend on renewable operation.

Avangrid's New England Clean Energy Connect (NECEC) electric transmission project includes a 145-mile transmission line that would provide New England with 1,200MW of hydroelectric generation capacity from Quebec, Canada. NECEC is expected to cost over \$1.5 billion, a portion of which has already been spent. The project resumed construction in August 2023 after a previous voter ballot to stop construction was overturned by the courts. At this time, Fitch assumes its in-service date will be beyond 2025.

**Utility Parent/Subsidiary Linkage:** There is parent/subsidiary linkage between Avangrid and its rated utility subsidiaries. Fitch considers the utility subsidiaries to have stronger SCPs than Avangrid. As a result, the linkage between Avangrid and its utility subsidiaries is assessed following weak parent/strong subsidiary factors. Emphasis is placed on the subsidiaries' status as regulated entities. Legal ring-fencing is porous, given the general protections afforded by economic regulation, and access and control are also porous.

Avangrid centrally manages the treasury function for all of its utility subsidiaries and is the sole source of equity; however, each subsidiary issues its own long-term debt. Due to the aforementioned assessment, Fitch will limit the difference between Avangrid and any of its higher-rated regulated subsidiaries to two notches.

## Financial Summary

(\$ Mil.)	2021	2022	2023	2024F	2025F	2026F
Gross revenue	6,974	7,923	8,309	8,447	8,895	9,304
EBITDA	1,880	1,907	2,060	2,334	2,723	2,990
CFO (Fitch-defined)	1,543	1,013	1,215	1,732	2,214	2,395
Capital intensity (capex/revenue) (%)	42.7	31.8	35.8	–	–	–
Debt	8,458	9,295	12,016.1	16,504	17,497	18,967
FFO interest coverage (x)	5.7	4.8	3.9	3.8	3.5	3.5
FFO leverage (x)	4.5	5.0	5.9	6.3	5.7	5.7
EBITDA leverage (x)	4.5	4.8	5.8	7.0	6.6	6.6

F – Forecast.  
Source: Fitch Ratings, Fitch Solutions

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## Peer Analysis

Avangrid is weaker than peers at the 'BBB+' rating. Avangrid's business risk profile is supported by the company's ownership of low-risk, regulated electric and natural gas utilities. The utility subsidiaries of Avangrid and peer Eversource Energy (BBB/Stable) operate in some of the same states in the Northeast, in regulatory environments that have grown weaker. Avangrid and Eversource benefit from a meaningful amount of regulatory diversification and significant exposure to electric transmission assets that are regulated by FERC, favorable factors that peer Consolidated Edison, Inc. (BBB+/Stable) lacks.

Avangrid's unregulated renewable energy business accounts for around 20% of consolidated EBITDA, weakening its business risk profile. Avangrid and Eversource are also engaged in the development of large offshore wind projects in the Northeast, which include increased risk during the multiyear permitting and construction phases, but would provide long-term contracted cash flows once in operation.

Avangrid's FFO leverage has been deteriorating due to weakness in its NY and Connecticut operations. Fitch expects leverage to improve with the securitization law passed in NY that allows utilities to recover excess storm expenses. Fitch forecasts FFO leverage to remain high in 2024 at 6.3x before reaching to 5.7x in 2025 and 2026. For Eversource, Fitch estimates leverage of over 7.0x and improving to around 5.5x by the end of the forecast period upon completion of its asset sales and equity issuance plans.

## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- An upgrade at Iberdrola along with Avangrid's FFO leverage to remain less than 4.8x on a sustained basis;
- The weaker credit profile of Avangrid's nonregulated renewable energy portfolio, which accounts for about 20% of consolidated EBITDA, makes a positive rating action unlikely, unless the consolidated credit profile of the utilities significantly improves; Avangrid's larger utilities would all need to be upgraded to 'A-'.

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- FFO leverage expected to exceed 5.5x on a sustained basis;
- A negative rating action also could occur if Iberdrola were downgraded below 'BBB' along with a decline in Avangrid's SCP;
- Significant delays, cost-overruns or other concerns related to the development of the company's offshore wind projects that would meaningfully negatively affect the company's cash flow profile.

## Liquidity and Debt Structure

Fitch considers the liquidity for Avangrid and each of its regulated utility subsidiaries to be adequate. Avangrid's liquidity is primarily supported by the company's \$2.0 billion CP program, which is backstopped by a \$3.575 billion revolving credit facility (RCF) that matures on November 22, 2026. Avangrid shares this RCF with seven of the company's regulated utility subsidiaries: The Berkshire Gas Company (BGC; A-/Stable), CMP, Connecticut Natural Gas Corporation (CNG; A-/Negative), New York State Electric & Gas Corporation (NYSEG; BBB+/Negative), Rochester Gas and Electric Corporation (RGE; BBB+/Stable), The Southern Connecticut Gas Company (SCG; A-/Negative) and UI.

The RCF contains maximum sub-limits of \$2.5 billion for Avangrid at the parent level; \$700 million for NYSEG; \$300 million for RGE; \$200 million for CMP; \$250 million for UI; \$150 million each for CNG and SCG; and \$50 million for BGC. There were \$2.232 billion of CP and no RCF borrowings outstanding as of September 30, 2024, leaving \$2.241 billion of availability under the RCF.

Avangrid uses its CP program as a source of funding to provide its regulated utility subsidiaries with loans under a bilateral credit agreement. CMP, NYSEG, RGE and UI each can borrow up to \$500 million under the agreement; CNG and SCG can each borrow up to \$250 million and BGC can borrow up to \$50 million.

The regulated utilities participate in a virtual money pool, which allows Avangrid's investment grade regulated utility subsidiaries to lend to or borrow from each other, enabling Avangrid to efficiently manage the cash at its regulated utilities. CMP, CNG, NYSEG, RGE, SCG and UI each have a lending/borrowing limit of \$100 million, and BGC has a lending/borrowing limit of \$15 million.

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Avangrid also has a \$750 million credit facility with Iberdrola Financiacion, S.A.U., a subsidiary of Iberdrola. This facility matures on June 18, 2028 and had no borrowings outstanding as of September 30, 2024. Avangrid and its regulated utilities require modest cash on hand to fund their operations, and it had \$148 million of unrestricted cash and cash equivalents as of September 30, 2024.

### ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

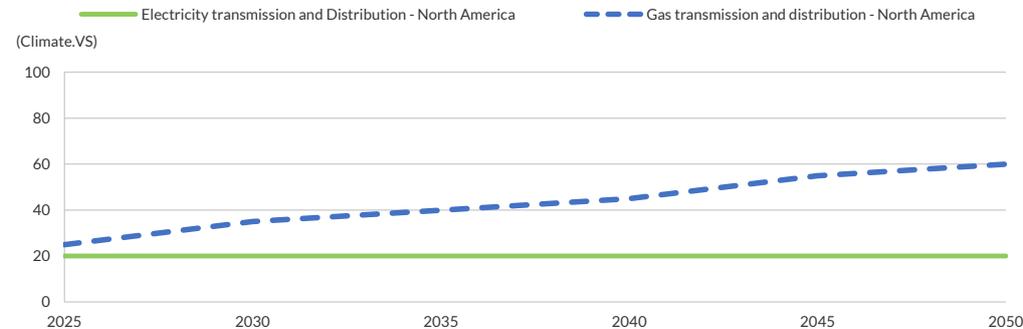
### Climate Vulnerability Considerations

Fitch uses Climate Vulnerability Signals (Climate.VS) as a screening tool to identify sectors and Fitch-rated issuers that are potentially most exposed to credit-relevant climate transition risks and, therefore, require additional consideration of these risks in rating reviews. Climate.VS range from 0 (lowest risk) to 100 (highest risk). For more information on Climate.VS, see Fitch's [Corporate Rating Criteria](#). For more detailed, sector-specific information on how Fitch perceives climate-related transition risks, see [Climate Vulnerability Signals for Non-Financial Corporate Sectors](#).

The 2023 asset-weighted Climate.VS for Avangrid for 2035 is 30, suggesting low exposure to climate-related risks in that year. Avangrid's emissions reduction strategy for its natural gas distribution segments, CNG, SCG and BGC, is focused on system betterment, including pipeline replacement, and continuous operational and equipment improvements and upgrades. Avangrid intends to use renewable natural gas (RNG) and explore other clean energy options. Management targeted Scope 1 and Scope 2 carbon neutrality by 2030. The company is also engaged in U.S. Department of Energy hydrogen hub programs and added its first RNG supply to the New York system.

#### Climate.VS Evolution

As of December 31, 2023



Source: Fitch Ratings

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## Liquidity and Debt Maturities

### Cash and Maturities Report

(\$ Mil.)	December 31, 2023	June 30, 2024
Total cash and cash equivalents	91	136
Short-term investments	—	—
Less not readily available cash and cash equivalents	—	—
<b>Fitch-defined readily available cash and cash equivalents</b>	<b>91</b>	<b>136</b>
Availability under committed lines of credit	2,243	1,640
<b>Total liquidity</b>	<b>2,334</b>	<b>1,776</b>
LTM EBITDA after associates and minorities	2,076	2,293
LTM FCF	-2,438	-2,868

Source: Fitch Ratings, Fitch Solutions, AVANGRID, Inc.

### Scheduled Debt Maturities

(\$ Mil.)	June 30, 2024
2024	2,547
2025	1,107
2026	660
2027	1,084
2028	716
Thereafter	7,693
<b>Total</b>	<b>13,807</b>

Source: Fitch Ratings, Fitch Solutions, AVANGRID, Inc.

## Key Assumptions

- The private takeover transaction from Iberdrola will carry through and there will be financial support from Iberdrola to maintain Avangrid's current ratings;
- Adjusted earnings per share CAGR of 6%-7% through 2025;
- Total capex in line with management assumptions;
- Networks rate base growing at 7% CAGR through 2025;
- Offshore wind projects: Vineyard Wind I going into service in 2023, with full capacity reached in 2024. No other offshore wind project is budgeted in the forecast period;
- Targeted payout ratio of 65%-75%;
- Normal weather;
- Storm cost securitization for NY utilities will happen by end of 2024;
- Debt maturities to be refinanced.

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(\$ Mil.)	2021	2022	2023	2024F	2025F	2026F
<b>Summary income statement</b>						
Gross revenue	6,974	7,923	8,309	8,447	8,895	9,304
Revenue growth (%)	10.3	13.6	4.9	1.7	5.3	4.6
EBITDA before income from associates	1,880	1,907	2,060	2,334	2,723	2,990
EBITDA margin (%)	27.0	24.1	24.8	27.6	30.6	32.1
EBITDA after associates and minorities	1,887	1,920	2,076	2,354	2,655	2,895
EBIT	874	834	913	1,090	1,136	1,349
EBIT margin (%)	12.5	10.5	11.0	12.9	12.8	14.5
Gross interest expense	-328	-383	-521	-690	-868	-956
Pretax income including associate income/loss	664	841	656	751	659	733
<b>Summary balance sheet</b>						
Readily available cash and equivalents	1,474	69	91	33	51	37
Debt	8,458	9,295	12,016	16,504	17,497	18,967
Net debt	6,984	9,226	11,925	16,471	17,446	18,930
<b>Summary cash flow statement</b>						
EBITDA	1,880	1,907	2,060	2,334	2,723	2,990
Cash interest paid	-328	-383	-521	-690	-868	-956
Cash tax	-2	-15	40	-15	-15	-15
Dividends received less dividends paid to minorities (inflow/outflow)	7	13	16	20	-68	-95
Other items before FFO	-25	-57	-71	292	421	448
FFO	1,532	1,465	1,524	1,941	2,193	2,372
FFO margin (%)	22.0	18.5	18.3	23.0	24.7	25.5
Change in working capital	11	-452	-309	-209	21	24
CFO (Fitch-defined)	1,543	1,013	1,215	1,732	2,214	2,395
Total non-operating/nonrecurring cash flow	-	-	-	-	-	-
Capex	-2,976	-2,519	-2,972	-	-	-
Capital intensity (capex/revenue) (%)	42.7	31.8	35.8	-	-	-
Common dividends	-613	-681	-681	-	-	-
FCF	-2,046	-2,187	-2,438	-	-	-
FCF margin (%)	-29.3	-27.6	-29.3	-	-	-
Net acquisitions and divestitures	24	31	-	-	-	-
Other investing and financing cash flow items	851	99	-241	-	-	-
Net debt proceeds	-2,783	653	2,705	4,488	993	1,470
Net equity proceeds	3,965	-1	-3	-	-	-
Total change in cash	11	-1,405	23	-58	17	-14
<b>Calculations for forecast publication</b>						
Capex, dividends, acquisitions and other items before FCF	-3,565	-3,169	-3,653	-4,283	-3,758	-3,788
FCF after acquisitions and divestitures	-2,022	-2,156	-2,438	-2,551	-1,545	-1,393
FCF margin after net acquisitions (%)	-29.0	-27.2	-29.3	-30.2	-17.4	-15.0
<b>Gross Leverage ratios (x)</b>						
EBITDA leverage	4.5	4.8	5.8	7.0	6.6	6.6
CFO-capex/debt	-16.9	-16.2	-14.6	-11.3	-4.9	-3.8
<b>Net Leverage ratios (x)</b>						
EBITDA net leverage	3.7	4.8	5.7	7.0	6.6	6.5
CFO-capex/net debt	-20.5	-16.3	-14.7	-11.3	-4.9	-3.8
<b>Coverage ratios (x)</b>						
EBITDA interest coverage	5.8	5.0	4.0	3.4	3.1	3.0

CFO - Cash flow from operations. F - Forecast.  
Source: Fitch Ratings, Fitch Solutions

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#### How to Interpret the Forecast Presented

The forecast presented above is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

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**Bar Chart Legend:**

Vertical Bars = Range of Rating Factor	Bar Arrows = Rating Factor Outlook
Bar Colors = Relative Importance	↑ Positive
■ Higher Importance	↓ Negative
■ Average Importance	↕ Evolving
■ Lower Importance	□ Stable

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Operating Environment			Management and Corporate Governance																															
aa+	Economic Environment	aa	Very strong combination of countries where economic value is created and where assets are located.	a	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.																											
aa	Financial Access	aa	Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.	a-	Governance Structure	a	Experienced board exercising effective check and balances. Ownership can be concentrated among several shareholders.																											
b-	Systemic Governance	aa	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'aa'.	bbb+	Group Structure	a	Group structure shows some complexity but mitigated by transparent reporting.																											
ccc+				bbb	Financial Transparency	a	High quality and timely financial reporting.																											
				bbb-																														
Regulatory Environment			Market Position																															
a-	Degree of Transparency and Predictability	bbb	Generally transparent and predictable regulation with limited political interference.	a	Market Structure	a	Well-established market structure with complete transparency in price-setting mechanisms.																											
bbb+	Timeliness of Cost Recovery	bbb	Moderate lag to recover capital and operating costs.	a-	Consumption Growth Trend	bbb	Customer and usage growth in line with industry averages.																											
bbb	Trend in Authorized ROEs	bb	Significantly below-average authorized ROE.	bbb+	Customer Mix	a	Favorable customer mix.																											
bbb-	Mechanisms Available to Stabilize Cash Flows	bbb	Revenues partially insulated from variability in consumption.	bbb	Geographic Location	bbb	Beneficial location or reasonable locational diversity.																											
bb+	Mechanisms Supportive of Creditworthiness	n.a.		bbb-	Supply Demand Dynamics	bbb	Moderately favorable outlook for prices/rates.																											
Asset Base and Operations			Commodity Exposure																															
a-	Diversity of Assets	a	High-quality and/or large-scale diversified assets.	a	Ability to Pass Through Changes in Fuel	a	Complete pass-through of commodity costs.																											
bbb+	Operations Reliability and Cost Competitiveness	bbb	Reliability and cost of operations at par with industry averages.	a-	Underlying Supply Mix	n.a.																												
bbb	Exposure to Environmental Regulations	a	No exposure to environmental regulations.	bbb+	Hedging Strategy	bbb	Long-term supply and sales contracts with creditworthy counterparties.																											
bbb-	Capital and Technological Intensity of Capex	bb	Reinvestment concentrated in capital-intensive or unproven technologies.	bbb																														
bb+				bbb-																														
Profitability			Financial Structure																															
a-	Free Cash Flow	bbb	Structurally neutral to negative FCF across the investment cycle.	a-	EBITDA Leverage	bb	4.75x																											
bbb+	Volatility of Profitability	bbb	Stability and predictability of profits in line with utility peers.	bbb+	FFO Leverage	bbb	5.0x																											
bbb				bbb																														
bbb-				bbb-																														
bb+				bb+																														
Financial Flexibility			Credit-Relevant ESG Derivation																															
a	Financial Discipline	bbb	Less conservative policy, but generally applied consistently.	<table border="1"> <thead> <tr> <th>Key driver</th> <th>0</th> <th>Issues</th> <th>Overall ESG</th> </tr> </thead> <tbody> <tr> <td>Emissions from operations</td> <td>0</td> <td>Issues</td> <td>5</td> </tr> <tr> <td>Fuel use to generate energy and serve load</td> <td>0</td> <td>Issues</td> <td>4</td> </tr> <tr> <td>Impact of waste from operations</td> <td>12</td> <td>Issues</td> <td>3</td> </tr> <tr> <td>Plants' and networks' exposure to extreme weather</td> <td>2</td> <td>Issues</td> <td>2</td> </tr> <tr> <td>Product affordability and access</td> <td>2</td> <td>Issues</td> <td>2</td> </tr> <tr> <td>Quality and safety of products and services; data security</td> <td>0</td> <td>Issues</td> <td>1</td> </tr> </tbody> </table>			Key driver	0	Issues	Overall ESG	Emissions from operations	0	Issues	5	Fuel use to generate energy and serve load	0	Issues	4	Impact of waste from operations	12	Issues	3	Plants' and networks' exposure to extreme weather	2	Issues	2	Product affordability and access	2	Issues	2	Quality and safety of products and services; data security	0	Issues	1
Key driver	0	Issues	Overall ESG																															
Emissions from operations	0	Issues	5																															
Fuel use to generate energy and serve load	0	Issues	4																															
Impact of waste from operations	12	Issues	3																															
Plants' and networks' exposure to extreme weather	2	Issues	2																															
Product affordability and access	2	Issues	2																															
Quality and safety of products and services; data security	0	Issues	1																															
a-	Liquidity	bb	Liquidity ratio around 1.0x. Less smooth debt maturity or concentrated funding.																															
bbb+	FFO Interest Coverage	a	5.5x																															
bbb																																		
bbb-																																		

**How to Read This Page:** The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Showing top 6 issues  
For further details on Credit-Relevant ESG scoring, see page 3.

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**Credit-Relevant ESG Derivation**

AVANGRID, Inc. has 12 ESG potential rating drivers

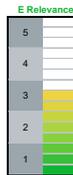
- ▶ AVANGRID, Inc. has exposure to emissions regulatory risk but this has very low impact on the rating.
- ▶ AVANGRID, Inc. has exposure to energy productivity risk but this has very low impact on the rating.
- ▶ AVANGRID, Inc. has exposure to waste & impact management risk but this has very low impact on the rating.
- ▶ AVANGRID, Inc. has exposure to extreme weather events but this has very low impact on the rating.
- ▶ AVANGRID, Inc. has exposure to access/affordability risk but this has very low impact on the rating.
- ▶ AVANGRID, Inc. has exposure to customer accountability risk but this has very low impact on the rating.

Showing top 6 issues

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	12	issues	3
not a rating driver	2	issues	2
	0	issues	1

**Environmental (E) Relevance Scores**

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	3	Emissions from operations	Asset Base and Operations; Commodity Exposure; Regulation; Profitability
Energy Management	3	Fuel use to generate energy and serve load	Asset Base and Operations; Commodity Exposure; Profitability
Water & Wastewater Management	2	Water used by hydro plants or by other generation plants, also effluent management	Asset Base and Operations; Regulation; Profitability
Waste & Hazardous Materials Management; Ecological Impacts	3	Impact of waste from operations	Asset Base and Operations; Regulation; Profitability
Exposure to Environmental Impacts	3	Plants' and networks' exposure to extreme weather	Asset Base and Operations; Regulation; Profitability



**How to Read This Page**

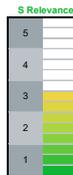
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant. The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

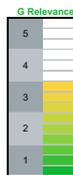
**Social (S) Relevance Scores**

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	3	Product affordability and access	Asset Base and Operations; Regulation; Profitability; Financial Structure
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Regulation; Profitability
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Asset Base and Operations; Profitability
Employee Wellbeing	2	Worker safety and accident prevention	Profitability; Asset Base and Operations
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Asset Base and Operations; Profitability



**Governance (G) Relevance Scores**

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance



**CREDIT-RELEVANT ESG SCALE**

How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	In relevant to the entity rating but relevant to the sector.
1	In relevant to the entity rating and irrelevant to the sector.

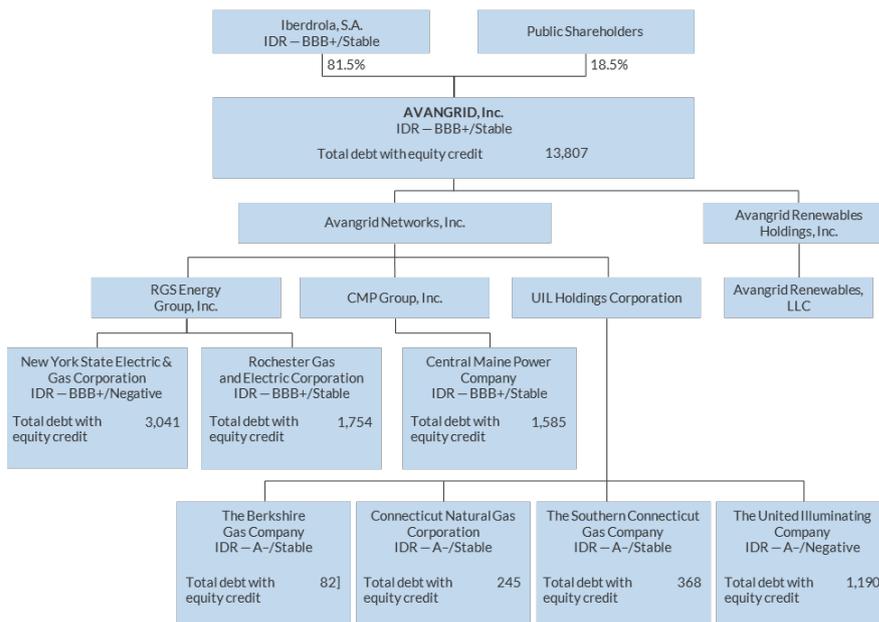
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**United States**

## Simplified Group Structure Diagram

**Organizational Structure – AVANGRID, Inc.**  
\$ Mil., as of June 30, 2024



IDR - Issuer Default Rating.  
Source: Fitch Ratings, Fitch Solutions, AVANGRID, Inc.

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### Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	Gross revenue (\$ Mil.)	FFO (\$ Mil.)	FFO interest coverage (x)	FFO leverage (x)	EBITDA leverage (x)
AVANGRID, Inc.	BBB+						
	BBB+	2023	8,309	1,524	3.9	5.9	5.8
	BBB+	2022	7,923	1,465	4.8	5.0	4.8
	BBB+	2021	6,974	1,532	5.7	4.5	4.5
Eversource Energy	BBB						
	BBB+	2023	11,852	2,766	4.4	7.7	8.5
	BBB+	2022	12,229	2,462	4.7	7.4	6.0
	BBB+	2021	9,801	2,179	4.9	7.3	6.6
Consolidated Edison, Inc.	BBB+						
	BBB+	2023	14,663	3,609	4.7	5.4	4.7
	BBB+	2022	15,670	3,698	5.0	5.7	5.7
	BBB+	2021	13,676	3,315	4.5	5.8	5.1

Source: Fitch Ratings, Fitch Solutions

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Corporates  
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United States**Fitch Adjusted Financials**

(\$ Mil. as of December 31, 2023)	Notes and formulas	Standardized values	Fair value and other debt adjustments	Lease treatment	Other adjustments	Adjusted values
<b>Income statement summary</b>						
Revenue		8,309	–	–	–	8,309
EBITDA	(a)	2,088	–	-14	-14	2,060
Depreciation and amortization		-1,158	–	11	–	-1,147
EBIT		930	–	-3	-14	913
<b>Balance sheet summary</b>						
Debt	(b)	11,956	60	–	–	12,016
Of which other off-balance-sheet debt		–	–	–	–	–
Lease-equivalent debt		–	–	–	–	–
Lease-adjusted debt		11,956	60	–	–	12,016
Readily available cash and equivalents	(c)	91	–	–	–	91
Not readily available cash and equivalents		–	–	–	–	–
<b>Cash flow summary</b>						
EBITDA	(a)	2,088	–	-14	-14	2,060
Dividends received from associates less dividends paid to minorities	(d)	16	–	–	–	16
Interest paid	(e)	-338	–	3	-186	-521
Interest received	(f)	–	–	–	–	–
Preferred dividends paid	(g)	–	–	–	–	–
Cash tax paid		40	–	–	–	40
Other items before FFO		-590	–	–	519	-71
FFO	(h)	1,216	–	-11	319	1,524
Change in working capital		-309	–	–	–	-309
CFO	(i)	907	–	-11	319	1,215
Non-operating/nonrecurring cash flow		–	–	–	–	–
Capex	(j)	-2,972	–	–	–	-2,972
Common dividends paid		-681	–	–	–	-681
FCF		-2,746	–	-11	319	-2,438
<b>Gross leverage (x)</b>						
EBITDA leverage	b/(a+d)	5.7	–	–	–	5.8
(CFO-capex)/debt (%)	(i+j)/b	-17.2	–	–	–	-14.6
<b>Net leverage (x)</b>						
EBITDA net leverage	(b-c)/(a+d)	5.7	–	–	–	5.7
(CFO-capex)/net debt (%)	(i+j)/(b-c)	-17.3	–	–	–	-14.7
<b>Coverage (x)</b>						
EBITDA interest coverage	(a+d)/(-e)	6.2	–	–	–	4.0

CFO – Cash flow from operations.

Notes: The standardized items presented above are based on Fitch's taxonomy for the given sector and region.

Reported items may not match the Fitch taxonomy, but they are captured into corresponding lines accordingly.

Debt includes other off-balance-sheet debt.

Debt in the standardized values column excludes lease liabilities of \$243 million.

Source: Fitch Ratings, Fitch Solutions, AVANGRID, Inc.

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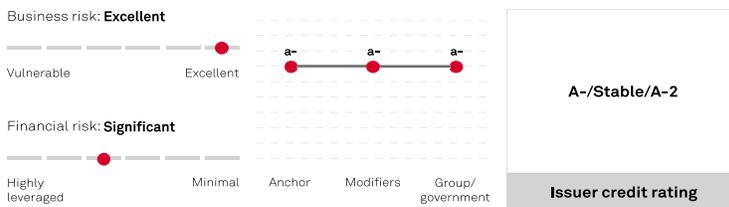
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# New York State Electric & Gas Corp.

September 12, 2024

## Ratings Score Snapshot



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## Credit Highlights

### Overview

Key strengths	Key risks
Lower-risk, rate-regulated electric and natural gas utility operations.	Limited geographic and regulatory diversity with operations concentrated in upstate New York.
Generally supportive regulatory construct.	Negative discretionary cash flow through the forecast period, indicating a need for external funding.
Effective management of regulatory risk through use of multiyear rate plans (MYRPs).	

### New York State Electric & Gas Corp. (NYSEG) filed for a storm securitization financing order.

Recently, New York enacted the New York Utility Corporation Securitization Act (Senate Bill S9339 [SB9339]), which would allow electric utilities in the state to petition the New York Public Service Commission (NYPSC) to issue storm recovery bonds. The bill creates the legislative framework required to enable the use of securitization to recover storm costs incurred by investor-owned utilities.

In August 2024, NYSEG petitioned the NYPSC under the new legislation for a financing order to allow for storm recovery costs as of July 1, 2024, including associated upfront financing costs for a total securitization of about \$707 million. We view the newly enacted bill as credit

**New York State Electric & Gas Corp.**

supportive as it could expedite recovery of such costs and improve financial measures. We expect the NYPSC to render a decision by December 2024.

**NYSEG's robust capital spending program will require consistent management of regulatory risk.** We expect NYSEG to spend about \$3.5 billion over the next three years to improve service quality and reliability. Also included in the spending plan is Phase 1 of the New York Climate Leadership and Community Protection Act (CLCPA). CLCPA phase 1 spending incorporated in NYSEG's current three-year multiyear rate plan (MYRP) is about \$600 million. We anticipate the company to incorporate about \$700 million of capital spending under the CLCPA in its next rate case. We also expect CLCPA phase 2 spending to be an additional \$2 billion to integrate transmission upgrades to integrate clean energy capacity anticipated to come online in New York. The CLCPA Phase 2 recovery mechanism is established by the Federal Energy Regulatory Commission's (FERC), through a FERC jurisdictional formula rate.

We expect the company's financial measures to be consistently at or above our downgrade threshold (15% funds from operations [FFO] to debt) due to the company's recently approved multiyear rate plan. However, due to the elevated capex we expect NYSEG to operate with limited financial cushion from its downgrade threshold through 2026. We also believe NYSEG's elevated capex will require effective management of regulatory risk to minimize regulatory lag and maintain financial measures. However, if NYSEG's securitization order is approved, we expect a modest improvement, providing NYSEG with some cushion from our downgrade threshold in 2025 and 2026.

## Outlook

The stable outlook on NYSEG reflects our expectation that stand-alone financial measures, including FFO to debt, will consistently remain above 15%. Our stable outlook also incorporates our expectation that the business risk will not materially weaken and NYSEG will effectively manage regulatory risk.

### Downside scenario

We could lower our rating on NYSEG if stand-alone financial measures weaken, including an FFO to debt consistently below 15%. This could occur if adverse regulatory outcomes impede NYSEG's ability to manage regulatory risk.

### Upside scenario

We could upgrade NYSEG if its stand-alone financial measures consistently reflect the very high end of the range for its financial risk profile category, while it maintains the strength of its business risk profile. Specifically, this would reflect FFO to debt consistently greater than 22%.

## Our Base-Case Scenario

### Assumptions

- Consistent rate case filings and use of existing regulatory mechanisms;
- Capital spending of about \$3.5 billion through 2026;
- Negative discretionary cash flow; and

**New York State Electric & Gas Corp.**

- Debt maturities are refinanced.

## Key metrics

### New York State Electric & Gas Corp.—Forecast Summary

Period ending	2024e	2025f	2026f
<b>Adjusted ratios</b>			
FFO to Debt (%)	14-16	16-18	14-16
Debt to EBITDA (x)	4,5-5,0	4,0-4,5	4,0-4,5
FFO cash interest coverage (x)	4,0-4,5	4,0-5,0	4,0-4,5

All figures are adjusted by S&P Global Ratings, unless stated as reported. e-Estimate. f--Forecast. LC--Local Currency.

## Company Description

NYSEG engages in the regulated transmission and distribution of electricity in the U.S. It also transports, stores, and distributes natural gas. It serves approximately 919,000 electricity and 271,000 natural gas customers in central, eastern, and western New York. The company was founded in 1852 and is a subsidiary of Avangrid Inc., an intermediary holding company and subsidiary of its ultimate parent, Iberdrola S.A. NYSEG accounts for about 23% of Avangrid's consolidated EBITDA.

## Peer Comparison

### New York State Electric & Gas Corp.--Peer Comparisons

	New York State Electric & Gas Corp.	Rochester Gas & Electric Corp.	Central Hudson Gas & Electric Corp.	Orange and Rockland Utilities Inc.
Foreign currency issuer credit rating	A-/Stable/A-2	A-/Stable/--	BBB+/Negative/NR	A-/Stable/A-2
Local currency issuer credit rating	A-/Stable/A-2	A-/Stable/--	BBB+/Negative/NR	A-/Stable/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	\$	\$	\$	\$
Revenue	2,197	1,222	1,008	1,061
EBITDA	490	370	195	236
Funds from operations (FFO)	417	298	142	192
Interest	105	70	54	55
Cash interest paid	90	64	51	52
Operating cash flow (OCF)	49	71	110	212
Capital expenditure	822	407	249	290
Free operating cash flow (FOCF)	(773)	(335)	(140)	(78)

**New York State Electric & Gas Corp.**

**New York State Electric & Gas Corp.--Peer Comparisons**

Discretionary cash flow (DCF)	(973)	(445)	(140)	(142)
Cash and short-term investments	6	0	2	22
Gross available cash	6	0	2	22
Debt	3,057	1,881	1,286	1,131
Equity	2,841	1,775	1,192	1,062
EBITDA margin (%)	22.3	30.3	19.4	22.2
Return on capital (%)	5.6	7.3	5.1	7.3
EBITDA interest coverage (x)	4.7	5.3	3.6	4.3
FFO cash interest coverage (x)	5.6	5.6	3.8	4.7
Debt/EBITDA (x)	6.2	5.1	6.6	4.8
FFO/debt (%)	13.7	15.8	11.1	17.0
OCF/debt (%)	1.6	3.8	8.5	18.7
FOCF/debt (%)	(25.3)	(17.8)	(10.9)	(6.9)
DCF/debt (%)	(31.8)	(23.7)	(10.9)	(12.6)

## Business Risk

Our assessment of NYSEG's business risk profile reflects its lower-risk, fully rate-regulated utility business that provides an essential service in its service territory. Given material barriers to entry, NYSEG and the regulated utility industry effectively operate insulated from competitive market challenges. This underlines our view of regulated utilities' very low industry risk compared with other industries.

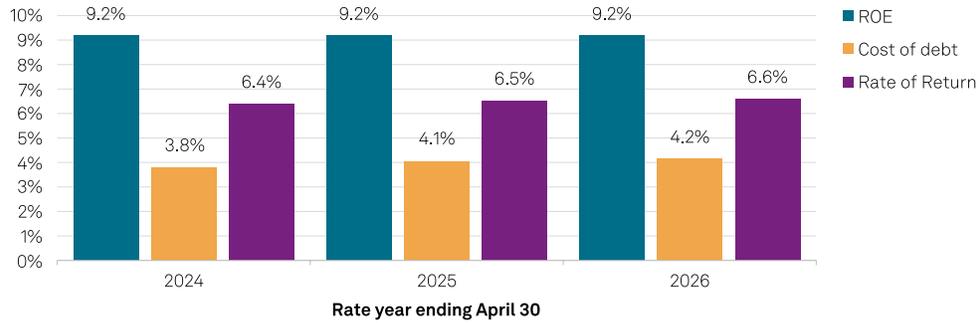
Our assessment of NYSEG's business risk also reflects a generally constructive regulatory environment in New York. The company benefits from a multiyear rate plan, forward-test year, and revenue decoupling that protects the utility from adverse weather, conservation, and adverse economic conditions, thus reducing regulatory lag. The company also benefits from rate adjustment mechanisms that collect or return various eligible deferrals and costs such as property tax, major storm balances, and gas replacement leaks, thus enhancing cash flow predictability. The company effectively manages regulatory risk similar to peers.

NYSEG currently operates under a three-year MYRP until April 2026. Under its current rate plan NYSEG is authorized levelized rate hike of about \$149 million, \$173 million, and \$213.5 million for 2024 to 2026 respectively (year ending April). NYSEG's electric and gas rates are based on a 9.20% return on equity (ROE), a 48% of equity capital, and overall returns increasing over the three-year rate period based on cost of debt. There are also provisions on sharing earnings above ROE thresholds. We view MYRPs as credit supportive as the provide cash flow stability and predictability.

NYSEG's electric residential customers account for approximately 86% of its electric customer base, providing additional cash flow stability. NYSEG's lack of geographic and regulatory diversity marginally affects its business risk.

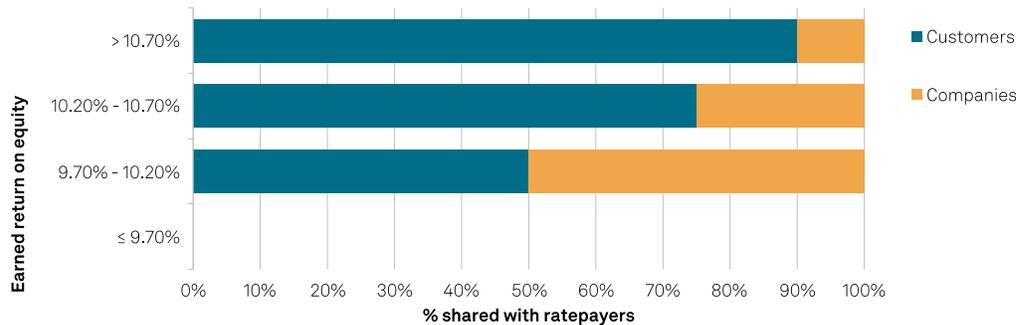
**New York State Electric & Gas Corp.**

**New York State Electric & Gas Corp.--Rate of return**



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**New York State Electric & Gas Corp.--Sharing mechanism**



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## Financial Risk

Over the next three years, we expect levelized rate increases and NYSEG's robust capex to drive financial performance. We forecast consistent negative discretionary cash flow through 2026. We anticipate NYSEG will fund the shortfall with debt and capital contributions from parent Avangrid.

Our base case includes S&P Global Ratings-adjusted FFO to debt of 14%-18% through 2026. We expect financial measures to be pressured due to elevated capex, albeit supported by company's periodic rate increases, which will cause financial measures to have a limited cushion from our 15% FFO to debt downgrade trigger. In addition, we forecast NYSEG can cover annual cash interest payments based on FFO, bolstering our assessment of its financial risk, with coverage of 4.0x-5.0x through 2026. Finally, we forecast leverage, as indicated by adjusted debt to EBITDA, to be at 4.5x-5.5x through 2026.

**New York State Electric & Gas Corp.**

We assess NYSEG's financial measures using our medial volatility financial benchmarks, reflecting the company's lower risk, regulated electric and natural gas utility business and its effective management of regulatory risk. These benchmarks are more relaxed than the benchmarks we use for typical corporate issuers.

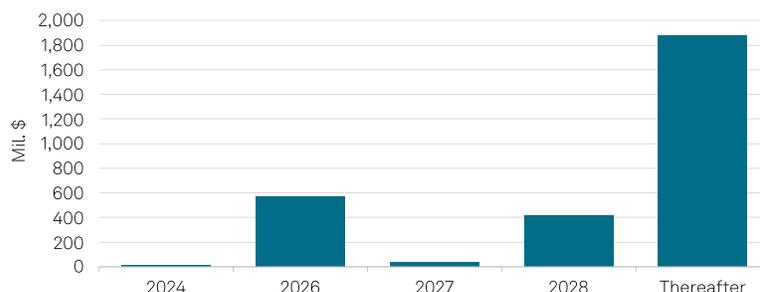
**Debt maturities**

As of Dec. 31, 2023:

- 2024: \$10 million
- 2025: 0
- 2026: \$565 million
- 2027: \$34 million
- 2028: \$417 million
- Thereafter: \$1877 million

**New York State Electric & Gas Corp.--Debt maturity**

As of Dec. 31, 2023



Source: Company filings

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**New York State Electric & Gas Corp.--Financial Summary**

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	\$	\$	\$	\$	\$	\$
Revenues	1,694	1,548	1,564	1,804	2,221	2,197
EBITDA	382	339	354	375	401	490
Funds from operations (FFO)	320	285	334	355	347	417
Interest expense	71	80	75	64	73	105
Cash interest paid	41	44	55	56	67	90
Operating cash flow (OCF)	408	272	245	392	48	49
Capital expenditure	522	587	685	790	674	822
Free operating cash flow (FOCF)	(114)	(315)	(440)	(398)	(626)	(773)

**New York State Electric & Gas Corp.**

**New York State Electric & Gas Corp.--Financial Summary**

Discretionary cash flow (DCF)	(114)	(415)	(540)	(668)	(801)	(973)
Cash and short-term investments	5	0	0	0	0	6
Gross available cash	5	0	0	0	0	6
Debt	1,481	1,827	1,952	2,260	2,464	3,057
Common equity	1,454	1,472	1,901	1,971	2,429	2,841
<b>Adjusted ratios</b>						
EBITDA margin (%)	22.5	21.9	22.6	20.8	18.1	22.3
Return on capital (%)	8.9	6.2	6.3	5.5	5.3	5.6
EBITDA interest coverage (x)	5.4	4.2	4.7	5.8	5.5	4.7
FFO cash interest coverage (x)	8.9	7.4	7.0	7.3	6.2	5.6
Debt/EBITDA (x)	3.9	5.4	5.5	6.0	6.1	6.2
FFO/debt (%)	21.6	15.6	17.1	15.7	14.1	13.7
OCF/debt (%)	27.6	14.9	12.6	17.4	2.0	1.6
FOCF/debt (%)	(7.7)	(17.3)	(22.5)	(17.6)	(25.4)	(25.3)
DCF/debt (%)	(7.7)	(22.7)	(27.7)	(29.5)	(32.5)	(31.8)

**Reconciliation Of New York State Electric & Gas Corp. Reported Amounts With S&P Global Adjusted Amounts (Mil. \$)**

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2023									
Company reported amounts	2,968	2,841	2,197	488	279	87	490	65	200	839
Cash taxes paid	-	-	-	-	-	-	17	-	-	-
Cash interest paid	-	-	-	-	-	-	(73)	-	-	-
Lease liabilities	11	-	-	-	-	-	-	-	-	-
Operating leases	-	-	-	1	0	0	(0)	1	-	-
Postretirement benefit obligations/deferred compensation	95	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(6)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	17	(17)	(17)	-	(17)
Asset-retirement obligations	9	-	-	1	1	1	-	-	-	-
Nonoperating income (expense)	-	-	-	-	21	-	-	-	-	-
Debt: Debt serviced by third parties	(19)	-	-	-	-	-	-	-	-	-

**New York State Electric & Gas Corp.**

**Reconciliation Of New York State Electric & Gas Corp. Reported Amounts With S&P Global Adjusted Amounts (Mil. \$)**

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Total adjustments	89	-	-	2	22	18	(73)	(16)	-	(17)
S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	3,057	2,841	2,197	490	302	105	417	49	200	822

## Liquidity

As of June 2024, we assess NYSEG's liquidity as adequate, with sources covering uses by 1.1x over the coming 12 months and expect that its sources will cover uses even if forecasted consolidated EBITDA declines 10%. We believe the predictable regulatory framework for NYSEG provides a manageable level of cash flow stability for the company even in times of economic stress, supporting our use of slightly lower thresholds to assess liquidity.

In addition, NYSEG, can absorb high-impact, low-probability events, reflecting that the company's approximately \$700 million of committed credit facilities through November 2026. Additionally, we believe the company can lower its high capital spending during stressful periods. Furthermore, our assessment reflects the company's generally prudent risk management and satisfactory relationships with its banking group.

Overall, we believe the company can withstand adverse market circumstances over the next 12 months with sufficient liquidity to meet its obligations. We expect the company to proactively address its debt maturities well in advance of their scheduled due dates.

### Principal liquidity sources

- Cash FFO of about \$615 million;
- Credit facility availability of about \$700 million; and
- Cash and liquid investments of about \$530 million.

### Principal liquidity uses

- Capital spending about \$1.1 billion.

## Environmental, Social, And Governance

ESG factors have no material influence on our credit rating analysis of New York State & Electric & Gas Corp.

## Group Influence

We view NYSEG as core to Avangrid because we think it is integral to the company's identity, is highly unlikely to be sold, and has a strong commitment from management given Avangrid's emphasis on maintaining the size and scope of its regulated utility operations.

**New York State Electric & Gas Corp.**

We rate NYSEG one notch higher than our 'bbb+' group credit profile because of the strength of its SACP and the cumulative value of the structural and regulatory protections in place that insulate it from its parent. These key insulating measures include:

- NYSEG is a separate stand-alone legal entity that functions independently, both financially and operationally; files its own rate cases; and is independently regulated by the NYPSC.
- NYSEG has its own records and books, including stand-alone audited financial statements.
- NYSEG has its own funding arrangements, issues its own long-term debt, and has a separate committed credit facility for its short-term funding needs.
- NYSEG does not commingle funds, assets, or cash flows with parent Avangrid or its other subsidiaries.
- The company does not have any cross-default obligations and a default by parent Avangrid, or its other subsidiaries would not directly lead to a default at NYSEG.
- The vote of an independent board of directors at a special-purpose entity (SPE) that owns NYSEG's equity is required to file NYSEG into voluntary bankruptcy.
- A golden share's vote is required to file the SPE into bankruptcy.
- There is a strong economic basis for parent Avangrid to maintain the financial strength of NYSEG because its utility strategy is aligned with the overall strategy of its parent.
- Restrictions on dividend distributions, such as maintaining equity to capital of 48%.
- A nonconsolidation opinion.

## Issue Ratings--Subordination Risk Analysis

### Analytical conclusions

We rate NYSEG's unsecured debt the same as the issuer credit rating because it is unsecured debt of a qualifying investment-grade regulated utility.

**New York State Electric & Gas Corp.**

**Rating Component Scores**

<b>Foreign currency issuer credit rating</b>	<b>A-/Stable/A-2</b>
<b>Local currency issuer credit rating</b>	<b>A-/Stable/A-2</b>
<b>Business risk</b>	<b>Excellent</b>
Country risk	Very Low
Industry risk	Very Low
Competitive position	Strong
<b>Financial risk</b>	<b>Significant</b>
Cash flow/leverage	Significant
<b>Anchor</b>	<b>a-</b>
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Positive (no impact)
Comparable rating analysis	Neutral (no impact)
<b>Stand-alone credit profile</b>	<b>a-</b>

## Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- ARCHIVE | Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- ARCHIVE | Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

**New York State Electric & Gas Corp.**

**Ratings Detail (as of September 12, 2024)\***

**New York State Electric & Gas Corp.**

Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured	A-

**Issuer Credit Ratings History**

22-Apr-2016	<i>Foreign Currency</i>	A-/Stable/A-2
01-May-2014		BBB+/Positive/A-2
29-Apr-2013		BBB+/Stable/A-2
22-Apr-2016	<i>Local Currency</i>	A-/Stable/A-2
01-May-2014		BBB+/Positive/A-2
29-Apr-2013		BBB+/Stable/A-2

**Related Entities**

**Avangrid Inc.**

Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Senior Unsecured	BBB

**Berkshire Gas Co.**

Issuer Credit Rating	BBB+/Stable/--
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**Central Maine Power Co.**

Issuer Credit Rating	A/Stable/A-1
Senior Unsecured	A

**Connecticut Natural Gas Corp.**

Issuer Credit Rating	A/Negative/--
Senior Unsecured	A

**Iberdrola S.A.**

Issuer Credit Rating	BBB+/Stable/A-2
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**Rochester Gas & Electric Corp.**

Issuer Credit Rating	A-/Stable/--
Senior Secured	A

**Scottish Power Energy Management Ltd.**

Issuer Credit Rating	BBB+/Stable/A-2
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**Scottish Power Energy Networks Holdings Ltd.**

Issuer Credit Rating	BBB+/Stable/A-2
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**Scottish Power Energy Retail Ltd.**

Issuer Credit Rating	BBB+/Stable/A-2
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**Scottish Power Investments Ltd.**

Issuer Credit Rating	BBB+/Stable/A-2
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**Scottish Power Ltd.**

Issuer Credit Rating	BBB+/Stable/A-2
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**Scottish Power U.K. Holdings Ltd.**

**New York State Electric & Gas Corp.**

**Ratings Detail (as of September 12, 2024)\***

Issuer Credit Rating	BBB+/Stable/A-2
<b>Scottish Power U.K. PLC</b>	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
<b>Southern Connecticut Gas Co.</b>	
Issuer Credit Rating	A-/Developing/NR
Senior Secured	A
<b>SP Distribution PLC</b>	
Issuer Credit Rating	BBB+/Stable/A-2
<b>SP Manweb PLC</b>	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
<b>SP Transmission PLC</b>	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
<b>United Illuminating Co. (The)</b>	
Issuer Credit Rating	A-/Negative/--

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

**New York State Electric & Gas Corp.**

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## CREDIT OPINION

14 January 2025

Update



Send Your Feedback

### RATINGS

#### New York State Electric and Gas Corporation

Domicile	New York, United States
Long Term Rating	Baa1
Type	LT Issuer Rating
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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# New York State Electric and Gas Corporation

Update to credit analysis

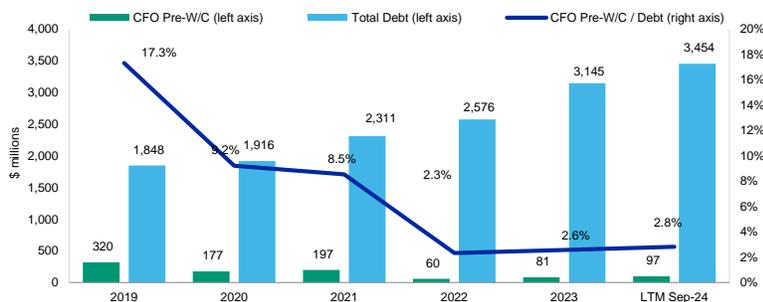
## Summary

New York State Electric and Gas Corporation's (NYSEG, Baa1 stable) credit profile reflects: 1) its low business risk transmission and distribution (T&D) operations, 2) a transparent regulatory framework with supportive cost recovery provisions and 3) improving regulatory support in New York.

NYSEG's credit is constrained by extremely weak financial metrics, which continued in 2024 due to increased storm costs and uncollectables from customers, among other items; however, we expect metrics to improve given the company's October 2023 rate case outcome and our upward adjustment for energy efficiency. If progress toward this end does not begin to materialize over the next several months, a negative ratings outlook could follow.

There is also uncertainty related to the future of its natural gas business (about 18% of its rate base) and associated depreciation recovery as New York pursues a path toward reducing economy wide greenhouse gas emissions.

Exhibit 1  
Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.  
Periods are fiscal year-end unless indicated. LTM = Last 12 months.  
Source: Moody's Financial Metrics™

## Credit strengths

- » Low business risk transmission and distribution utility assets
- » Improving regulatory support
- » Multi-year rate plans provide timely recovery of capital costs

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### Credit challenges

- » Extremely weak financial metrics that we expect to improve over the next 12-18 months
- » Uncertainty surrounding New York energy policy and path toward decarbonization
- » Sprawling service territory makes the company susceptible to storm damage

### Rating outlook

NYSEG's stable outlook reflects improvements in the regulatory support for utility cost recovery and our expectation that its ratio of CFO pre-WC to debt will improve to at least 14% in the next 12-18 months and be sustained above that level thereafter.

If progress toward financial improvement does not begin to materialize over the next several months, a negative ratings outlook could follow.

### Factors that could lead to upgrade

- » Additional material improvement in the credit supportiveness of NYSEG's political and regulatory framework
- » Stronger financial metrics, such that its CFO pre-WC to debt ratio is 18% or higher on a sustained basis

### Factors that could lead to downgrade

- » Inadequate revenue improvement from the recently approved rate case, such that CFO pre-WC to debt remains below 14%
- » Degradation in relationship between the company and New York politicians or regulators

### Key indicators

Exhibit 2

#### New York State Electric and Gas Corporation

	2019	2020	2021	2022	2023	LTM Sep-24
CFO Pre-W/C + Interest / Interest	4.7x	3.2x	4.0x	1.8x	1.8x	1.8x
CFO Pre-W/C / Debt	17.3%	9.2%	8.5%	2.3%	2.6%	2.8%
CFO Pre-W/C – Dividends / Debt	11.9%	4.0%	-3.2%	-4.5%	-3.8%	2.8%
Debt / Capitalization	47.9%	43.5%	46.8%	44.7%	46.1%	44.0%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Periods are fiscal year-end unless indicated. LTM = Last 12 months.

Source: Moody's Financial Metrics™

### Profile

New York State Electric & Gas (NYSEG) is the largest regulated electric and gas distribution utility subsidiary of Avangrid Networks Inc. (Networks), a direct subsidiary of Avangrid Inc. (Baa2 stable). NYSEG's 2023 rate base is about \$4.5 billion (nearly 82% electric and about 18% gas), or about 32% of Networks' total \$14.1 billion rate base at December 2023. The company's operations are regulated by the New York Public Service Commission (NYPSC) and the Federal Energy Regulatory Commission.

Avangrid is a privately held diversified utility holding company with regulated operations accounting for about 85% of operating cash flow. Avangrid's sole owner is Iberdrola S.A. (Baa1 stable), a global diversified energy company primarily operating in Spain, the United Kingdom, the United States, Mexico and Brazil.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

## Detailed credit considerations

### Improving regulatory support and a strong suite of cost recovery provisions

A significant aspect of NYSEG's credit support is derived from the transparency of the NYPSC regulatory framework, which includes a suite of cost recovery mechanisms that allow the company to recover various costs on a timely basis. The most important features include a forward-looking test year (for most expenses and all planned capital expenditures), full recovery of purchased electric and natural gas costs and electric and gas revenue decoupling mechanisms (RDMS) for the majority of customers. Utilities within the state have often operated under multiyear rate plans, which allow recovery of projected capital and operating costs commensurate with the spend.

These features provide quick cost recovery that help to recover capital on timely basis and stabilizes gross margin regardless of the volume sold to customers. This is an important feature, since they are needed to help keep the company's financial profile intact as the state and industry transitions to a more efficient and distributed network.

Recent rate orders in the state have also improved cash collections for key regulatory accounts, such as storm cost recovery. These provisions indicate that stakeholder relationships are on a positive trajectory, with increased political support, more predictable regulatory outcomes and better cost recovery. Continuation of this trend will be important as state utilities seek to improve and transform their service offerings amid the state's climate agenda goals.

In August 2024, the state also enacted a law to allow for storm cost securitization in the state - a significant credit positive for utilities. We view the use of specific large cost securitizations (e.g., storm cost recovery, deferred fuel balances and others) as credit positive for utilities because it enables them to receive an upfront payment associated with the future recovery of extraordinary costs and investments, while lessening the impact of cost recovery on customer bills.

### Weak, declining financial metrics expected to improve dramatically

On 12 October 2023, the NYPSC approved a three-year rate plan, which allows levelized rate increases for NYSEG and its affiliate Rochester Gas & Electric (RG&E, Baa1 stable) totaling approximately \$770 million through 30 April 2026. The rates were premised off a 48% equity capitalization and 9.20% allowed ROE (earnings sharing begins above 9.70%), which is higher than the 8.80% allowed ROE in the companies' previous rate plan from 2020. The new rates represent a compounded incremental increase, over current rates, of about 14% and 10% for NYSEG's electric and gas businesses, respectively, by the end of the plan.

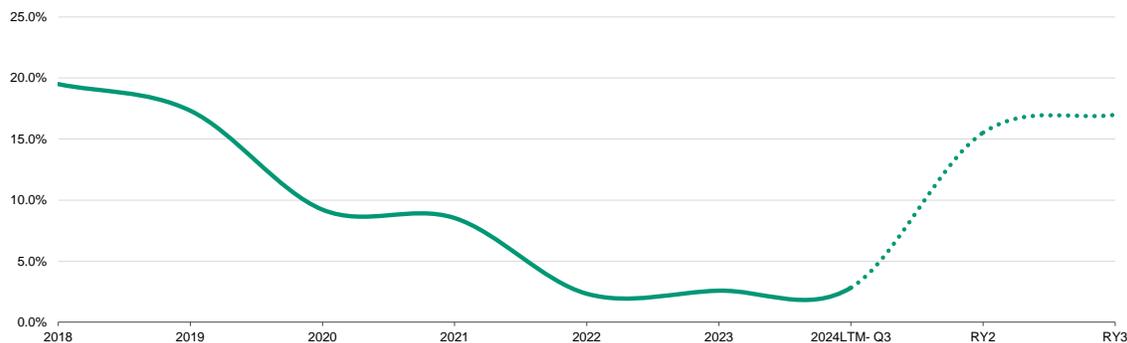
The NYPSC rate order will help NYSEG obtain much-needed cash recovery of historical costs that have mounted since the COVID-19 pandemic. Current financial metrics are extremely weak, but we expect that revenue increases from the three-year rate plan will result in year-over-year improvement in cash flow to debt ratios, which will increase to at least 14% in the next 12-18 months and be sustained above that level thereafter. If progress toward financial improvement does not begin to materialize over the next several months, a negative ratings outlook could follow.

The exhibit below shows the expected trend, historical versus what the rate plan should yield on a rate year (RY) basis, which is not on a calendar year basis. NYSEG's new rates became effective in November 2023.

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Exhibit 3  
NYSEG's CFO pre-WC to debt ratio is set to improve due to its 3-year rate plan



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are fiscal year-end unless indicated. LTM = Last 12 months. Moody's forecasts are Moody's opinion and do not represent the views of the issuer. Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

Importantly, NYSEG's adjusted cash flow to debt ratios will also benefit from certain NYPSC policies for approved energy efficiency expenditures that are reported as operating expenses under US GAAP. In New York, the NYPSC has authorized utilities to accumulate, amortize, and earn a return on certain energy efficiency expenditures, and treat them as rate based assets and investments. Therefore, we adjust our financial ratios to reflect these expenditures as capital investments, rather than as reductions to CFO. The magnitude of these expenditures is increasing, so reallocating energy efficiency spending from cash flow from operations to cash flow from investing activities will become more material to financial ratios going forward.

Lastly, once the storm cost securitization has been authorized, NYSEG will likely issue around \$710 million of Recovery Bonds through a special purpose entity (SPE) that we consider to be off-credit for the utility. Since the legal structure defines the SPE as the obligor for the Recovery Bonds, NYSEG only acts only as a collection conduit for debt repayment by way of a dedicated, multi-year, non-bypassable charge on customer bills, which then gets remitted to the SPE.

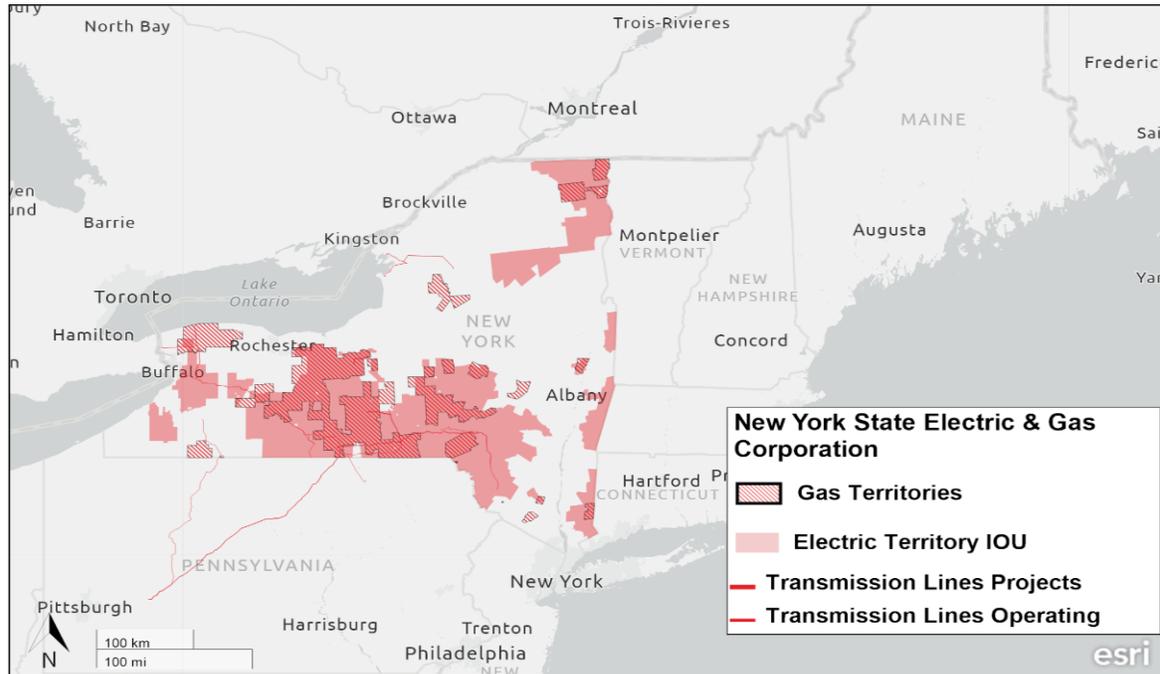
This will also have a positive impact on NYSEG's adjusted financial metrics; for example, removing roughly \$710 million from NYSEG's LTM Q3 2024 debt balance would result in about 70 basis points of metric improvement to the company's CFO pre-WC to debt ratio.

**Longer-term challenges face NYSEG's gas business, but electric business should benefit**

Despite the transparent and formulaic nature of New York's regulatory practices, and improved regulatory support, the state continues to design policy around reaching net zero emissions by 2050, which was outlined in 2019 legislation (i.e., Climate Leadership and Community Protection Act, CLCPA) and given further definition in the state's Climate Action Council's (CAC) latest Scoping Plan, released in December 2022. The joint proposal also supports \$634 million of capital investment beyond the three-year rate plan for CLCPA Phase 1.

New York is seeking to reduce economy wide greenhouse gas (GHG) emissions by 40% by 2030 and 85% by 2050 from 1990 levels, which will require a substantial reduction of fossil natural gas use and a strategic downsizing of the gas system. These goals threaten the long-term viability of affiliate utility RG&E's gas business, which stands to be more materially negatively impacted than NYSEG, since RG&E has a relatively larger gas business and its combined service territory does not have as high a degree of overlap.

Exhibit 4  
NYSEG's Service Territory has a high amount of overlap between electric and gas operations



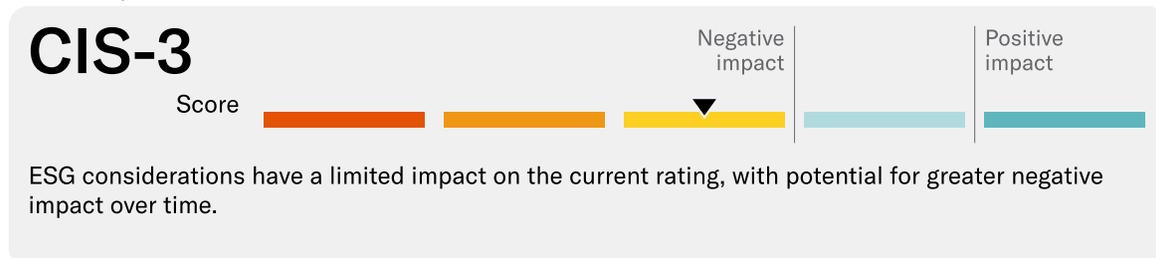
Source: S&P Global Market Intelligence

As New York's decades-long effort continues, we expect ongoing modifications and rulemaking to ensue, as all stakeholders navigate the complex energy transition. The efforts to transform the state's energy economy will also include attention toward customer affordability and system reliability, which could necessitate a change to the pace of the energy transition. This will also provide some time for the NYPSC to respond with regulatory changes to support the necessary investments, while maintaining utility financial health (e.g., accelerated depreciation of assets where useful lives have been cut by phase-out of fossil fuels).

### ESG considerations

New York State Electric and Gas Corporation's ESG credit impact score is CIS-3

Exhibit 5  
ESG credit impact score



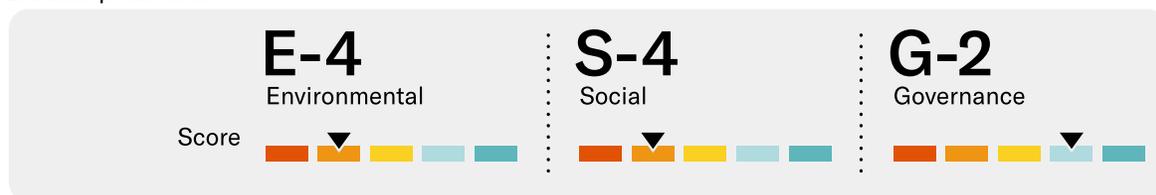
Source: Moody's Ratings

Moody's Ratings

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NYSEG's **CIS-3** credit impact score indicates that ESG considerations have a limited impact on the current credit rating with greater potential for future negative impact over time. Physical climate risks such as storms and increased exposure demographic and social trends, including a less supportive regulatory environment and customer affordability concerns, could weaken credit quality over the long-term.

Exhibit 6  
ESG issuer profile scores



Source: Moody's Ratings

**Environmental**

NYSEG's **E-4** issuer profile score is driven by its geographical concentration in New York, which exposes the company to material and extreme weather events. This is somewhat counterbalanced by the company's asset profile as a regulated electric and gas transmission and distribution utility.

**Social**

NYSEG's **S-4** issuer profile score reflects New York's demographic and societal trends to reduce GHG emissions, which increases the risks for the company's gas distribution operations. The score also considers the fundamental utility risk that demographics and societal trends could include social pressures or public concern around affordability, utility reputational or environmental concerns. In turn, these pressures could result in adverse political intervention into utility operations or regulatory changes.

**Governance**

NYSEG's **G-2** issuer profile score is directed by that of its parent, Avangrid, which in turn is influenced by the governance of the group's ultimate owner, Iberdrola SA (**G-2**). Iberdrola's governance reflects risks related to its organizational structure, given some structural subordination and some presence of minorities in its subsidiaries, predominantly in the US and Brazil. However, these risks are moderated by neutral to low risks on financial strategy and risk management, management credibility and track record, compliance and reporting, and board structure policies and procedures.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

**Liquidity analysis**

NYSEG's internal liquidity consists of cash flow from operations, which we expect to be in the \$600 million range over the next 12 months, compared to around \$1.0 billion of capital expenditures, resulting in about \$400 million of negative free cash flow before any upstreamed dividends to Avangrid. We expect NYSEG's dividend policy to be driven by maintaining its regulatory allowed capital structure, which could mean that the utility pays no dividends, or even that Avangrid infuses equity into the utility to help fund capital needs and balance NYSEG's growing debt.

Avangrid employs a centralized approach to managing its liquidity. To the extent possible given certain regulatory restrictions, Avangrid aims to concentrate its cash at the holding company and primarily conduct its short-term borrowings through Avangrid. The utilities optimize their cash balances through a virtual money pool arrangement. Under the terms of this agreement, utilities may lend to each other but not to their unregulated affiliates or parent. These terms meet a regulatory requirement set at the time of Avangrid's acquisition of the utility companies which prohibits utilities from lending to unregulated affiliates, including Avangrid. To the extent that additional liquidity is required, NYSEG borrows under a bilateral loan agreement with Avangrid.

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**Infrastructure and Project Finance**

From an external liquidity standpoint, Avangrid and its regulated utility subsidiaries, including NYSEG, are parties to a \$3.575 billion revolving credit facility that expires in November 2026. NYSEG's minimum sublimit under the facility is \$500 million. We view management's efforts to formalize a minimum sublimit as helpful in providing visibility into what amounts of the shared facility are dependably allocated to the utility. Given Avangrid's centralized liquidity management philosophy and the virtual money pool of its utilities, we view the bank facility as effectively serving as a committed lender of last resort.

The bank credit facility does not include an ongoing material adverse change clause and the only financial covenant is a maximum allowed debt to capitalization ratio of 65%. We understand that, as of 30 September 2024, each company was in compliance with this covenant.

NYSEG's next long term debt maturity is \$65 million of pollution control revenue bonds due in July 2026 and \$500 million of senior unsecured global notes due in December 2026.

**Iberdrola also provides incremental liquidity to Avangrid**

Aside from cash balances and utility dividends, Avangrid has access to both \$2.5 billion of the aforementioned shared \$3.575 billion facility. At 30 September 2024, there was \$1,928 million of commercial paper outstanding, backstopped by the facility.

Avangrid is also party to a notional cash pooling arrangement along with other Iberdrola subsidiaries. Parties to the agreement, including Avangrid, may deposit funds with or borrow from the pool, provided that the net balance of funds deposited or borrowed by all pool participants in the aggregate is not less than zero. This agreement provides Avangrid with a third avenue for liquidity, supplementing its access to the debt and equity capital markets.

Lastly, Avangrid also has a \$750 million credit facility with Iberdrola Financiacion, S.A.U., a company of the Iberdrola Group, which expires in June 2028.

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**Rating methodology and scorecard factors**

NYSEG is scored under the low business risk Regulated Electric and Gas Utilities methodology grid.

Exhibit 7

**Rating factors**

New York State Electric and Gas Corporation

Regulated Electric and Gas Utilities Industry [1][2]	Current LTM 9/30/2024		Moody's 12-18 Month Forward View [3]	
	Measure	Score	Measure	Score
<b>Factor 1 : Regulatory Framework (25%)</b>				
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
<b>Factor 2 : Ability to Recover Costs and Earn Returns (25%)</b>				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
<b>Factor 3 : Diversification (10%)</b>				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
<b>Factor 4 : Financial Strength (40%)</b>				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	1.5x	B	3x - 5x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	1.7%	B	13% - 15%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	-3.7%	B	10% - 12%	Baa
d) Debt / Capitalization (3 Year Avg)	43.9%	A	45% - 50%	A
<b>Rating:</b>				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa2		Baa1
HoldCo Structural Subordination Notching		0		0
a) Scorecard-Indicated Outcome		Baa2		Baa1
b) Actual Rating Assigned		Baa1		Baa1

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. LTM = Last 12 months.  
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.  
Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

Moody's Ratings

Infrastructure and Project Finance

## Appendix

Exhibit 8

Illustrative: Adjustments for NYPSC-approved Energy Efficiency (EE) expenditures improves NYSEG's ratios

NYSEG	2024		2025	
CFO pre-WC before EE adjustment	\$	480	\$	560
NYPSC approved EE spending	\$	55	\$	68
CFO pre-WC after EE adjustment	\$	535	\$	628
Debt	\$	3,500	\$	3,700
CFO pre-WC to debt (pre-EE adj.)		13.7%		15.1%
CFO pre-WC to debt (post-EE adj.)		15.3%		17.0%

Periods are fiscal year-end unless indicated.

Source: NYPSC Case 18-M-0084 and Moody's Ratings forecasts

Exhibit 9

### Peer comparison

#### New York State Electric and Gas Corporation

(In \$ millions)	New York State Electric and Gas Corporation Baa1 Stable			Consolidated Edison Company of New York, Inc. A3 Stable			Central Hudson Gas & Electric Corporation Baa1 Stable			Orange and Rockland Utilities, Inc. Baa2 Positive		
	FY	FY	LTM	FY	FY	LTM	FY	FY	LTM	FY	FY	LTM
	Dec-22	Dec-23	Sep-24	Dec-22	Dec-23	Sep-24	Dec-22	Dec-23	Sep-24	Dec-22	Dec-23	Sep-24
Revenue	2,221	2,197	2,405	13,268	13,476	13,918	1,018	1,008	976	1,085	1,061	1,115
CFO Pre-W/C	60	81	97	3,145	2,930	3,692	112	112	154	206	214	205
Total Debt	2,576	3,145	3,454	22,246	23,822	24,981	1,223	1,289	1,378	1,130	1,173	1,300
CFO Pre-W/C + Interest / Interest	1.8x	1.8x	1.8x	4.7x	4.0x	4.3x	3.6x	3.1x	3.7x	5.0x	4.9x	4.3x
CFO Pre-W/C / Debt	2.3%	2.6%	2.8%	14.1%	12.3%	14.8%	9.1%	8.7%	11.2%	18.2%	18.2%	15.8%
CFO Pre-W/C - Dividends / Debt	-4.5%	-3.8%	2.8%	9.7%	7.9%	10.5%	9.1%	8.7%	11.2%	13.2%	12.8%	10.6%
Debt / Capitalization	44.7%	46.1%	44.0%	48.1%	46.8%	46.6%	47.2%	45.9%	46.8%	46.5%	44.3%	45.0%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Moody's Ratings

Infrastructure and Project Finance

Exhibit 10

Moody's-adjusted cash flow metrics  
New York State Electric and Gas Corporation

(In \$ millions)	2019	2020	2021	2022	2023	LTM Sep-24
FFO	267.2	299.6	320.0	355.9	372.4	562.7
+/- Other	53.0	(123.0)	(122.8)	(295.9)	(291.4)	(465.3)
<b>CFO Pre-WC</b>	<b>320.2</b>	<b>176.6</b>	<b>197.2</b>	<b>59.9</b>	<b>81.0</b>	<b>97.4</b>
+/- ΔWC	(48.0)	68.6	195.2	(11.5)	(31.9)	(130.1)
<b>CFO</b>	<b>272.2</b>	<b>245.2</b>	<b>392.4</b>	<b>48.4</b>	<b>49.1</b>	<b>(32.6)</b>
- Div	100.0	100.0	270.0	175.0	200.0	0.0
- Capex	610.7	688.5	791.7	678.7	823.4	925.2
<b>FCF</b>	<b>(438.5)</b>	<b>(543.3)</b>	<b>(669.3)</b>	<b>(805.3)</b>	<b>(974.3)</b>	<b>(957.9)</b>
(CFO Pre-W/C) / Debt	17.3%	9.2%	8.5%	2.3%	2.6%	2.8%
(CFO Pre-W/C - Dividends) / Debt	11.9%	4.0%	-3.2%	-4.5%	-3.8%	2.8%
FFO / Debt	14.5%	15.6%	13.8%	13.8%	11.8%	16.3%
RCF / Debt	9.0%	10.4%	2.2%	7.0%	5.5%	16.3%
Revenue	1,548.4	1,564.2	1,804.5	2,220.8	2,196.9	2,404.7
Interest Expense	86.0	78.9	66.7	74.8	105.5	124.5
Net Income	82.1	144.9	158.5	157.7	183.5	294.5
Total Assets	5,926.3	6,451.5	6,961.4	7,857.9	8,711.8	9,594.5
Total Liabilities	4,471.1	4,556.5	4,997.3	5,437.6	5,884.1	6,150.2
Total Equity	1,455.2	1,895.0	1,964.1	2,420.3	2,827.7	3,444.3

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Periods are fiscal year-end unless indicated. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Ratings

Exhibit 11

Category	Moody's Rating
<b>NEW YORK STATE ELECTRIC AND GAS CORPORATION</b>	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
<b>ULT PARENT: IBERDROLA S.A.</b>	
Outlook	Stable
Issuer Rating	Baa1
ST Issuer Rating	P-2
<b>PARENT: AVANGRID, INC.</b>	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Commercial Paper	P-2

Source: Moody's Ratings

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Moody's Ratings

Infrastructure and Project Finance

REPORT NUMBER 1421165

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# New York State Electric & Gas Corporation

The Issuer-Default Rating (IDR) of New York State Electric & Gas Corporation (NYSEG; BBB+/Negative) reflects the strength of the company's regulated electric transmission and distribution (T&D) and natural gas distribution utility operations in New York, which generate relatively stable earnings and cash flow.

The Negative Outlook reflects persistently weak funds from operations (FFO) leverage that Fitch Ratings expects will average 5.3x through 2025 to 2026. NYSEG has a plan to improve its financial position that includes timely recovery on capital investments, underfunded storm restoration, payment in arrears and other operating expenses through the use of various regulatory mechanisms. The Negative Outlook also reflects the regulatory risks associated with this plan. Unsuccessful execution of this plan to achieve FFO leverage below 5.0x on a sustained basis will likely lead to a downgrade.

## Key Rating Drivers

**Weak Financial Metrics:** NYSEG's financials have been weak, with FFO leverage of 5.7x in 2022 and 7.3x in 2023. While the last approved multi-year rate plan provides relief to credit metrics, it is offset by a large capital expenditure (capex) plan. Fitch projects NYSEG's FFO leverage to remain high in 2024 to 2026, with the 2024 level similar to 2023's and about 5.3x in 2025 and 2026; assuming NYSEG successfully securitizes its regulatory asset associated with unfunded storm costs.

To further deleverage, the company is also pursuing additional measures to ensure the timely recovery of expenses, including establishing a recovery mechanism for major storm costs, recovery for Climate Leadership and Community Protection Act (CLCPA) Phase 1 while project is under construction, securitizing arrears and implementing a special recovery mechanism for make-ready infrastructure spending, which could take multi-years to implement. The absence of a clear regulatory path to reduce leverage below Fitch's negative sensitivity of 5.0x could result in a downgrade.

**Large Capex Plan:** NYSEG has a large capex plan to execute that is about \$600 million more than Fitch previously forecast. The increase in capital spending is largely related to investments in Phase I of the CLCPA. The additional capital spending will pressure credit metrics while these assets are under construction.

**Challenging Regulatory Environment but Signs of Improvement:** Fitch believes the regulatory environment in New York has improved in the current administration, but is still somewhat challenging. The returns on equity (ROEs) authorized by the New York Public Service Commission (NYPSC) are among the lowest in the U.S., and New York has a history of political involvement in the regulatory process. However, ratemaking features such as revenue decoupling, a commodity pass-through mechanism and the use of a forward-looking test year are credit supportive.

Additionally, the recently passed Bill S9339A, which allows the use of securitization to recover excess storm costs, is beneficial. Discussions between NYSEG and the NYPSC to reduce regulatory lag and allow timely recovery of capital investments and storm expenses are ongoing. A constructive outcome could lead to the strengthening of NYSEG's financial profile.

**Corporates**  
Electric-Corporate  
**United States**

## Ratings

Long-Term IDR	BBB+
Senior Unsecured Debt - Long-Term Rating	A-
<b>Outlook</b>	
Long-Term Foreign-Currency IDR	Negative

[Click here for the full list of ratings](#)

## ESG and Climate

Highest ESG Relevance Scores	
Environmental	3
Social	3
Governance	3

2035 Climate Vulnerability Signal: 30

## Applicable Criteria

- [Corporate Recovery Ratings and Instrument Ratings Criteria \(August 2024\)](#)
- [Sector Navigators – Addendum to the Corporate Rating Criteria \(July 2024\)](#)
- [Corporate Rating Criteria \(November 2023\)](#)
- [Parent and Subsidiary Linkage Rating Criteria \(June 2023\)](#)
- [Corporate Hybrids Treatment and Notching Criteria \(November 2020\)](#)

## Related Research

- [Global Corporates Macro and Sector Forecasts – September 2024 \(September 2024\)](#)
- [North American Utilities Monitor: 2Q24 \(August 2024\)](#)
- [North American Utilities, Power & Gas Dashboard: 2Q24 \(July 2024\)](#)
- [North American Utilities, Power & Gas Outlook 2024 \(December 2023\)](#)

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Corporates  
Electric-Corporate  
United States

**Rate Case Settlement Approved:** Fitch views the recent approval of NYSEG's joint proposal as positive. NYSEG, the NYPSC and other parties entered into a joint settlement agreement for three-year electric and gas rate plans, including annual levelized electric distribution rate increases of \$137.3 million for rate year one, \$160.7 million for rate year two and \$200.6 million for rate year three. NYSEG gas rates increase by \$11.7 million for rate year one, \$12.4 million for year two and \$12.9 million for year three, based on a 9.20% ROE and 48% equity capitalization.

The levelized amounts represent overall returns of 6.40% in rate year one, 6.52% in year two and 6.58% in year three. The agreement also favorably continues revenue decoupling for electric and gas, and institutes rate adjustment mechanisms for items such as storm costs, uncollectible expenses, late payment charges and property taxes, which are likely to prevent large build-ups of deferral balances between rate cases. The rate plan also includes a 50% sharing mechanism if the utilities' earned return exceeds a 9.70% threshold. The approved joint proposal covers the period from May 1, 2023 through April 30, 2026.

**Utility Parent/Subsidiary Linkage:** There is a parent and subsidiary linkage between Avangrid Inc. (AGR; BBB+/Stable) and its rated utility subsidiaries, including NYSEG. Fitch believes the utility subsidiaries have stronger Standalone Credit Profiles (SCP) than AGR. As a result, the linkage between AGR and its utility subsidiaries is assessed following the weak parent/strong subsidiary factors.

Emphasis is placed on the subsidiaries' status as regulated entities. Legal ring fencing is porous, given the general protections afforded by economic regulation, and access and control are also porous. AGR centrally manages the treasury function for all utility subsidiaries and is the sole source of equity; however, each subsidiary issues its own long-term debt. Due to the aforementioned assessment, Fitch will limit the difference between AGR and any of its higher-rated regulated subsidiaries to two notches.

## Financial Summary

(USD Mil.)	2020	2021	2022	2023
Gross revenue	1,564	1,804	2,221	2,197
EBITDA	346	369	395	485
CFO (Fitch-defined)	247	397	55	61
Capital intensity (capex/revenue) (%)	44.3	44.3	30.8	38.2
Debt	1,736	2,166	2,443	2,987
FFO interest coverage (x)	5.2	7.1	5.9	5.3
FFO leverage (x)	4.5	4.8	5.7	7.2
EBITDA leverage (x)	5.0	5.9	6.2	6.2

F - Forecast.  
Source: Fitch Ratings, Fitch Solutions

## Rating Derivation Relative to Peers

NYSEG is weakly positioned at a 'BBB+' rating. The company has relatively low-risk regulated electric transmission and distribution, along with natural gas distribution operations that are similar to those of New York peers Rochester Gas and Electric Corporation (RG&E; BBB+/Stable); Central Hudson Gas & Electric Corp. (CHG&E; BBB/Stable) and Consolidated Edison Company of New York, Inc. (CECONY; BBB+/Stable).

Fitch considers the New York regulatory environment to be somewhat challenging, with below-average authorized ROEs and a history of political interference in the regulatory process. However, the utilities are allowed the use of some beneficial regulatory mechanisms, such as revenue decoupling. NYSEG's scale of operations is similar to RG&E and CHG&E, but materially smaller than CECONY. RG&E's service territory is more rural than NYSEG and CHG&E and the local economy in those three service territories is weaker than CECONY. NYSEG's financial profile is weaker than RG&E and CECONY. Fitch expects NYSEG's FFO leverage in 2024 to remain similar to 2023 levels before improving to 5.3x in 2025 and 2026.

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**Corporates**  
Electric-Corporate  
**United States**

## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Although a rating upgrade on NYSEG is not anticipated over Fitch's outlook horizon, Fitch could upgrade NYSEG's rating if FFO leverage is less than 4.0x on a sustained basis.

### Factors that Could, Individually or Collectively, Lead to an Outlook Revision to Stable

- A visible regulatory path for NYSEG to achieve FFO leverage below 5.0x on a sustained basis;
- Credit supportive regulatory outcomes that lead to timely recovery of capital investments, storm restoration costs and arrears expenses.

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Inability to achieve FFO leverage below 5.0x on a sustained basis;
- An adverse regulatory decision that meaningfully reduces the stability and predictability of earnings and cash flow.

## Liquidity and Debt Structure

**Adequate Liquidity:** Fitch believes NYSEG's liquidity is adequate. NYSEG's liquidity is primarily supported by AGR's \$2 billion commercial paper (CP) program, which is backstopped by a \$3.575 billion revolving credit facility (RCF) that matures on November 22, 2026. The RCF contains a maximum sublimit of \$700 million for NYSEG. There were no RCF borrowings outstanding as of June 30, 2024, leaving \$700 million of availability under NYSEG's RCF sublimit. AGR uses its CP program as a source of funding to provide its regulated utility subsidiaries with loans under a bilateral credit agreement. NYSEG can borrow up to \$500 million under this agreement.

The regulated utilities participate in a virtual money pool, which allows AGR's investment-grade regulated utility subsidiaries to lend to or borrow from each other, enabling AGR to efficiently manage the cash at its regulated utilities. NYSEG has a lending/borrowing limit of \$100 million. NYSEG had \$149.3 million of combined notes payable outstanding under both the virtual money pool and intercompany facility as of June 30, 2024. Long-term debt maturities in the next five years are manageable.

## ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## Climate Vulnerability Considerations

Fitch uses Climate Vulnerability Signals (Climate.VS) as a screening tool to identify sectors and Fitch-rated issuers that are potentially most exposed to credit-relevant climate transition risks and, therefore, require additional consideration of these risks in rating reviews. Climate.VS range from 0 (lowest risk) to 100 (highest risk). For more information on Climate.VS, see Fitch's [Corporate Rating Criteria](#). For more detailed, sector-specific information on how Fitch perceives climate-related transition risks, see [Climate Vulnerability Signals for Non-Financial Corporate Sectors](#).

The 2023 asset-weighted Climate.VS for NYSEG for 2035 is 30, suggesting relatively low exposure for that year. This reflects NYSEG's holdings of electric and gas transmission and distribution operating utilities. For further information on how Fitch perceives climate-related risks in the utilities sector, see our [Utilities – Long-Term Climate Vulnerability Signals Update](#) report.

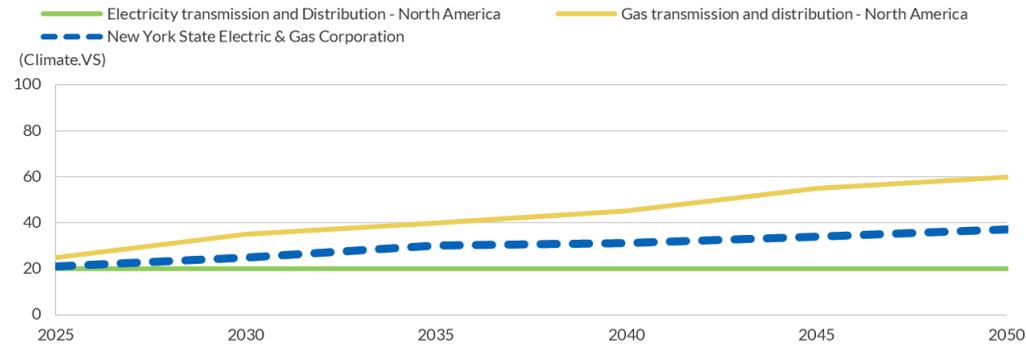
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### Climate.VSEvolution

As of Jan. 09, 2023



Source: Fitch Ratings

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## Liquidity and Debt Maturities

### Cash and Maturities Report

(USD Mil.)	December 31, 2023	June 30, 2024
Total cash and cash equivalents	6	2
Short-term investments	—	—
Less not readily available cash and cash equivalents	—	—
<b>Fitch-defined readily available cash and cash equivalents</b>	<b>6</b>	<b>2</b>
Availability under committed lines of credit	617	551
<b>Total liquidity</b>	<b>623</b>	<b>553</b>
LTM EBITDA after associates and minorities	485	—
LTM FCF	-978	—

Source: Fitch Ratings, Fitch Solutions, NYSEG

### Scheduled Debt Maturities

(USD Mil.)	June 30, 2024
2024	149
2025	—
2026	565
2027	34
2028	417
Thereafter	1,875
<b>Total</b>	<b>3,041</b>

Source: Fitch Ratings, Fitch Solutions, NYSEG

## Key Assumptions

- Storm cost securitization for NY utilities will happen by the end of 2024 as per Fitch's expectation;
- Total capex in line with management assumptions;
- Networks rate base growing at a 7% compound annual growth rate (CAGR) through 2025;
- Normal weather;
- Debt maturities to be refinanced.

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## Financial Data

### New York State Electric & Gas Corporation

(USD Mil.)	2020	2021	2022	2023
<b>Summary income statement</b>				
Gross revenue	1,564	1,804	2,221	2,197
Revenue growth (%)	1.0	15.4	23.1	-1.1
EBITDA before income from associates	346	369	395	485
EBITDA margin (%)	22.1	20.5	17.8	22.1
EBITDA after associates and minorities	346	369	395	485
EBIT	192	199	208	279
EBIT margin (%)	12.2	11.0	9.3	12.7
Gross interest expense	-73	-63	-72	-79
Pretax income including associate income/loss	133	163	173	256
<b>Summary balance sheet</b>				
Readily available cash and equivalents	0	0	0	6
Debt	1,736	2,166	2,443	2,987
Net debt	1,736	2,166	2,443	2,980
<b>Summary cash flow statement</b>				
EBITDA	346	369	395	485
Cash interest paid	-73	-63	-72	-79
Cash tax	35	37	13	17
Dividends received less dividends paid to minorities (inflow/outflow)	—	—	—	—
Other items before FFO	4	42	20	-86
FFO	313	386	365	337
FFO margin (%)	20.0	21.4	16.4	15.3
Change in working capital	-66	12	-310	-275
CFO (Fitch-defined)	247	397	55	61
Total non-operating/nonrecurring cash flow	—	—	—	—
Capex	-693	-799	-685	-839
Capital intensity (capex/revenue) (%)	44.3	44.3	30.8	38.2
Common dividends	-100	-270	-175	-200
FCF	-546	-672	-805	-978
FCF margin (%)	-34.9	-37.2	-36.3	-44.5
Net acquisitions and divestitures	3	2	7	—
Other investing and financing cash flow items	19	58	49	442
Net debt proceeds	125	426	274	542
Net equity proceeds	400	185	475	—
Total change in cash	0	-0	—	6
<b>Calculations for forecast publication</b>				
Capex, dividends, acquisitions and other items before FCF	-790	-1,067	-853	-1,039
FCF after acquisitions and divestitures	-544	-670	-798	-978
FCF margin after net acquisitions (%)	-34.8	-37.1	-35.9	-44.5
<b>Gross Leverage ratios (x)</b>				
EBITDA leverage	5.0	5.9	6.2	6.2
CFO-capex/debt	-25.7	-18.6	-25.8	-26.0
<b>Net Leverage ratios (x)</b>				
EBITDA net leverage	5.0	5.9	6.2	6.1
CFO-capex/net debt	-25.7	-18.6	-25.8	-26.1
<b>Coverage ratios (x)</b>				
EBITDA interest coverage	4.7	5.9	5.5	6.1

CFO - Cash flow from operations.  
Source: Fitch Ratings, Fitch Solutions



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**New York State Electric & Gas Corporation**

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Operating Environment			Management and Corporate Governance				
aa+	Economic Environment	aa	Very strong combination of countries where economic value is created and where assets are located.	a	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
aa	Financial Access	aa	Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.	a-	Governance Structure	a	Experienced board exercising effective check and balances. Ownership can be concentrated among several shareholders.
b-	Systemic Governance	aa	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'aa'.	bbb+	Group Structure	a	Group structure shows some complexity but mitigated by transparent reporting.
ccc+				bbb	Financial Transparency	a	High quality and timely financial reporting.
				bbb-			
Regulatory Environment			Market Position				
a-	Degree of Transparency and Predictability	bbb	Generally transparent and predictable regulation with limited political interference.	a	Market Structure	a	Well-established market structure with complete transparency in price-setting mechanisms.
bbb+	Timeliness of Cost Recovery	a	Minimal lag to recover capital and operating costs.	a-	Consumption Growth Trend	bbb	Customer and usage growth in line with industry averages.
bbb	Trend in Authorized ROEs	bb	Significantly below-average authorized ROE.	bbb+	Customer Mix	bbb	Less diversified customer base.
bbb-	Mechanisms Available to Stabilize Cash Flows	a	Revenues fully insulated from variability in consumption.	bbb	Geographic Location	bbb	Beneficial location or reasonable locational diversity.
bb+	Mechanisms Supportive of Creditworthiness	a	Effective regulatory ring-fencing.	bbb-	Supply Demand Dynamics	bbb	Moderately favorable outlook for prices/rates.
Asset Base and Operations			Commodity Exposure				
a	Diversity of Assets	bbb	Good quality and/or reasonable scale diversified assets.	aa-	Ability to Pass Through Changes in Fuel	a	Complete pass-through of commodity costs.
a-	Operations Reliability and Cost Competitiveness	bbb	Reliability and cost of operations at par with industry averages.	a+	Underlying Supply Mix	n.a.	
bbb+	Exposure to Environmental Regulations	a	No exposure to environmental regulations.	a	Hedging Strategy	n.a.	
bbb	Capital and Technological Intensity of Capex	bbb	Moderate reinvestments requirements in established technologies.	a-			
bbb-				bbb+			
Profitability			Financial Structure				
a	Free Cash Flow	bbb	Structurally neutral to negative FCF across the investment cycle.	a-	EBITDA Leverage	bb	4.75x
a-	Volatility of Profitability	a	Higher stability and predictability of profits relative to utility peers.	bbb+	FFO Leverage	bbb	5.0x
bbb+				bbb			
bbb				bbb-			
bbb-				bb+			
Financial Flexibility			Credit-Relevant ESG Derivation				
a	Financial Discipline	bbb	Less conservative policy, but generally applied consistently.	New York State Electric & Gas Corporation has 9 ESG potential rating drivers			
a-	Liquidity	bbb	One-year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.	key driver	0	issues	5
bbb+	FFO Interest Coverage	a	5.5x	driver	0	issues	4
bbb				potential driver	9	issues	3
bbb-				not a rating driver	4	issues	2
					1	issues	1

**How to Read This Page:** The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

For further details on Credit-Relevant ESG scoring, see page 3.

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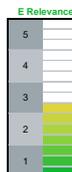
**New York State Electric & Gas Corporation**

**Corporates Ratings Navigator**  
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Credit-Relevant ESG Derivation	ESG Relevance to Credit Rating			
New York State Electric & Gas Corporation has 9 ESG potential rating drivers	key driver	0	issues	5
<ul style="list-style-type: none"> <li>New York State Electric &amp; Gas Corporation has exposure to extreme weather events but this has very low impact on the rating.</li> <li>New York State Electric &amp; Gas Corporation has exposure to access/affordability risk but this has very low impact on the rating.</li> <li>New York State Electric &amp; Gas Corporation has exposure to customer accountability risk but this has very low impact on the rating.</li> <li>New York State Electric &amp; Gas Corporation has exposure to labor relations &amp; practices risk but this has very low impact on the rating.</li> <li>New York State Electric &amp; Gas Corporation has exposure to social resistance but this has very low impact on the rating.</li> <li>Governance is minimally relevant to the rating and is not currently a driver.</li> </ul>	driver	0	issues	4
	potential driver	9	issues	3
		4	issues	2
	not a rating driver	1	issues	1

**Environmental (E) Relevance Scores**

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	2	Emissions from operations	Asset Base and Operations; Commodity Exposure; Regulation; Profitability
Energy Management	2	Fuel use to generate energy and serve load	Asset Base and Operations; Commodity Exposure; Profitability
Water & Wastewater Management	1	Water used by hydro plants or by other generation plants, also effluent management	Asset Base and Operations; Regulation; Profitability
Waste & Hazardous Materials Management; Ecological Impacts	2	Impact of waste from operations	Asset Base and Operations; Regulation; Profitability
Exposure to Environmental Impacts	3	Plants' and networks' exposure to extreme weather	Asset Base and Operations; Regulation; Profitability

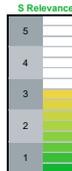


**How to Read This Page**

ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant. The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance. The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact. Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

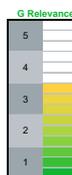
**Social (S) Relevance Scores**

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	3	Product affordability and access	Asset Base and Operations; Regulation; Profitability; Financial Structure
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Regulation; Profitability
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Asset Base and Operations; Profitability
Employee Wellbeing	2	Worker safety and accident prevention	Profitability; Asset Base and Operations
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Asset Base and Operations; Profitability



**Governance (G) Relevance Scores**

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance



CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	In relevant to the entity rating but relevant to the sector.
1	In relevant to the entity rating and irrelevant to the sector.

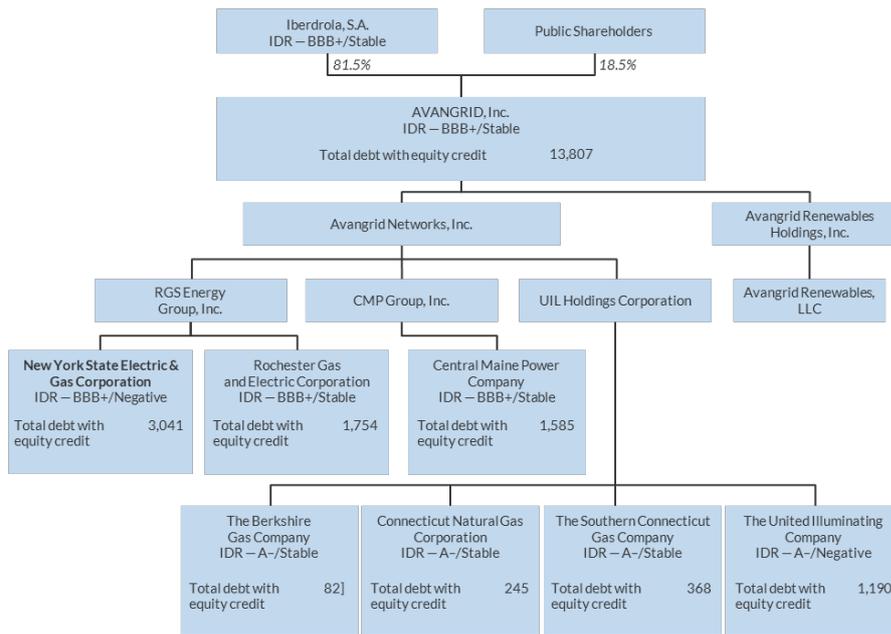
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### Simplified Group Structure Diagram

**Organizational Structure – New York State Electric & Gas Corporation**  
(\$ Mil., as of June 30, 2024)



IDR – Issuer Default Rating  
Source: Fitch Ratings, Fitch Solutions, AVANGRID, Inc.

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## Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	Gross revenue (USD Mil.)	FFO (USD Mil.)	FFO interest coverage (x)	FFO leverage (x)	EBITDA leverage (x)
New York State Electric & Gas Corporation	BBB+						
	BBB+	2023	2,197	337	5.3	7.2	6.2
	BBB+	2022	2,221	365	5.9	5.7	6.2
Central Hudson Gas & Electric Corp.	BBB+	2021	1,804	386	7.1	4.8	5.9
	BBB						
	BBB+	2023	1,008	148	3.8	6.7	6.7
Consolidated Edison Company of New York, Inc.	BBB+	2022	1,018	155	4.8	6.4	6.9
	BBB+	2021	796	173	6.1	5.1	6.0
	BBB+	2023	13,476	3,869	5.2	4.8	5.7
Rochester Gas and Electric Corporation	BBB+	2022	13,268	3,058	5.1	5.6	5.5
	BBB+	2021	11,716	2,802	4.7	5.6	4.8
	BBB+	2023	1,222	267	5.0	5.3	4.9
Rochester Gas and Electric Corporation	BBB+	2022	1,180	317	7.1	4.3	5.3
	BBB+	2021	958	196	4.8	5.8	5.5

Source: Fitch Ratings, Fitch Solutions.

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## Fitch Adjusted Financials

(USD Mil., as of December 31, 2023)	Notes and formulas	Standardised values	Fair value and other debt adjustments	Lease treatment	Other adjustments	Adjusted values
<b>Income statement summary</b>						
Revenue		2,197	—	—	—	2,197
EBITDA	(a)	488	—	-4	—	485
Depreciation and amortization		-209	—	4	-0	-205
EBIT		279	—	-0	0	279
<b>Balance sheet summary</b>						
Debt	(b)	2,968	18	—	—	2,987
Of which other off-balance-sheet debt		—	—	—	—	—
Lease-equivalent debt		—	—	—	—	—
Lease-adjusted debt		2,968	18	—	—	2,987
Readily available cash and equivalents	(c)	6	—	—	—	6
Not readily available cash and equivalents		—	—	—	—	—
<b>Cash flow summary</b>						
EBITDA	(a)	488	—	-4	—	485
Dividends received from associates less dividends paid to minorities	(d)	—	—	—	—	—
Interest paid	(e)	-73	—	0	-6	-79
Interest received	(f)	—	—	—	—	—
Preferred dividends paid	(g)	—	—	—	—	—
Cash tax paid		17	—	—	—	17
Other items before FFO		-93	—	—	6	-86
FFO	(h)	340	—	-4	0	337
Change in working capital		-275	—	—	—	-275
CFO	(i)	65	—	-4	—	61
Non-operating/nonrecurring cash flow		—	—	—	—	—
Capex	(j)	-839	—	—	—	-839
Common dividends paid		-200	—	—	—	-200
FCF		-974	—	-4	-0	-978
<b>Gross leverage (x)</b>						
FFO leverage	b/(h-e-f-g)	7.2	—	—	—	7.2
(CFO-capex)/debt (%)	(i+j)/b	-25.9	—	—	—	-26.0
<b>Net leverage (x)</b>						
FFO net leverage	(b-c)/(h-e-f-g)	7.2	—	—	—	7.2
(CFO-capex)/net debt (%)	(i+j)/(b-c)	-26.0	—	—	—	-26.1
<b>Coverage (x)</b>						
FFO interest coverage	(h-e-f-g)/(-e-g)	5.7	—	—	—	5.3

CFO - Cash flow from operations.

Note: The standardised items presented above are based on Fitch's taxonomy for the given sector and region.

Reported items may not match the Fitch taxonomy, but they are captured into corresponding lines accordingly.

Debt includes other off-balance-sheet debt.

Debt in the standardised values column excludes lease liabilities of USD 10.98 million.

Source: Fitch Ratings, Fitch Solutions, NYSEG

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## Parent Subsidiary Linkage Analysis

### Key Risk Factors and Notching Approach

Parent	AVANGRID, Inc
Parent LT IDR	BBB+
Subsidiary	New York State Electric Gas Corporation
Subsidiary LT IDR	BBB+
Path	Stronger Subsidiary
Legal ring-fencing	Porous
Access and control	Porous
Notching matrix outcome	Consolidated+2
Override applied	No
Notching approach	—

LT IDR - Long-Term Issuer-Default Rating.  
Source: Fitch Ratings

### Stronger Subsidiary Notching Matrix

Access and control	Open	Porous	Insulated
With open ring-fencing	Consolidated	Consolidated+1	Consolidated+2 <sup>b</sup>
With porous ring-fencing	Consolidated+1	Consolidated+2 <sup>b</sup>	Consolidated+2 <sup>b</sup>
With insulated ring-fencing	<sup>a</sup>	Standalone	Standalone

<sup>a</sup> It is unlikely that considerations for "insulated" legal ring-fencing would coexist with the conditions outlined under "open" for access and control. It is more likely that other factors relevant to legal ring-fencing or access and control, but not within this table, would move either one, or both, of the individual Linkage Factor Assessments (LFAs) to a "porous" level that would lead to a consolidated+1, consolidated+2 or standalone outcome. <sup>b</sup> Notching is capped at the subsidiary's Standalone Credit Profile.

Source: Fitch Ratings

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For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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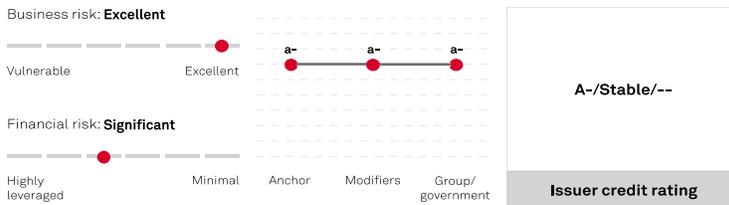
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# Rochester Gas & Electric Corp.

September 12, 2024

## Ratings Score Snapshot



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## Credit Highlights

### Overview

Key strengths	Key risks
Lower-risk, rate-regulated electric and gas utility operations.	Limited geographic and regulatory diversity.
Generally supportive regulatory construct.	Negative discretionary cash flow throughout the forecast period indicates a need for external funding.
Effective management of regulatory risk through use of multiyear rate plans (MYRPs).	

### Rochester Gas & Electric Corp. (RG&E) filed for a storm securitization financing order.

Recently, New York enacted the New York Utility Corporation Securitization Act, which would allow electric utilities in the state to petition the New York Public Service Commission (NYPSC) to issue storm recovery bonds. The bill creates the legislative framework required for using securitization to recover storm costs incurred by investor-owned utilities.

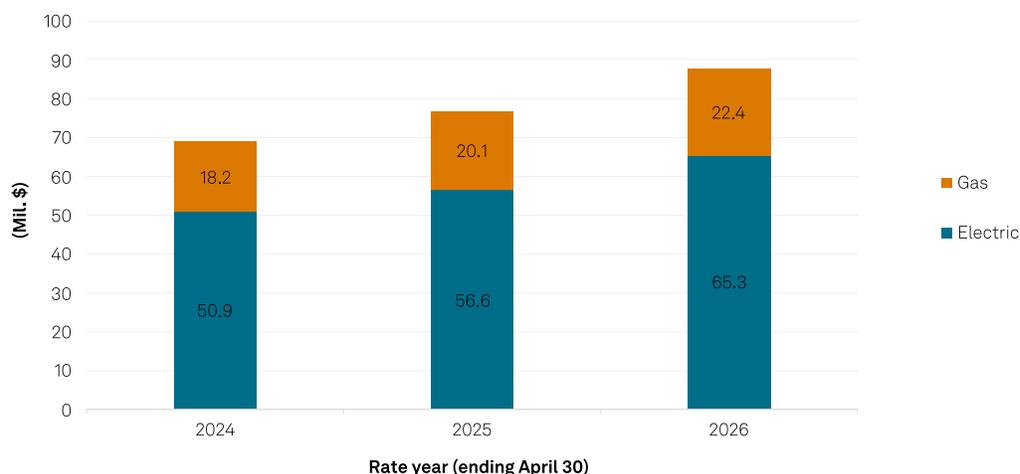
In August 2024, RG&E petitioned the NYPSC under the new legislation for a financing order to allow for storm recovery costs as of July 1, 2024, including and associated upfront financing costs for a total securitization of about \$75 million. We view the newly enacted bill as credit supportive as it could expedite recovery of such costs and improve financial measures. We expect the NYPSC to render a decision by December 2024.

**Rochester Gas & Electric Corp.**

**We expect financial measures to be above our downgrade threshold over the next three years.** Through 2026, we expect RG&E's capital expenditure (capex) to be stable, averaging about \$400 million per year. We also expect the company's periodic rate to increase from its recently approved MYRP, supporting funds from operations (FFO) to debt in the middle of the range of its financial risk profile category at 15%-19%, which is above our downgrade threshold of 15%.

Currently, RG&E operates under a three-year MYRP through April 2026. We view MYRPs as generally credit supportive as they enhance cash flow stability and predictability.

**Rochester Gas & Electric Corp.--Annual rate increases with levelization**



Source: S&P Global Ratings.

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## Outlook

The stable outlook on RG&E reflects our expectation for stand-alone FFO to debt consistently above 15%. Our stable outlook also incorporates our expectation that business risk will not materially weaken and that RG&E will effectively manage regulatory risk.

### Downside scenario

We could lower our rating on RG&E if its stand-alone financial measures weaken, including FFO to debt consistently below 15%. This could occur if adverse regulatory outcomes impede RG&E's ability to manage regulatory risk.

### Upside scenario

We could upgrade RG&E if its stand-alone financial measures consistently reflect the very high end of the range for its financial risk profile category while it maintains the strength of its business risk profile. Specifically, this would reflect FFO to debt consistently greater than 22%.

**Rochester Gas & Electric Corp.**

## Our Base-Case Scenario

### Assumptions

- Consistent rate case filings and use of existing regulatory mechanisms;
- Capital spending of about \$1.2 billion through 2026;
- Negative discretionary cash flow; and
- Debt maturities are refinanced.

## Key metrics

### Rochester Gas & Electric Corp.--Forecast summary

	2024e	2025f	2026f
<b>Adjusted ratios</b>			
Debt/EBITDA (x)	4.5-5.0	4.0-4.5	3.5-4.0
FFO/debt (%)	14-16	17-19	18-20
FFO cash interest coverage (x)	4.0-4.5	4.5-5.0	4.5-5.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. e--Estimate. f--Forecast. FFO--Funds from operations. \$--U.S. dollar.

## Company Description

RG&E generates, transmits, and distributes electricity in western New York. It also transports and distributes natural gas. It serves about 391,000 electricity and 324,000 natural gas customers. RG&E is a wholly owned subsidiary of Avangrid Inc., which is an intermediary holding company and subsidiary of ultimate parent Iberdrola. RG&E contributes about 17% of Avangrid's consolidated EBITDA.

## Peer Comparison

### Rochester Gas & Electric Corp.--Peer Comparisons

	Rochester Gas & Electric Corp.	New York State Electric & Gas Corp.	Central Hudson Gas & Electric Corp.	Orange and Rockland Utilities Inc.
Foreign currency issuer credit rating	A-/Stable/--	A-/Stable/A-2	BBB+/Negative/NR	A-/Stable/A-2
Local currency issuer credit rating	A-/Stable/--	A-/Stable/A-2	BBB+/Negative/NR	A-/Stable/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	\$	\$	\$	\$
Revenue	1,222	2,197	1,008	1,061
EBITDA	370	490	195	236

**Rochester Gas & Electric Corp.****Rochester Gas & Electric Corp.--Peer Comparisons**

Funds from operations (FFO)	298	417	142	192
Interest	70	105	54	55
Cash interest paid	64	90	51	52
Operating cash flow (OCF)	71	49	110	212
Capital expenditure	407	822	249	290
Free operating cash flow (FOCF)	(335)	(773)	(140)	(78)
Discretionary cash flow (DCF)	(445)	(973)	(140)	(142)
Cash and short-term investments	0	6	2	22
Gross available cash	0	6	2	22
Debt	1,881	3,057	1,286	1,131
Equity	1,775	2,841	1,192	1,062
EBITDA margin (%)	30.3	22.3	19.4	22.2
Return on capital (%)	7.3	5.6	5.1	7.3
EBITDA interest coverage (x)	5.3	4.7	3.6	4.3
FFO cash interest coverage (x)	5.6	5.6	3.8	4.7
Debt/EBITDA (x)	5.1	6.2	6.6	4.8
FFO/debt (%)	15.8	13.7	11.1	17.0
OCF/debt (%)	3.8	1.6	8.5	18.7
FOCF/debt (%)	(17.8)	(25.3)	(10.9)	(6.9)
DCF/debt (%)	(23.7)	(31.8)	(10.9)	(12.6)

## Business Risk

Our assessment of RG&E's business risk profile reflects its lower-risk, fully rate-regulated utility business that provides an essential service in its service territory. Given material barriers to entry, RG&E and the regulated utility industry effectively operate insulated from competitive market challenges. This underlines our view of regulated utilities' very low industry risk compared with other industries.

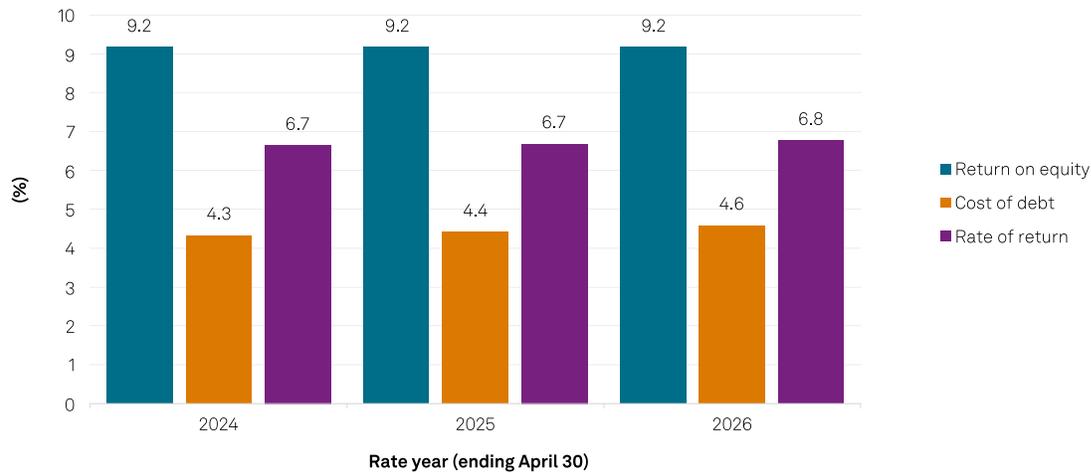
Our assessment of RG&E's business risk also reflects a generally constructive regulatory environment in New York. The company benefits from MYRPs, forward test years, and revenue decoupling. These protect the utility from adverse weather, conservation, and adverse economic conditions, thus reducing regulatory lag. The company also benefits from rate adjustment mechanisms (RAMs) that collect or return various eligible deferrals and costs, such as property tax, major storm balances, and gas replacement leaks, which enhances cash flow predictability. The company effectively manages regulatory risk similar to peers.

RG&E currently operates under a three-year MYRP until April 2026. Under its current rate plan, RG&E is authorized a levelized rate hike of about \$69 million, \$76.7 million, and \$87.7 million for 2024-2026, respectively (year ending April). RG&E's electric and gas rates are based on a 9.20% return on equity (ROE), a 48% of equity capital, and overall returns increasing over the three-year rate period based on cost of debt. There are also provisions on sharing earnings above ROE thresholds. We consider MYRPs as credit supportive as they provide cash flow stability and predictability.

**Rochester Gas & Electric Corp.**

RG&E's electric residential customers account for approximately 90% of its electric customer base, providing additional cash flow stability. NYSEG's lack of geographic and regulatory diversity marginally affects its business risk.

**Rochester Gas & Electric Corp.--Rate of return**

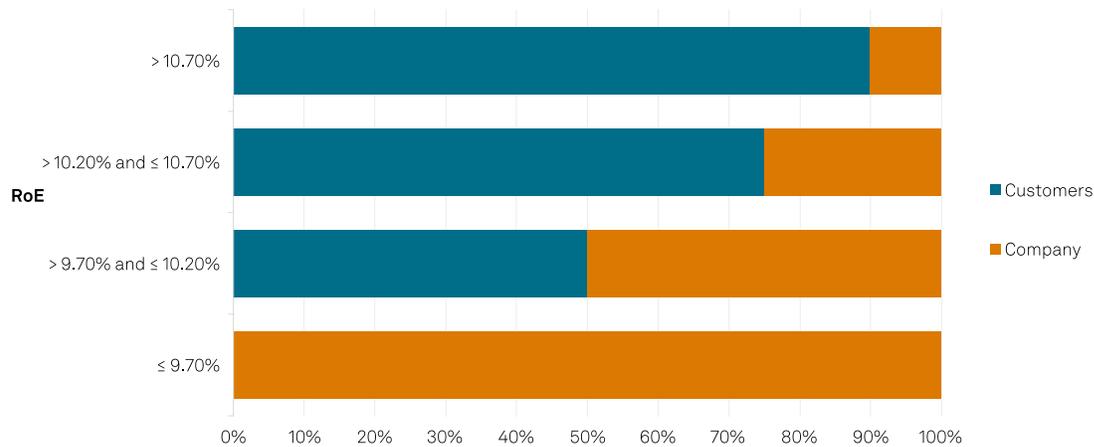


Source: S&P Global Ratings.

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**Rochester Gas & Electric Corp.--Earnings sharing mechanism**

Sharing between customers and company



RoE--Return on Equity. Source: S&P Global Ratings.

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**Rochester Gas & Electric Corp.**

## Financial Risk

Over the next three years, we expect levelized rate increases and RG&E's steady capex to drive its financial performance. We forecast consistent negative discretionary cash flow through 2026. We anticipate RG&E will fund the shortfall with debt and capital contributions from parent Avangrid.

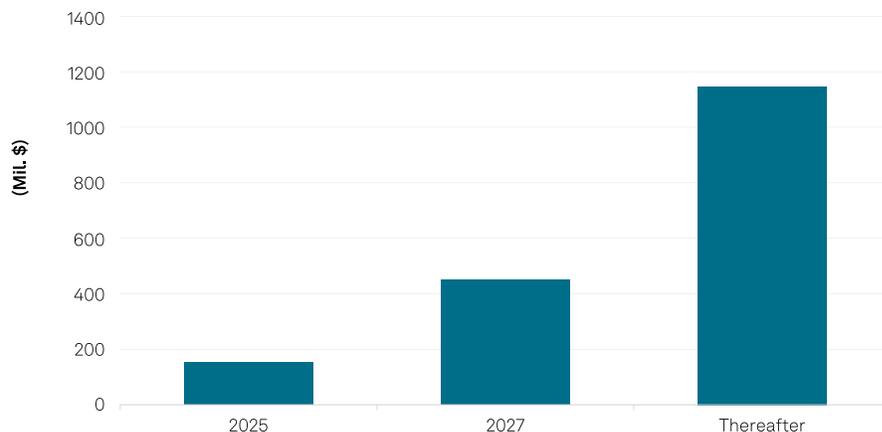
Our base case includes S&P Global Ratings-adjusted FFO to debt of 14%-16% in 2024 and 17%-20% through 2026. We expect its financial measures to improve due to periodic rate increases and capex of about \$1.2 billion through 2026. In addition, we forecast RG&E can cover annual cash interest payments based on FFO, bolstering our assessment of its financial risk, with coverage of about 4.0x-5.0x through 2026. Finally, we forecast leverage, as indicated by S&P Global Ratings-adjusted debt to EBITDA, to be elevated at about 4.0x-4.5x through 2026.

We assess RG&E's financial measures using our medial volatility financial benchmarks, reflecting the company's lower-risk, regulated electric and natural gas utility businesses and its effective management of regulatory risk. These benchmarks are more relaxed than the benchmarks we use for typical corporate issuers.

### Debt maturities

#### Rochester Gas & Electric Corp.'s debt maturities

As of Dec 31, 2023



Source: S&P Global Ratings.

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#### Rochester Gas & Electric Corp.--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	\$	\$	\$	\$	\$	\$
Revenues	924	893	872	958	1,180	1,222
EBITDA	297	284	271	261	306	370
Funds from operations (FFO)	212	199	223	243	270	298

**Rochester Gas & Electric Corp.**

**Rochester Gas & Electric Corp.--Financial Summary**

Interest expense	92	83	62	53	53	70
Cash interest paid	57	58	48	51	56	64
Operating cash flow (OCF)	269	206	200	264	64	71
Capital expenditure	259	363	348	426	343	407
Free operating cash flow (FOCF)	11	(156)	(148)	(162)	(279)	(335)
Discretionary cash flow (DCF)	(29)	(156)	(198)	(412)	(404)	(445)
Cash and short-term investments	0	1	0	0	0	0
Gross available cash	0	1	0	0	0	0
Debt	1,200	1,222	1,423	1,563	1,690	1,881
Common equity	1,006	1,104	1,220	1,276	1,503	1,775
<b>Adjusted ratios</b>						
EBITDA margin (%)	32.2	31.8	31.1	27.3	26.0	30.3
Return on capital (%)	10.4	9.2	7.6	6.3	6.7	7.3
EBITDA interest coverage (x)	3.2	3.4	4.4	4.9	5.8	5.3
FFO cash interest coverage (x)	4.8	4.4	5.7	5.8	5.8	5.6
Debt/EBITDA (x)	4.0	4.3	5.3	6.0	5.5	5.1
FFO/debt (%)	17.7	16.3	15.7	15.5	16.0	15.8
OCF/debt (%)	22.5	16.9	14.1	16.9	3.8	3.8
FOCF/debt (%)	0.9	(12.8)	(10.4)	(10.4)	(16.5)	(17.8)
DCF/debt (%)	(2.4)	(12.8)	(13.9)	(26.4)	(23.9)	(23.7)

**Reconciliation Of Rochester Gas & Electric Corp. Reported Amounts With S&P Global Adjusted Amounts (Mil. \$)**

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2023									
Company reported amounts	1,755	1,775	1,222	370	239	54	370	85	110	421
Cash taxes paid	-	-	-	-	-	-	(8)	-	-	-
Cash interest paid	-	-	-	-	-	-	(50)	-	-	-
Lease liabilities	43	-	-	-	-	-	-	-	-	-
Operating leases	-	-	-	1	0	0	(0)	0	-	-
Postretirement benefit obligations/deferred compensation	81	-	-	-	-	1	-	-	-	-
Capitalized interest	-	-	-	-	-	14	(14)	(14)	-	(14)
Asset-retirement obligations	2	-	-	0	0	0	-	-	-	-
Nonoperating income (expense)	-	-	-	-	13	-	-	-	-	-

**Rochester Gas & Electric Corp.**

**Reconciliation Of Rochester Gas & Electric Corp. Reported Amounts With S&P Global Adjusted Amounts (Mil. \$)**

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Total adjustments	126	-	-	1	13	15	(73)	(14)	-	(14)
S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	1,881	1,775	1,222	370	252	70	298	71	110	407

## Liquidity

As of June 2024, we assess RG&E's liquidity as adequate, with sources covering uses by 1.1x over the coming 12 months, and we expect its sources would cover uses even if forecasted consolidated EBITDA declines 10%. We believe the predictable regulatory framework for RG&E provides a manageable level of cash flow stability for the company even in times of economic stress, supporting our use of slightly lower thresholds to assess liquidity. In addition, RG&E, can absorb high-impact, low-probability events, reflecting that the company maintains about \$300 million in committed credit facilities through November 2026.

Additionally, we believe the company can lower its high capital spending during stressful periods. Furthermore, our assessment reflects the company's generally prudent risk management and satisfactory relationships with its banking group. Overall, we believe the company could withstand adverse market circumstances over the next 12 months with sufficient liquidity to meet its obligations. We expect the company to proactively address its debt maturities well in advance of their scheduled due dates.

### Principal liquidity sources

- Cash FFO of about \$360 million; and
- Credit facility availability of about \$300 million.

### Principal liquidity uses

- Capital spending of about \$430 million;
- Working capital outflows of about \$40 million; and
- Dividends of about \$30 million.

## Environmental, Social, And Governance

ESG factors have no material influence on our credit rating analysis of RG&E.

## Group Influence

We view RG&E as core to the group because we believe it is integral to Avangrid's identity, is highly unlikely to be sold, and has strong management commitment given the company's emphasis on maintaining the size and scope of the regulated utility operations.

We rate RG&E one notch higher than the 'bbb+' global credit profile because of the strength of its stand-alone credit profile and the cumulative value of structural and regulatory protections in place that insulate RG&E from its parent. Key insulating measures include:

**Rochester Gas & Electric Corp.**

- RG&E's financial performance and funding prospects are independent from those of the group;
- It is severable from the group and able to stand on its own;
- The parent has clear economic incentives to maintain RG&E's financial strength;
- The strong regulatory restrictions limit its distributions if such distributions reduce RG&E's equity to capital below specific levels; and
- We believe it is unlikely RG&E would be drawn or forced into an Avangrid bankruptcy.

## Issue Ratings--Recovery Analysis

### Key analytical factors

RG&E's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property, owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue-level rating one notch above the issuer credit rating.

**Rating Component Scores**

<b>Foreign currency issuer credit rating</b>	<b>A-/Stable/--</b>
<b>Local currency issuer credit rating</b>	<b>A-/Stable/--</b>
<b>Business risk</b>	<b>Excellent</b>
Country risk	Very Low
Industry risk	Very Low
Competitive position	Strong
<b>Financial risk</b>	<b>Significant</b>
Cash flow/leverage	Significant
<b>Anchor</b>	<b>a-</b>
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Positive (no impact)
Comparable rating analysis	Neutral (no impact)
<b>Stand-alone credit profile</b>	<b>a-</b>

## Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Group Rating Methodology, July 1, 2019

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- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
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- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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## CREDIT OPINION

14 January 2025

Update

Send Your Feedback

### RATINGS

#### Rochester Gas & Electric Corporation

Domicile	United States
Long Term Rating	Baa1
Type	LT Issuer Rating
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Rochester Gas & Electric Corporation

### Update to credit analysis

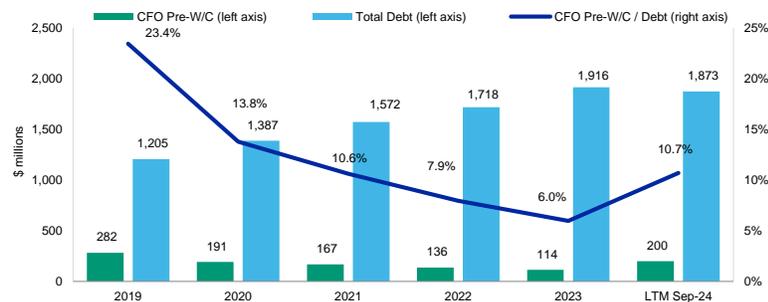
#### Summary

Rochester Gas and Electric's (RG&E, Baa1 stable) credit profile reflects: 1) its low business risk transmission and distribution (T&D) operations, 2) a transparent rate framework with supportive cost recovery provisions and 3) improving regulatory support in New York.

RG&E's credit is constrained by extremely weak financial metrics, which we expect to improve given the company's 2023 rate case outcome. There is also uncertainty related to the future of its natural gas business (just under 23% of its rate base) and associated depreciation recovery as New York pursues a path toward reducing economy wide greenhouse gas emissions.

Exhibit 1

#### Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporation. Periods are fiscal year-end unless indicated. LTM = Last 12 months. Source: Moody's Financial Metrics™

#### Recent Events

On 23 December 2024, Iberdrola SA (Baa1 stable) acquired the remaining 18.4% of its previously unowned stake in Avangrid, Inc. (Baa2 stable), the intermediate holding company of RG&E. While the ownership consolidation is positive for Avangrid, it is neutral to the credit profile of RG&E since the utility will continue to be operated in a consistent fashion and financed according to the state regulatory requirements of the New York Public Service Commission (NYPSC).

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**Credit strengths**

- » Low business risk transmission and distribution utility assets
- » Improving regulatory support
- » Multi-year rate plans provide timely recovery of capital costs

**Credit challenges**

- » Weak financial metrics that we expect to improve over the next 12-18 months
- » Uncertainty surrounding state energy policy and path toward decarbonization
- » Small, concentrated operations

**Rating outlook**

RG&E's stable outlook reflects improvements in the regulatory support for utility cost recovery and our expectation that its ratio of CFO pre-WC to debt will improve to at least 14% in the next 12-18 months and be sustained above that level thereafter.

**Factors that could lead to upgrade**

- » Additional material improvement in the credit supportiveness of RG&E's political and regulatory framework
- » Stronger financial metrics, such that its CFO pre-WC to debt ratio is 18% or higher on a sustained basis

**Factors that could lead to downgrade**

- » Inadequate revenue improvement from the recently approved rate case, such that CFO pre-WC to debt remains below 14%
- » Degradation in the relationship between the company and New York politicians or regulators

**Key indicators**

Exhibit 2

**Rochester Gas & Electric Corporation**

	2019	2020	2021	2022	2023	LTM Sep-24
CFO Pre-W/C + Interest / Interest	4.3x	4.0x	4.0x	3.5x	2.6x	3.5x
CFO Pre-W/C / Debt	23.4%	13.8%	10.6%	7.9%	6.0%	10.7%
CFO Pre-W/C – Dividends / Debt	23.4%	10.2%	-5.3%	0.7%	0.2%	4.8%
Debt / Capitalization	46.0%	46.9%	48.3%	46.7%	45.6%	42.4%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Periods are fiscal year-end unless indicated. LTM = Last 12 months.

Source: Moody's Financial Metrics™

**Profile**

Rochester Gas & Electric (RG&E) is the third largest regulated electric and gas distribution utility subsidiary of Avangrid Networks, Inc., a direct subsidiary of Avangrid (AGR Baa2 stable). The company's operations are regulated by the New York Public Service Commission (NYPSC) and the Federal Energy Regulatory Commission (FERC).

Avangrid is a privately held diversified utility holding company with regulated operations accounting for about 85% of operating cash flow. Avangrid's sole owner is Iberdrola S.A. (Baa1 stable), a global diversified energy company primarily operating in Spain, the United Kingdom, the United States, Mexico and Brazil.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

## Detailed credit considerations

### Improving regulatory support and a strong suite of cost recovery provisions

A significant aspect of RG&E's credit support is derived from the transparency of the NYPSC regulatory framework, which includes a suite of cost recovery mechanisms that allow the company to recover various costs on a timely basis. The most important features include a forward-looking test year (for most expenses and all planned capital expenditures), full recovery of purchased electric and natural gas costs and electric and gas revenue decoupling mechanisms (RDMS) for the majority of customers. Utilities within the state have often operated under multiyear rate plans, which allow recovery of projected capital and operating costs commensurate with the spend.

These features provide quick cost recovery that help to recover capital on timely basis and stabilizes gross margin regardless of the volume sold to customers. This is an important feature, since they are needed to help keep the company's financial profile intact as the state and industry transitions to a more efficient and distributed network.

Recent rate orders in the state have also improved cash collections for key regulatory accounts, such as storm cost recovery. These provisions indicate that stakeholder relationships are on a positive trajectory, with increased political support, more predictable regulatory outcomes and better cost recovery. Continuation of this trend will be important as state utilities seek to improve and transform their service offerings amid the state's climate agenda goals.

In August 2024, the state also enacted a law to allow for storm cost securitization in the state - a significant credit positive for utilities. We view the use of specific large cost securitizations (e.g., storm cost recovery, deferred fuel balances and others) as credit positive for utilities because it enables them to receive an upfront payment associated with the future recovery of extraordinary costs and investments, while lessening the impact of cost recovery on customer bills.

### Weak financial metrics expected to improve dramatically

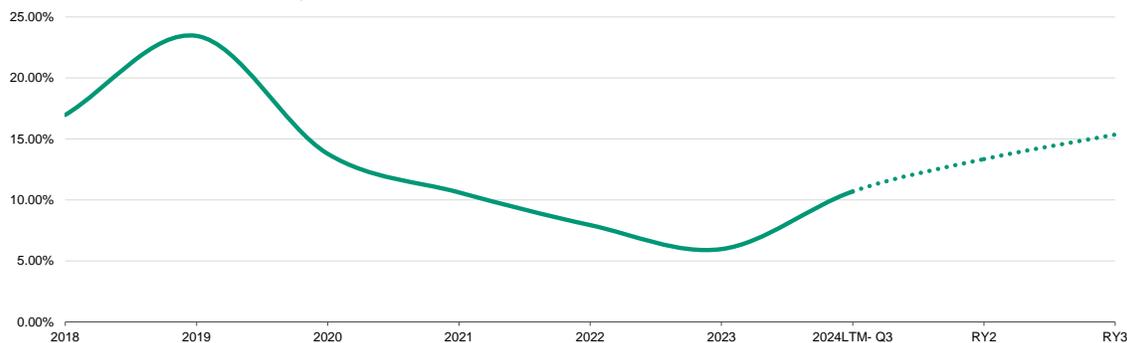
On 12 October 2023, the NYPSC approved a three-year rate plan, which allows levelized rate increases for RG&E and its affiliate New York State Electric and Gas (NYSEG, Baa1 stable) totaling approximately \$770 million through 30 April 2026. The rates were premised off a 48% equity capitalization and 9.20% allowed ROE (earnings sharing begins above 9.70%), which is higher than the 8.80% allowed ROE in the companies' previous rate plan from 2020. The new rates represent a compounded incremental increase, over current rates, of about 17% and 11% for RG&E's electric and gas businesses, respectively, by the end of the plan.

The NYPSC rate order will help RG&E obtain much-needed cash recovery of historical costs that have mounted since the COVID-19 pandemic. Current financial metrics are weak, but we expect that revenue increases from the three-year rate plan will result in year-over-year improvement in cash flow to debt ratios, which will increase to at least 14% in the next 12-18 months and be sustained above that level thereafter. The exhibit below shows the expected trend, historical versus what the rate plan should yield on a rate year (RY) basis, which is not on a calendar year basis. RG&E's new rates became effective in November 2023.

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Exhibit 3  
RG&E's CFO pre-WC to debt ratio is set to improve due to its 3-year rate plan



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are fiscal year-end unless indicated. LTM = Last 12 months. Moody's forecasts are Moody's opinion and do not represent the views of the issuer. Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

Importantly, RG&E's adjusted cash flow to debt ratios will also benefit from certain NYPSC policies for approved energy efficiency expenditures that are reported as operating expenses under US GAAP. In New York, the NYPSC has authorized utilities to accumulate, amortize, and earn a return on certain energy efficiency expenditures, and treat them as rate based assets and investments. Therefore, we adjust our financial ratios to reflect these expenditures as capital investments, rather than as reductions to CFO. The magnitude of these expenditures is increasing, so reallocating energy efficiency spending from cash flow from operations to cash flow from investing activities will become more material to financial ratios going forward.

Lastly, once the storm cost securitization has been authorized, RG&E will likely issue around \$75 million of Recovery Bonds through a special purpose entity (SPE) that we consider to be off-credit for the utility. Since the legal structure defines the SPE as the obligor for the Recovery Bonds, RG&E only acts only as a collection conduit for debt repayment by way of a dedicated, multi-year, non-bypassable charge on customer bills, which then gets remitted to the SPE.

This will also have a positive impact on RG&E's adjusted financial metrics; for example, removing roughly \$75 million from RG&E's LTM Q3 2024 debt balance would result in about 50 basis points of metric improvement to the company's CFO pre-WC to debt ratio.

**Longer-term challenges face RG&E's gas business**

Despite the transparent and formulaic nature of New York's regulatory practices and improved regulatory support, the state continues to design policy around reaching net zero emissions by 2050, which was outlined in 2019 legislation (i.e., Climate Leadership and Community Protection Act, CLCPA) and given further definition in the state's Climate Action Council's (CAC) latest Scoping Plan, released in December 2022.

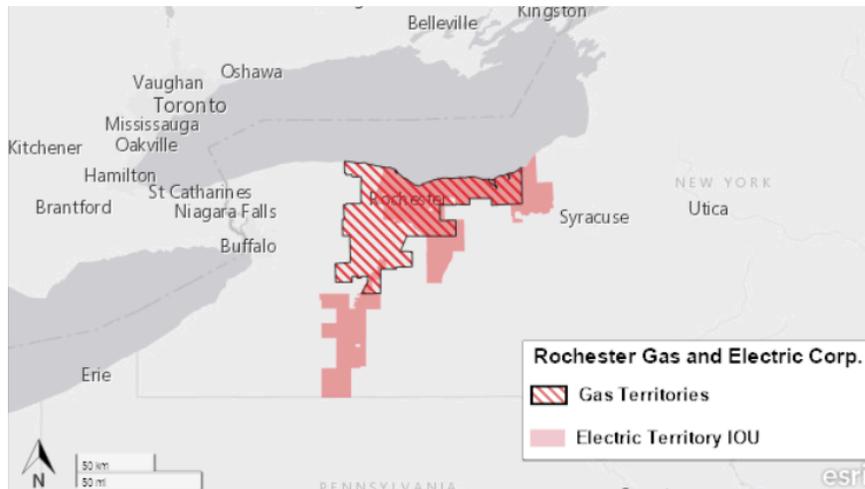
New York is seeking to reduce economy wide greenhouse gas (GHG) emissions by 40% by 2030 and 85% by 2050 from 1990 levels, which will require a substantial reduction of fossil natural gas use and a strategic downsizing of the gas system. These goals threaten the long-term viability of RG&E's gas business, which stands to be more materially negatively impacted than affiliate New York State Electric and Gas (NYSEG, Baa1 stable), since RG&E has a relatively larger gas business and its combined service territory does not have as high a degree of overlap (see a map of RG&E's service territory, below). This means that to the extent RG&E experiences losses in its gas business, it's likely not to be compensated for by growth in the electric business.

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Exhibit 4

RG&E's vulnerability to electrification will be most prominent where there is no direct overlap between its gas and electric service territories.



Source: S&P Global Market Intelligence

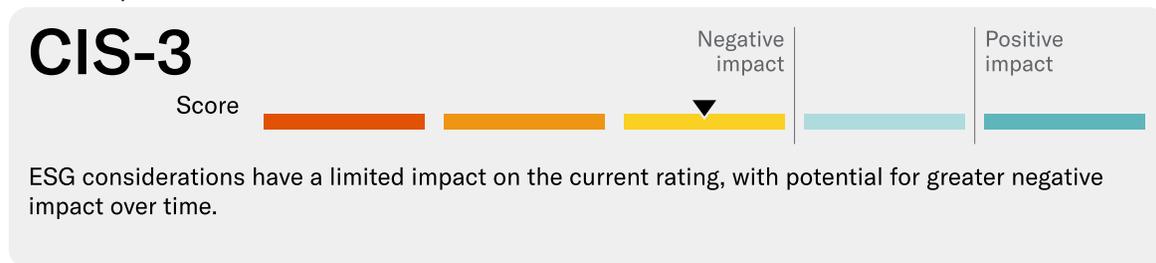
As New York's decades-long effort continues, we expect ongoing modifications and rulemaking to ensue, as all stakeholders navigate the complex energy transition. The efforts to transform the state's energy economy will also include attention toward customer affordability and system reliability, which could necessitate a change to the pace of the energy transition. This will also provide some time for the NYPS&C to respond with regulatory changes to support the necessary investments, while maintaining utility financial health (e.g., accelerated depreciation of assets where useful lives have been cut by the phase-out of fossil fuels).

ESG considerations

Rochester Gas & Electric Corporation's ESG credit impact score is CIS-3

Exhibit 5

ESG credit impact score



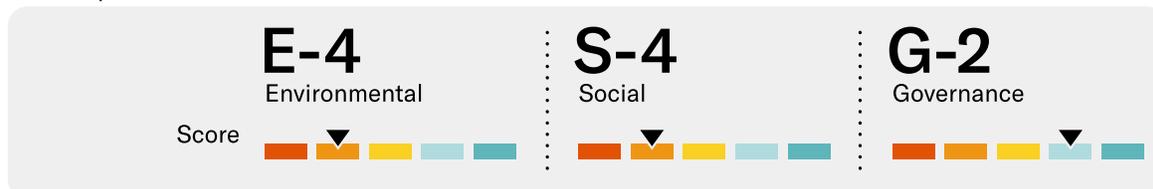
Source: Moody's Ratings

RG&E's CIS-3 credit impact score indicates that ESG considerations have a limited impact on the current credit rating with greater potential for future negative impact over time. Physical climate risks such as storms and increased exposure demographic and social trends, including a less supportive regulatory environment and customer affordability concerns, could weaken credit quality over the long-term.

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Exhibit 6  
ESG issuer profile scores



Source: Moody's Ratings

**Environmental**

RG&E's **E-4** issuer profile score is driven by its geographical concentration in New York, which exposes the company to material and extreme weather events. This is somewhat counterbalanced by the company's asset profile as a regulated electric and gas transmission and distribution utility.

**Social**

RG&E's **S-4** issuer profile score reflects New York's demographic and societal trends to reduce GHG emissions, which increases the risks for the company's gas distribution operations. The score also considers the fundamental utility risk that demographics and societal trends could include social pressures or public concern around affordability, utility reputational or environmental concerns. In turn, these pressures could result in adverse political intervention into utility operations or regulatory changes.

**Governance**

RG&E's **G-2** issuer profile score is directed by that of its parent, Avangrid, which in turn is influenced by the governance of the group's ultimate owner, Iberdrola SA (**G-2**). Iberdrola's governance reflects risks related to its organizational structure, given some structural subordination and some presence of minorities in its subsidiaries, predominantly in the US and Brazil. However, these risks are moderated by neutral to low risks on financial strategy and risk management, management credibility and track record, compliance and reporting, and board structure policies and procedures.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

**Liquidity analysis**

RG&E's internal liquidity consists of cash flow from operations, which we expect to be in the \$300 million range over the next 12 months, compared to around \$400 million of capital expenditures, resulting in roughly \$100 million of negative free cash flow before any upstreamed dividends to Avangrid. We expect RG&E's dividend policy to be driven by maintaining its regulatory allowed capital structure, which could mean that the utility pays no dividends, or even that Avangrid infuses equity into the utility to help fund capital needs and balance RG&E's growing debt.

Avangrid employs a centralized approach to managing its liquidity. To the extent possible given certain regulatory restrictions, Avangrid aims to concentrate its cash at the holding company and primarily conduct its short-term borrowings through Avangrid. The utilities optimize their cash balances through a virtual money pool arrangement. Under the terms of this agreement, utilities may lend to each other but not to their unregulated affiliates or parent. These terms meet a regulatory requirement set at the time of Avangrid's acquisition of the utility companies which prohibits them from lending to unregulated affiliates, including Avangrid. To the extent that additional liquidity is required, RG&E borrows under a bilateral loan agreement with Avangrid.

From an external liquidity standpoint, Avangrid and its regulated utility subsidiaries, including RG&E, are parties to a \$3.575 billion revolving credit facility that expires in November 2026. RG&E's minimum sublimit under the facility is \$200 million. We view management's incorporation of a minimum sublimit as helpful in providing visibility into what amounts of the shared facility are dependably allocated to the utility. Given Avangrid's centralized liquidity management philosophy and the virtual money pool of its utilities, we view the bank facility as effectively serving as a committed lender of last resort.

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The bank credit facility does not include an ongoing material adverse change clause and the only financial covenant is a maximum allowed debt to capitalization ratio of 65%. We understand that, as of 30 September 2024, each company was in compliance with this covenant.

RG&E's next maturities include a \$152 million tax-exempt pollution control revenue bonds due June 2025 and \$450 million of first mortgage bonds due in June 2027.

**Iberdrola also provides incremental liquidity to Avangrid**

Aside from cash balances and utility dividends, Avangrid has access to both \$2.5 billion of the aforementioned shared \$3.575 billion facility. At 30 September 2024, there was \$1,928 million of commercial paper outstanding, backstopped by the facility.

Avangrid is also party to a notional cash pooling arrangement along with other Iberdrola subsidiaries. Parties to the agreement, including Avangrid, may deposit funds with or borrow from the pool, provided that the net balance of funds deposited or borrowed by all pool participants in the aggregate is not less than zero. This agreement provides Avangrid with a third avenue for liquidity, supplementing its access to the debt and equity capital markets.

Lastly, Avangrid also has a \$750 million credit facility with Iberdrola Financiacion, S.A.U., a company of the Iberdrola Group, which expires in June 2028.

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Rating methodology and scorecard factors

We use our global Regulated Electric and Gas Utilities rating methodology as the primary methodology for analyzing Rochester Gas & Electric Corporation.

Exhibit 7

Rating factors

Rochester Gas & Electric Corporation

Regulated Electric and Gas Utilities Industry [1][2]	Current LTM 9/30/2024		Moody's 12-18 Month Forward View [3]	
	Measure	Score	Measure	Score
<b>Factor 1 : Regulatory Framework (25%)</b>				
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
<b>Factor 2 : Ability to Recover Costs and Earn Returns (25%)</b>				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
<b>Factor 3 : Diversification (10%)</b>				
a) Market Position	Ba	Ba	Ba	Ba
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
<b>Factor 4 : Financial Strength (40%)</b>				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	3.1x	Baa	3x - 4x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	8.3%	Ba	13% - 15%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	-1.3%	B	10% - 12%	Baa
d) Debt / Capitalization (3 Year Avg)	42.4%	A	40% - 44%	A
<b>Rating:</b>				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa2		Baa1
HoldCo Structural Subordination Notching		0		0
a) Scorecard-Indicated Outcome		Baa2		Baa1
b) Actual Rating Assigned		Baa1		Baa1

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. LTM = Last 12 months. Moody's forecasts are Moody's opinion and do not represent the views of the issuer. Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

Appendix

Exhibit 8

Illustrative: Adjustments for NYPSC-approved Energy Efficiency (EE) expenditures improves RG&E's ratios

RG&E	2024	2025
CFO pre-WC before EE adjustment	\$ 240	\$ 290
NYPSC approved EE spending	\$ 31	\$ 35
CFO pre-WC after EE adjustment	\$ 271	\$ 325
Debt	\$ 2,000	\$ 2,100
CFO pre-WC to debt (pre-EE adj.)	12.0%	13.8%
CFO pre-WC to debt (post-EE adj.)	13.6%	15.5%

Periods are fiscal year-end unless indicated. Source: NYPSC Case 18-M-0084 and Moody's Ratings forecasts

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Exhibit 9

Peer comparison

Rochester Gas & Electric Corporation

(in \$ millions)	Rochester Gas & Electric Corporation			Consolidated Edison Company of New York, Inc.			Central Hudson Gas & Electric Corporation			New York State Electric and Gas Corporation		
	Baa1 Stable			A3 Stable			Baa1 Stable			Baa1 Stable		
	FY Dec-22	FY Dec-23	LTM Sep-24	FY Dec-22	FY Dec-23	LTM Sep-24	FY Dec-22	FY Dec-23	LTM Sep-24	FY Dec-22	FY Dec-23	LTM Sep-24
Revenue	1,180	1,222	1,291	13,268	13,476	13,918	1,018	1,008	976	2,221	2,197	2,405
CFO Pre-W/C	136	114	200	3,145	2,930	3,692	112	112	154	60	81	97
Total Debt	1,718	1,916	1,873	22,246	23,822	24,981	1,223	1,289	1,378	2,576	3,145	3,454
CFO Pre-W/C + interest / interest	3.5x	2.6x	3.5x	4.7x	4.0x	4.3x	3.6x	3.1x	3.7x	1.8x	1.8x	1.8x
CFO Pre-W/C / Debt	7.9%	6.0%	10.7%	14.1%	12.3%	14.8%	9.1%	8.7%	11.2%	2.3%	2.6%	2.8%
CFO Pre-W/C - Dividends / Debt	0.7%	0.2%	4.8%	9.7%	7.9%	10.5%	9.1%	8.7%	11.2%	-4.5%	-3.8%	2.8%
Debt / Capitalization	46.7%	45.6%	42.4%	48.1%	46.8%	46.6%	47.2%	45.9%	46.8%	44.7%	46.1%	44.0%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.  
LTM = Last 12 months.

Source: Moody's Financial Metrics™

Exhibit 10

Moody's-adjusted cash flow metrics

Rochester Gas & Electric Corporation

(in \$ millions)	2019	2020	2021	2022	2023	LTM Sep-24
<b>FFO</b>	<b>217.3</b>	<b>209.5</b>	<b>232.8</b>	<b>263.4</b>	<b>315.8</b>	<b>381.8</b>
+/- Other	65.1	(18.4)	(65.9)	(127.1)	(201.5)	(181.6)
<b>CFO Pre-W/C</b>	<b>282.4</b>	<b>191.1</b>	<b>166.9</b>	<b>136.3</b>	<b>114.4</b>	<b>200.3</b>
+/- ΔWC	(68.4)	15.7	97.5	(72.1)	(43.0)	(10.2)
<b>CFO</b>	<b>214.0</b>	<b>206.8</b>	<b>264.4</b>	<b>64.2</b>	<b>71.4</b>	<b>190.0</b>
- Div	0.0	50.0	250.0	125.0	110.0	110.0
- Capex	367.1	351.7	430.4	349.3	411.0	383.3
<b>FCF</b>	<b>(153.1)</b>	<b>(194.9)</b>	<b>(416.0)</b>	<b>(410.1)</b>	<b>(449.7)</b>	<b>(303.2)</b>
(CFO Pre-W/C) / Debt	23.4%	13.8%	10.6%	7.9%	6.0%	10.7%
(CFO Pre-W/C - Dividends) / Debt	23.4%	10.2%	-5.3%	0.7%	0.2%	4.8%
FFO / Debt	18.0%	15.1%	14.8%	15.3%	16.5%	20.4%
RCF / Debt	18.0%	11.5%	-1.1%	8.1%	10.7%	14.5%
Revenue	893.0	871.9	957.8	1,180.5	1,221.7	1,290.8
Interest Expense	86.1	64.3	55.0	55.0	71.5	79.9
Net Income	89.5	103.5	97.2	117.2	139.9	187.9
Total Assets	4,049.1	4,368.5	4,654.3	5,007.9	5,345.6	5,588.6
Total Liabilities	2,960.5	3,162.0	3,385.8	3,512.5	3,581.4	3,615.2
Total Equity	1,088.6	1,206.5	1,268.5	1,495.5	1,764.1	1,973.4

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.  
Periods are fiscal year-end unless indicated. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Moody's Ratings

Infrastructure and Project Finance

Ratings

Exhibit 11

Category	Moody's Rating
<b>ROCHESTER GAS &amp; ELECTRIC CORPORATION</b>	
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured	A2
LT IRB/PC	Baa1
Underlying Senior Secured	A2
<b>ULT PARENT: IBERDROLA S.A.</b>	
Outlook	Stable
Issuer Rating	Baa1
ST Issuer Rating	P-2
<b>PARENT: AVANGRID, INC.</b>	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Commercial Paper	P-2

Source: Moody's Ratings

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Moody's Ratings

Infrastructure and Project Finance

REPORT NUMBER 1422513

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# Rochester Gas and Electric Corporation

Rochester Gas and Electric Corporation's (RG&E; BBB+/Stable) ratings reflect the strength of its regulated electric transmission and distribution (T&D) and natural gas distribution utility operations in New York, which generate relatively stable earnings and cash flows.

## Key Rating Drivers

**Short-Term Pressure to Financial Metrics:** RG&E's financials were weak for 2023, with funds from operations (FFO) leverage at 5.3x. However, with the recently approved multi-year rate plan, the recently passed Bill S9339A and the relatively small capital spending on CLCPA Phase I, Fitch Ratings expects credit metrics to gradually improve over the next three years, with FFO leverage at 5.0x by 2026. These projections assume that RG&E successfully securitizes its regulatory asset associated with unfunded storm costs.

**Challenging Regulatory Environment but Signs of Improvement:** Fitch believes that the regulatory environment in New York has improved under the current administration, but remains somewhat challenging. Return on Equities (ROEs) authorized by the New York Public Service Commission (NYPSC) are among the lowest in the U.S., and New York has a history of political involvement in the regulatory process. However, ratemaking features such as revenue decoupling, a commodity pass-through mechanism and the use of a forward-looking test year are credit supportive.

Additionally, the recently passed Bill S9339A that allows the use of securitization to recover excess storm costs is beneficial. Discussions between RG&E and NYPSC to reduce regulatory lag and allow timely recovery of capital investments and storm expenses are ongoing. A constructive outcome can lead to strengthening of RG&E's financial profile.

**Rate Case Settlement Approved:** Fitch views the recent approval of RG&E's joint proposal as positive. RG&E, NYPSC and other parties entered into a joint settlement agreement for three-year electric and gas rate plans. The settlement approval resulted in annual levelized electric distribution rate increases of \$51 million for rate year one, \$56.6 million for year two and \$65.3 million for year three. RG&E's gas rate increases by \$18.2 million for rate year one, \$20.1 million for year two and \$22.4 million for year three, based on a 9.20% ROE and 48% equity layer.

The levelized amounts represent overall returns of 6.67% in rate year one, 6.71% in year two and 6.80% in year three. The agreement also favorably continues revenue decoupling for electric and gas and institutes rate adjustment mechanisms for items such as storm costs, uncollectible expenses, late payment charges and property taxes. These new mechanisms are likely to help prevent the build-up of large deferral balances between rate cases. The rate plan also includes a 50% sharing mechanism if the utilities' earned return exceeds a 9.70% threshold. The approved joint proposal covers the period from May 1, 2023, through April 30, 2026.

**Utility Parent/Subsidiary Linkage:** There is a parent/subsidiary linkage between Avangrid (AGR) and RG&E. Fitch believes that the utility has a stronger Standalone Credit Profiles (SCPs) than AGR. As a result, the linkage between AGR and RG&E is assessed following the weak parent/strong subsidiary factors. Emphasis is placed on the subsidiaries' status as regulated entities. Legal ring-fencing is porous, given the general protections afforded by economic regulation; access and control are also porous.

AGR centrally manages the treasury function for all utility subsidiaries and is the sole source of equity; however, each subsidiary issues its own long-term debt. Due to this, Fitch will limit the difference between AGR and any of its higher-rated regulated subsidiaries, including RG&E, to two notches.

Corporates  
Electric-Corporate  
United States

## Ratings

Long-Term IDR	BBB+
Senior Unsecured Debt - Long-Term Rating	A-
Senior Secured Debt - Long-Term Rating	A
<b>Outlook</b>	
Long-Term Foreign-Currency IDR	Stable

[Click here for the full list of ratings](#)

## ESG and Climate

Highest ESG Relevance Scores	
Environmental	3
Social	3
Governance	3
2035 Climate Vulnerability Signal: 31	

## Applicable Criteria

[Corporate Recovery Ratings and Instrument Ratings Criteria \(August 2024\)](#)

[Sector Navigators - Addendum to the Corporate Rating Criteria \(December 2024\)](#)

[Corporate Rating Criteria \(December 2024\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(June 2023\)](#)

[Corporate Hybrids Treatment and Notching Criteria \(November 2020\)](#)

## Related Research

[Global Corporates Macro and Sector Forecasts - September 2024 \(September 2024\)](#)

[North American Utilities Monitor: 2Q24 \(August 2024\)](#)

[North American Utilities, Power & Gas Dashboard: 3Q24 \(October 2024\)](#)

[North American Utilities Outlook 2025 \(December 2024\)](#)

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Electric-Corporate  
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## Financial Summary

(USD Mil.)	2020	2021	2022	2023
Gross revenue	872	958	1,180	1,222
EBITDA	261	258	300	364
CFO (Fitch-defined)	208	272	69	81
Capital intensity (capex/revenue) (%)	41.8	45.5	29.9	34.5
Debt	1,252	1,431	1,579	1,770
FFO interest coverage (x)	4.2	4.8	7.1	5.0
FFO leverage (x)	4.9	5.8	4.3	5.3
EBITDA leverage (x)	4.8	5.5	5.3	4.9

F - Forecast.  
Source: Fitch Ratings, Fitch Solutions

## Peer Analysis

RG&E is weakly positioned at the 'BBB+' rating. The company has relatively low-risk regulated electric T&D operations, along with natural gas distribution operations that are similar to those of New York peers, including NYSEG (BBB+/Negative), Central Hudson Gas & Electric Corp. (CHG&E; BBB/Stable) and Consolidated Edison Company of New York, Inc. (CECONY; BBB+/Stable).

Fitch considers the New York regulatory environment to be somewhat challenging, with below-average authorized ROEs and a history of political involvement in the regulatory process. However, utilities are allowed the use of some beneficial regulatory mechanisms, such as revenue decoupling. In addition, the recently passed Bill S9339A – the New York Utility Corporation Securitization Act, which allows utilities to recover storm costs through securitization – is also supportive of credit quality.

RG&E's scale of operations is similar to that of NYSEG and CHG&E, but materially smaller than CECONY. In addition, the local economy of RG&E, NYSEG and CHG&E is weaker than that of CECONY. RG&E's financial profile is slightly better than that of NYSEG due to the smaller capital program needs but weaker than that of CECONY. Fitch expects RG&E's FFO leverage to average around 5.1x through 2026, compared to about 4.7x for CECONY. For NYSEG, Fitch expects FFO leverage in 2024 to remain similar to 2023 levels before improving to 5.3x by 2025 and 2026.

## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Significant improvement in the New York regulatory environment, including authorized ROEs more in line with the national average and less political involvement in the regulatory process;
- FFO leverage expected to remain less than 4.0x on a sustained basis.

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- FFO leverage expected to exceed 5.0x on a sustained basis;
- An adverse regulatory decision that meaningfully reduces the stability and predictability of earnings and cash flow.

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## Liquidity and Debt Structure

Fitch believes that RG&E's liquidity is adequate. RG&E's liquidity is primarily supported by AGR's \$2 billion commercial paper (CP) program, backstopped by a \$3.575 billion revolving credit facility (RCF) maturing on November 22, 2026. The RCF contains a maximum sublimit of \$300 million for RG&E. There were no RCF borrowings outstanding as of June 30, 2024, leaving \$300 million of availability under RG&E's RCF sublimit. AGR uses its CP program as a source of funding to provide its regulated utility subsidiaries with loans under a bilateral credit agreement. RG&E can borrow up to \$500 million under this agreement.

The regulated utilities participate in a virtual money pool, which allows AGR's investment-grade regulated utility subsidiaries to lend to or borrow from each other, enabling AGR to efficiently manage the cash at its regulated utilities. RG&E has a lending/borrowing limit of \$100 million. RG&E had about \$2 million of unrestricted cash and cash equivalents as of September 30, 2024. Long-term debt maturities over the next five years are manageable.

## ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

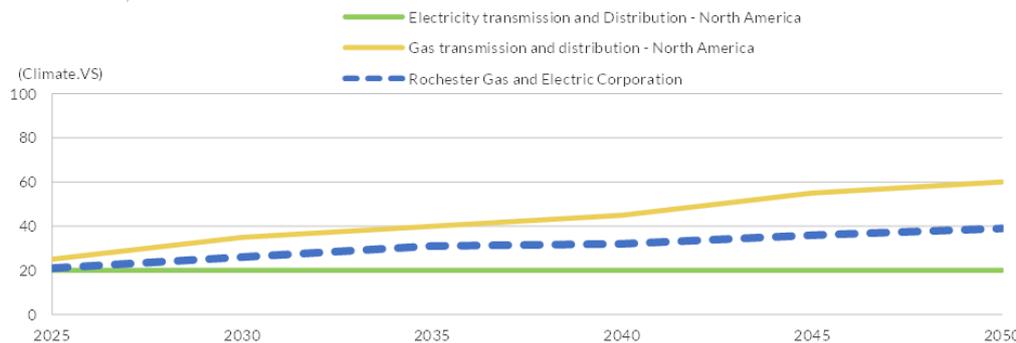
## Climate Vulnerability Considerations

Fitch uses Climate Vulnerability Signals (Climate.VS) as a screening tool to identify sectors and Fitch-rated issuers that are potentially most exposed to credit-relevant climate transition risks and, therefore, require additional consideration of these risks in rating reviews. Climate.VS range from 0 (lowest risk) to 100 (highest risk). For more information on Climate.VS, see Fitch's [Corporate Rating Criteria](#). For more detailed, sector-specific information on how Fitch perceives climate-related transition risks, see [Climate Vulnerability Signals for Non-Financial Corporate Sectors](#).

The 2023 asset-weighted Climate.VS for RG&E for 2035 is 26 out of 100, suggesting relatively low exposure for that year. This reflects RG&E's holdings of electric and gas transmission and distribution operating utilities. For further information on how Fitch perceives climate-related risks in the utilities sector, see our [Utilities - Long-Term Climate Vulnerability Signals Update](#) report.

### Climate.VS Evolution

As of Jan. 09, 2023



Source: Fitch Ratings

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## Liquidity and Debt Maturities

### Cash and Maturities Report

(USD Mil.)	December 31, 2023	June 30, 2024
Total cash and cash equivalents	0	1
Short-term investments	—	—
Less not readily available cash and cash equivalents	—	—
<b>Fitch-defined readily available cash and cash equivalents</b>	<b>0</b>	<b>1</b>
Availability under committed lines of credit	283	299
<b>Total liquidity</b>	<b>283</b>	<b>300</b>
LTM EBITDA after associates and minorities	364	—
LTM FCF	-450	—

Source: Fitch Ratings, Fitch Solutions, Rochester Gas and Electric Corporation

### Scheduled Debt Maturities

(USD Mil.)	June 30, 2024
2024	1
2025	152
2026	—
2027	450
2028	100
Thereafter	1,050
<b>Total</b>	<b>1,754</b>

Source: Fitch Ratings, Fitch Solutions, Rochester Gas and Electric Corporation

## Key Assumptions

- Storm cost securitization for NY utilities will occur by the end of 2024, as per Fitch's expectation;
- Total capex in line with management assumptions;
- Network rate base growing at a 7% compound annual growth rate (CAGR) through 2025;
- Normal weather;
- Debt maturities to be refinanced.

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## Financial Data

### Rochester Gas and Electric Corporation

(USD Mil.)	2020	2021	2022	2023
<b>Summary income statement</b>				
Gross revenue	872	958	1,180	1,222
Revenue growth (%)	-2.4	9.8	23.3	3.5
EBITDA before income from associates	261	258	300	364
EBITDA margin (%)	30.0	26.9	25.4	29.8
EBITDA after associates and minorities	261	258	300	364
EBIT	164	152	183	238
EBIT margin (%)	18.8	15.9	15.5	19.5
Gross interest expense	-60	-52	-51	-68
Pretax income including associate income/loss	133	122	151	198
<b>Summary balance sheet</b>				
Readily available cash and equivalents	0	0	0	0
Debt	1,252	1,431	1,579	1,770
Net debt	1,252	1,431	1,579	1,769
<b>Summary cash flow statement</b>				
EBITDA	261	258	300	364
Cash interest paid	-60	-52	-51	-68
Cash tax	0	32	19	-8
Dividends received less dividends paid to minorities (inflow/outflow)	—	—	—	—
Other items before FFO	-8	-43	47	-22
FFO	193	196	317	267
FFO margin (%)	22.2	20.5	26.9	21.8
Change in working capital	15	76	-248	-186
CFO (Fitch-defined)	208	272	69	81
Total non-operating/nonrecurring cash flow	—	—	—	—
Capex	-364	-436	-353	-421
Capital intensity (capex/revenue) (%)	41.8	45.5	29.9	34.5
Common dividends	-50	-250	-125	-110
FCF	-206	-413	-409	-450
FCF margin (%)	-23.6	-43.2	-34.7	-36.8
Net acquisitions and divestitures	1	1	1	—
Other investing and financing cash flow items	190	40	265	38
Net debt proceeds	-36	172	143	187
Net equity proceeds	50	200	—	225
Total change in cash	-1	0	0	0
<b>Calculations for forecast publication</b>				
Capex, dividends, acquisitions and other items before FCF	-413	-684	-477	-531
FCF after acquisitions and divestitures	-205	-412	-408	-450
FCF margin after net acquisitions (%)	-23.5	-43.0	-34.6	-36.8
<b>Gross Leverage ratios (x)</b>				
EBITDA leverage	4.8	5.5	5.3	4.9
CFO-capex/debt	-12.4	-11.4	-18.0	-19.2
<b>Net Leverage ratios (x)</b>				
EBITDA net leverage	4.8	5.5	5.3	4.9
CFO-capex/net debt	-12.4	-11.4	-18.0	-19.2

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(USD Mil.)	2020	2021	2022	2023
<b>Coverage ratios (x)</b>				
EBITDA interest coverage	4.3	5.0	5.8	5.4

CFO – Cash flow from operations.  
Source: Fitch Ratings, Fitch Solutions

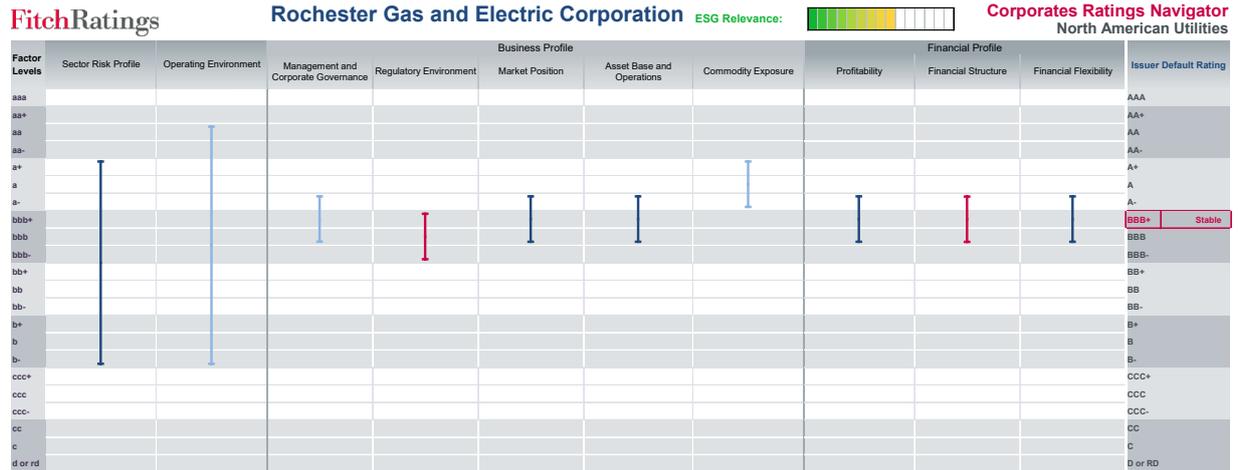
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**Ratings Navigator**



Bar Chart Legend:	
Vertical Bars = Range of Rating Factor	Bar Arrows = Rating Factor Outlook
Bar Colors = Relative Importance	<ul style="list-style-type: none"> <li>↑ Positive</li> <li>↓ Negative</li> <li>↕ Evolving</li> <li>□ Stable</li> </ul>
<ul style="list-style-type: none"> <li><span style="color: red;">■</span> Higher Importance</li> <li><span style="color: blue;">■</span> Average Importance</li> <li><span style="color: lightblue;">■</span> Lower Importance</li> </ul>	

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**Rochester Gas and Electric Corporation**

**Corporates Ratings Navigator**  
North American Utilities

Operating Environment			Management and Corporate Governance																											
aa+	Economic Environment	aa	Very strong combination of countries where economic value is created and where assets are located.	a	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.																							
aa	Financial Access	aa	Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.	a-	Governance Structure	a	Experienced board exercising effective check and balances. Ownership can be concentrated among several shareholders.																							
b-	Systemic Governance	aa	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'aa'.	bbb+	Group Structure	a	Group structure shows some complexity but mitigated by transparent reporting.																							
ccc+				bbb-	Financial Transparency	a	High quality and timely financial reporting.																							
Regulatory Environment			Market Position																											
a-	Degree of Transparency and Predictability	bbb	Generally transparent and predictable regulation with limited political interference.	a	Market Structure	a	Well-established market structure with complete transparency in price-setting mechanisms.																							
bbb+	Timeliness of Cost Recovery	a	Minimal lag to recover capital and operating costs.	a-	Consumption Growth Trend	bbb	Customer and usage growth in line with industry averages.																							
bbb	Trend in Authorized ROEs	bb	Significantly below-average authorized ROE.	bbb+	Customer Mix	bbb	Less diversified customer base.																							
bbb-	Mechanisms Available to Stabilize Cash Flows	a	Revenues fully insulated from variability in consumption.	bbb	Geographic Location	bbb	Beneficial location or reasonable locational diversity.																							
bb+	Mechanisms Supportive of Creditworthiness	a	Effective regulatory ring-fencing.	bbb-	Supply Demand Dynamics	bbb	Moderately favorable outlook for prices/rates.																							
Asset Base and Operations			Commodity Exposure																											
a	Diversity of Assets	bbb	Good quality and/or reasonable scale diversified assets.	aa-	Ability to Pass Through Changes in Fuel	a	Complete pass-through of commodity costs.																							
a-	Operations Reliability and Cost Competitiveness	bbb	Reliability and cost of operations at par with industry averages.	a+	Underlying Supply Mix	n.a.																								
bbb+	Exposure to Environmental Regulations	a	No exposure to environmental regulations.	a	Hedging Strategy	n.a.																								
bbb	Capital and Technological Intensity of Capex	bbb	Moderate reinvestments requirements in established technologies.	a-																										
bbb-				bbb+																										
Profitability			Financial Structure																											
a	Free Cash Flow	bbb	Structurally neutral to negative FCF across the investment cycle.	a	EBITDA Leverage	bb	4.75x																							
a-	Volatility of Profitability	a	Higher stability and predictability of profits relative to utility peers.	a-	FFO Leverage	bbb	5.0x																							
bbb+				bbb+																										
bbb				bbb																										
bbb-				bbb-																										
Financial Flexibility			Credit-Relevant ESG Derivation																											
a	Financial Discipline	bbb	Less conservative policy, but generally applied consistently.	Rochester Gas and Electric Corporation has 9 ESG potential rating drivers <table border="1"> <thead> <tr> <th>Key driver</th> <th>0 issues</th> <th>Overall ESG</th> </tr> </thead> <tbody> <tr> <td>Plants' and networks' exposure to extreme weather</td> <td>5</td> <td></td> </tr> <tr> <td>Product affordability and access</td> <td>4</td> <td></td> </tr> <tr> <td>Quality and safety of products and services, data security</td> <td>3</td> <td></td> </tr> <tr> <td>Impact of labor negotiations and employee (dis)satisfaction</td> <td>2</td> <td></td> </tr> <tr> <td>Social resistance to major projects that leads to delays and cost increases</td> <td>2</td> <td></td> </tr> <tr> <td>Governance is minimally relevant to the rating and is not currently a driver.</td> <td>1</td> <td></td> </tr> <tr> <td>not a rating driver</td> <td>1</td> <td></td> </tr> </tbody> </table>			Key driver	0 issues	Overall ESG	Plants' and networks' exposure to extreme weather	5		Product affordability and access	4		Quality and safety of products and services, data security	3		Impact of labor negotiations and employee (dis)satisfaction	2		Social resistance to major projects that leads to delays and cost increases	2		Governance is minimally relevant to the rating and is not currently a driver.	1		not a rating driver	1	
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Plants' and networks' exposure to extreme weather	5																													
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Governance is minimally relevant to the rating and is not currently a driver.	1																													
not a rating driver	1																													
a-	Liquidity	bbb	One-year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.																											
bbb+	FFO Interest Coverage	a	5.5x																											
bbb																														
bbb-																														

**How to Read This Page:** The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

For further details on Credit-Relevant ESG scoring, see page 3.

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Electric-Corporate  
United States

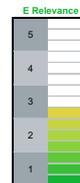


**Rochester Gas and Electric Corporation**

**Corporates Ratings Navigator**  
North American Utilities

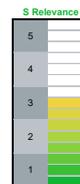
Credit-Relevant ESG Derivation		ESG Relevance to Credit Rating		
Rochester Gas and Electric Corporation has 9 ESG potential rating drivers				
<ul style="list-style-type: none"> <li>Rochester Gas and Electric Corporation has exposure to extreme weather events but this has very low impact on the rating.</li> <li>Rochester Gas and Electric Corporation has exposure to access/affordability risk but this has very low impact on the rating.</li> <li>Rochester Gas and Electric Corporation has exposure to customer accountability risk but this has very low impact on the rating.</li> <li>Rochester Gas and Electric Corporation has exposure to labor relations &amp; practices risk but this has very low impact on the rating.</li> <li>Rochester Gas and Electric Corporation has exposure to social resistance but this has very low impact on the rating.</li> <li>Governance is minimally relevant to the rating and is not currently a driver.</li> </ul>	key driver	0	issues	5
	driver	0	issues	4
	potential driver	9	issues	3
		4	issues	2
	not a rating driver	1	issues	1

Environmental (E) Relevance Scores			
General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	2	Emissions from operations	Asset Base and Operations; Commodity Exposure; Regulation; Profitability
Energy Management	2	Fuel use to generate energy and serve load	Asset Base and Operations; Commodity Exposure; Profitability
Water & Wastewater Management	1	Water used by hydro plants or by other generation plants, also effluent management	Asset Base and Operations; Regulation; Profitability
Waste & Hazardous Materials Management; Ecological Impacts	2	Impact of waste from operations	Asset Base and Operations; Regulation; Profitability
Exposure to Environmental Impacts	3	Plants' and networks' exposure to extreme weather	Asset Base and Operations; Regulation; Profitability

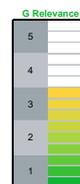


**How to Read This Page**  
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.  
**The Environmental (E), Social (S) and Governance (G) tables** break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.  
**The Credit-Relevant ESG Derivation table's** far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.  
**Classification** of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores			
General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	3	Product affordability and access	Asset Base and Operations; Regulation; Profitability; Financial Structure
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Regulation; Profitability
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Asset Base and Operations; Profitability
Employee Wellbeing	2	Worker safety and accident prevention	Profitability; Asset Base and Operations
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Asset Base and Operations; Profitability



Governance (G) Relevance Scores			
General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance



CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

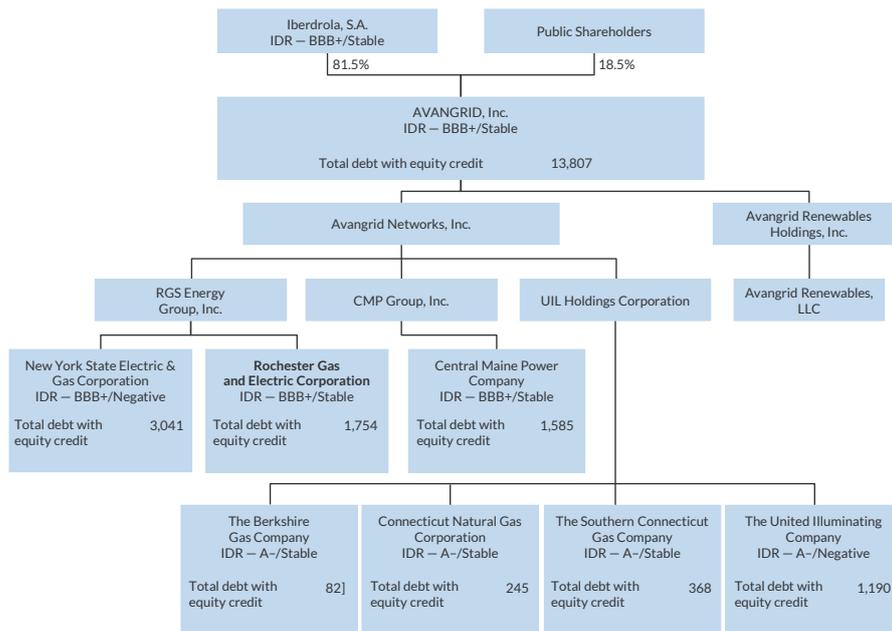
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Electric-Corporate  
**United States**

## Simplified Group Structure Diagram

**Organizational Structure – Rochester Gas and Electric Corporation**  
\$ Mil., as of June 30, 2024



IDR - Issuer Default Rating  
Source: Fitch Ratings, Fitch Solutions, AVANGRID, Inc.

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## Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	Gross revenue (USD Mil.)	FFO (USD Mil.)	FFO interest coverage (x)	FFO leverage (x)	EBITDA leverage (x)
Rochester Gas and Electric Corporation	BBB+						
	BBB+	2023	1,222	267	5.0	5.3	4.9
	BBB+	2022	1,180	317	7.1	4.3	5.3
	BBB+	2021	958	196	4.8	5.8	5.5
Central Hudson Gas & Electric Corp.	BBB						
	BBB+	2023	1,008	148	3.8	6.7	6.7
	BBB+	2022	1,018	155	4.8	6.4	6.9
	BBB+	2021	796	173	6.1	5.1	6.0
Consolidated Edison Company of New York, Inc.	BBB+						
	BBB+	2023	13,476	3,869	5.2	4.8	5.7
	BBB+	2022	13,268	3,058	5.1	5.6	5.5
	BBB+	2021	11,716	2,802	4.7	5.6	4.8
New York State Electric & Gas Corporation	BBB+						
	BBB+	2023	2,197	337	5.3	7.2	6.2
	BBB+	2022	2,221	365	5.9	5.7	6.2
	BBB+	2021	1,804	386	7.1	4.8	5.9

Source: Fitch Ratings, Fitch Solutions

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United States

## Fitch Adjusted Financials

(USD Mil., as of December 31, 2023)	Notes and formulas	Standardised values	Fair value and other debt adjustments	Lease treatment	Other adjustments	Adjusted values
<b>Income statement summary</b>						
Revenue		1,222	–	–	–	1,222
EBITDA	(a)	370	–	-5	0	364
Depreciation and amortization		-131	–	4	-0	-127
EBIT		239	–	-1	-0	238
<b>Balance sheet summary</b>						
Debt	(b)	1,755	14	–	–	1,770
Of which other off-balance-sheet debt		–	–	–	–	–
Lease-equivalent debt		–	–	–	–	–
Lease-adjusted debt		1,755	14	–	–	1,770
Readily available cash and equivalents	(c)	0	–	–	–	0
Not readily available cash and equivalents		–	–	–	–	–
<b>Cash flow summary</b>						
EBITDA	(a)	370	–	-5	0	364
Dividends received from associates less dividends paid to minorities	(d)	–	–	–	–	–
Interest paid	(e)	-50	–	1	-19	-68
Interest received	(f)	–	–	–	–	–
Preferred dividends paid	(g)	–	–	–	–	–
Cash tax paid		-8	–	–	–	-8
Other items before FFO		-40	–	–	19	-22
FFO	(h)	271	–	-4	0	267
Change in working capital		-186	–	–	–	-186
CFO	(i)	85	–	-4	0	81
<b>Non-operating/nonrecurring cash flow</b>						
Capex	(j)	-421	–	–	–	-421
Common dividends paid		-110	–	–	–	-110
FCF		-446	–	-4	-0	-450
<b>Gross leverage (x)</b>						
EBITDA leverage	b / (a+d)	4.8	–	–	–	4.9
(CFO-capex)/debt (%)	(i+j) / b	-19.0	–	–	–	-19.2
<b>Net leverage (x)</b>						
EBITDA net leverage	(b-c) / (a+d)	4.8	–	–	–	4.9
(CFO-capex)/net debt (%)	(i+j) / (b-c)	-19.0	–	–	–	-19.2
<b>Coverage (x)</b>						
EBITDA interest coverage	(a+d) / (-e)	7.4	–	–	–	5.4

CFO - Cash flow from operations.

Notes: The standardised items presented above are based on Fitch's taxonomy for the given sector and region.

Reported items may not match the Fitch taxonomy, but they are captured into corresponding lines accordingly.

Debt includes other off-balance-sheet debt.

Debt in the standardised values column excludes lease liabilities of USD43.129 million.

Source: Fitch Ratings, Fitch Solutions, Rochester Gas and Electric Corporation

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Electric-Corporate  
United States

## Parent Subsidiary Linkage Analysis

### Key Risk Factors and Notching Approach

Parent	AVANGRID, Inc
Parent LT IDR	BBB+
Subsidiary	Rochester Gas and Electric Corporation
Subsidiary LT IDR	BBB+
Path	Stronger Subsidiary
Legal ring-fencing	Porous
Access and control	Porous
Notching matrix outcome	Consolidated+2
Override applied	No
Notching approach	—

LT IDR - Long-Term Issuer Default Rating.  
Source: Fitch Ratings

### Stronger Subsidiary Notching Matrix

Access and control	Open	Porous	Insulated
With open ring-fencing	Consolidated	Consolidated+1	Consolidated+2 <sup>b</sup>
With porous ring-fencing	Consolidated+1	Consolidated+2 <sup>b</sup>	Consolidated+2 <sup>b</sup>
With insulated ring-fencing <sup>a</sup>		Standalone	Standalone

<sup>a</sup> It is unlikely that considerations for "insulated" legal ring-fencing would coexist with the conditions outlined under "open" for access and control. It is more likely that other factors relevant to legal ring-fencing or access and control, but not within this table, would move either one, or both, of the individual Linkage Factor Assessments (LFAs) to a "porous" level that would lead to a consolidated+1, consolidated+2 or standalone outcome.

<sup>b</sup> Notching is capped at the subsidiary's SCP.  
Source: Fitch Ratings

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For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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# Rating Agency Update

May 2024

## Overview



### Executing On Our Organic Growth Plan

✓ Updated Long Term Outlook thru 2026

✓ Executing on New York Multiyear Rate Plans

✓ Executing on Maine Multiyear Rate Plan

✓ \$872M of capex in 1Q 2024

✓ Submitted proposals in tri-state offshore wind RFP

✓ Sustainable, profitable growth in onshore renewables

### Continuing To Focus On

Completion of construction for Vineyard Wind 1

Change in law cost recovery for NECEC

Cash generation



# Long-Term Outlook

## Long-Term Outlook | 2024 – 2026



### 2024 – 2026 Long-Term Outlook



- More than \$2 Billion of investments in transmission approved beyond 2026
- Not included in the projections: renewable new growth projects and repowers that will be considered on a case-by-case basis as they mature (contribution will be incremental)

(1) Excludes extraordinary earnings in 2022

## Long Term Outlook I 2024 – 2026



### Secured over \$9B in new capex investments in Networks:

- \$5.8B in New York Distribution through rate plan up to 2026
- \$2.9B in New York Transmission for CLCPA Phase I & II
- \$400M in distribution in Maine through 2025

**\$5.7B of investment in repowering renewable assets in the period to 2032**

**Additional growth forecasted in Renewables. Commissioned 300MW of projects with another 1,000MW under construction, all with PPAs.**

Lower Dividends  
Capital Increase  
(dilutive at current stock price)

**or**

Balance Sheet support from Parent  
Company  
Access to Parent Company Equity  
(go private)



# Networks

## NY Rate Plan



**NY Rate Case successfully approved for a 3-year plan**



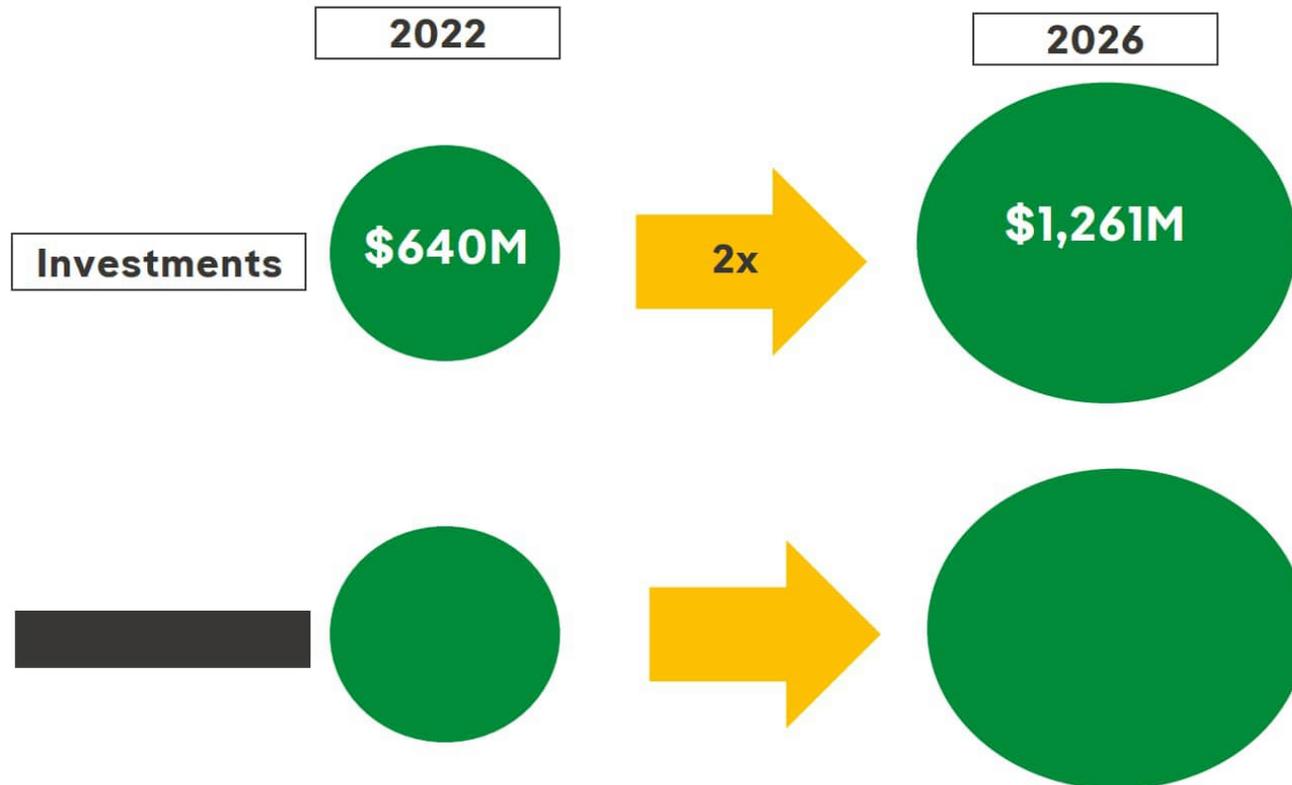
	2022	Achievement in 2023	Difference
Levelized Annual Rate increases	2.3% NYSEG E 2.0% NYSEG G 0.8% RG&E E 0.6% RG&E G	14.4% NYSEG E 5.5% NYSEG G 10.0% RG&E E 9.7% RG&E G	6x 3x 13x 16x
Investment	\$1B+ not in Rate Base	\$6.4B rate case investments (including \$634M for CLCPA I) Additional \$2.3B for CLCPA II approved	+\$8B or 9x

Approved in a high inflation scenario reaching up to 8% in 2023. Received the first approval of CWIP in rate base for CLCPA II supporting cash generation from NYPSC.

## NY Rate Plan NYSEG Cash Flow



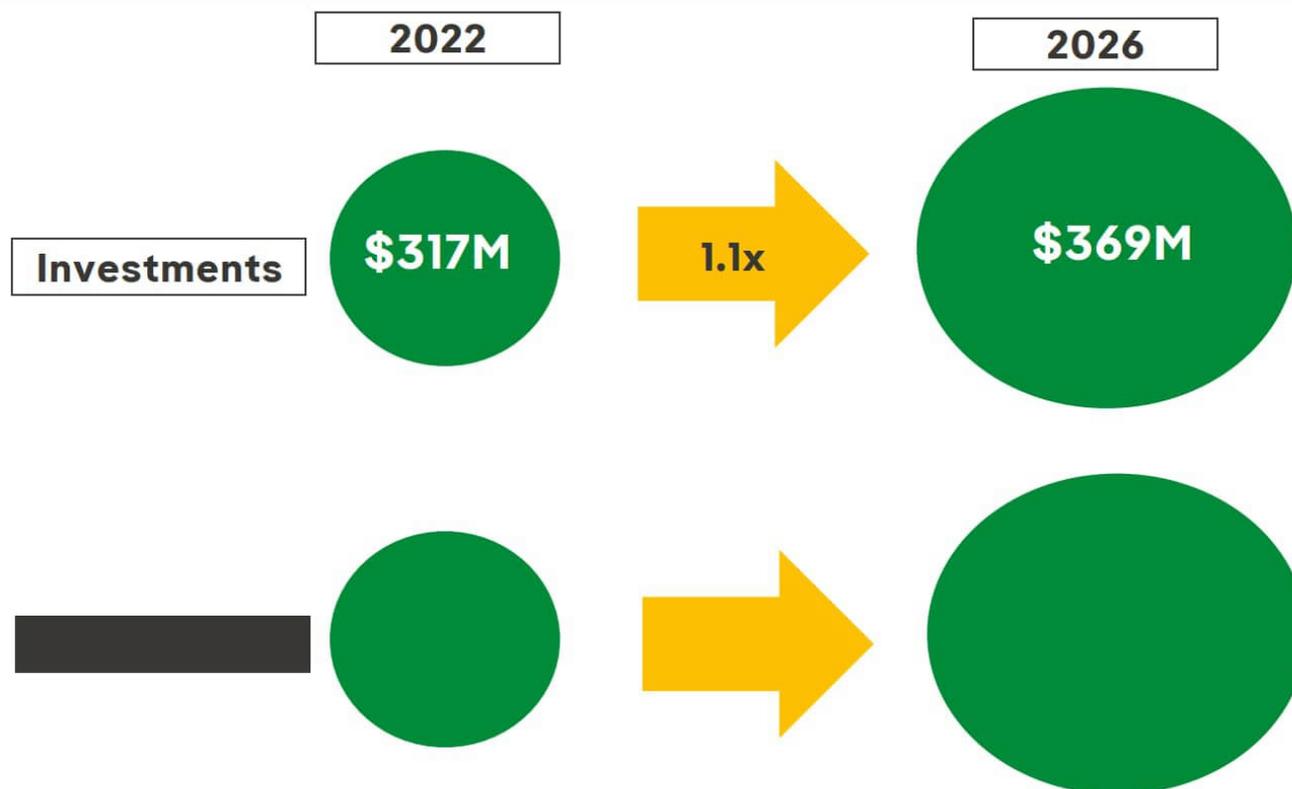
NYSEG grows 2x in investments and



## NY Rate Plan RG&E Cash Flow



RG&E grows 1.1x in investments and



## CMP Distribution Rate Plan



**First multi-year rate plan approved in Maine in 15 years.**



	2022	Achievement in 2023	Difference
Annual Rate increases	Approx. 3% ('21 to '22)	11% in Rate year 1 8% in Rate year 2	3.7x 2.7x
Investment <sup>(1)</sup>	\$264M	\$422M in 2025	+\$157M or +60%

**Approved in a high inflation scenario reaching up to 8% in 2023**

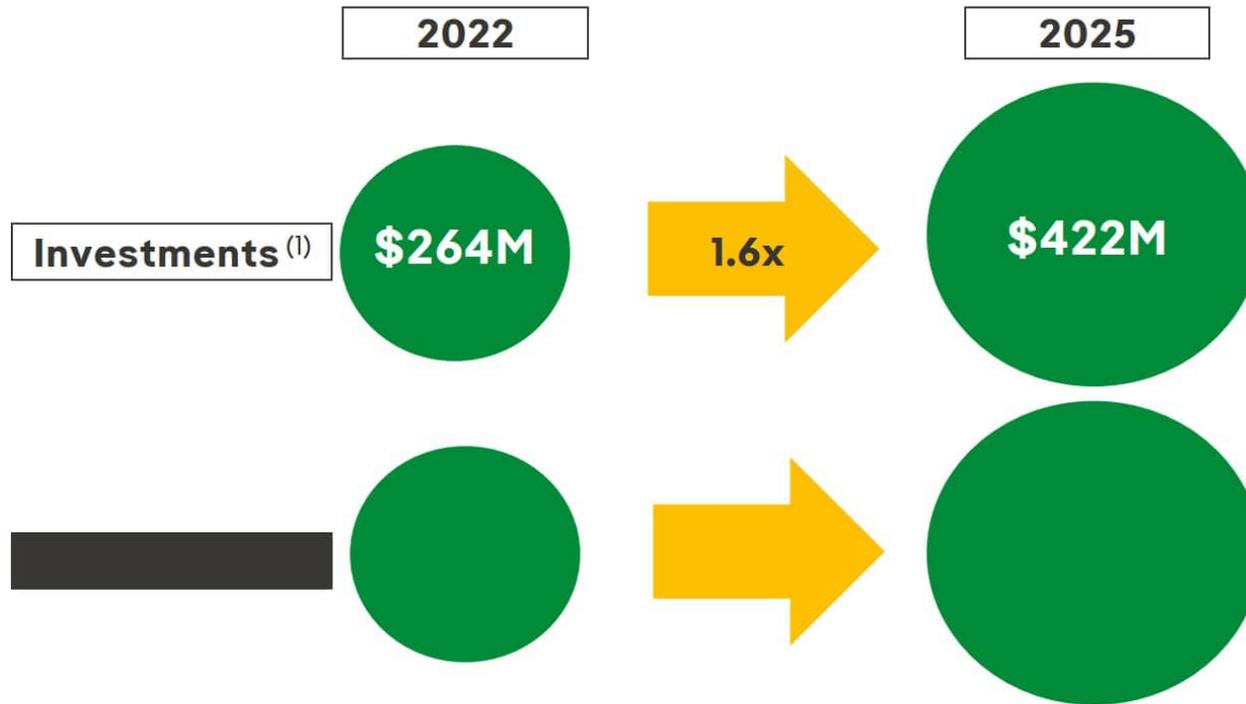
(1) Financial statements reflect Distribution & Transmission

\* 2022 operating cash of \$236M reflects \$377M, net of one-time transmission overcollection of \$64M and changes in other assets/liabilities \$77M.

## CMP Distribution Rate Plan Cash Flow



CMP maintains the Investment growth



A

## Maine Dynamics



### Avangrid's efforts helped to prevent Government Control Power in Maine



#### One year ago

Past Polls with 51% in favor of Government Control Power

#### 2023 Accomplishment

- ✓ 70% of voters rejected Government Controlled Power
- ✓ 98% of towns rejected referendum (493 out of 503)

- ✓ Achieved support from key stakeholders:
  - Governor Janet Mills
  - Labor unions, key industry and business groups
  - Coalition of mayors
  - Over 80 former state lawmakers
  - 3 major newspaper editorial boards

### CMP recognized as Maine's 'Best Places to Work'

## Connecticut Situation



### **PURA decisions violate CT law, expose operational and safety outcomes, and create a negative environment for investments**

- ✓ UI filed Appeal of Rate Case Decision on August 25th, 2023. Expect 9 to 12 months until final decision.
- ✓ UI appealed request of Interim Rates to Connecticut Superior Court in Mar 2024.
- ✓ Gov. Lamont remarked for better coordination between the Commissioners, an open line of communications between regulators and utilities, and to improve the CT regulatory climate (Feb. 8<sup>th</sup>).
- ✓ On April 18, 2024, the Connecticut Superior Court found that PURA failed to follow administrative procedure requirements with respect to UI's 2022 Rate Adjustment Mechanism and remanded back to PURA for further proceedings.

## NECEC Update



### Construction Progress

- HVDC Converter Station: 5 of 10 required roof truss sections installed for Valve Hall. Service Building footers have been placed.
- 891 poles received, 340 foundations and 310 poles completed.
- Focus: Change of law cost recovery

### Permits

- Settlement reached with West Forks challengers. Appeal of MDEP permit has been dismissed.
- Municipal Permits:
  - Auburn permit application approved February 26.
  - Durham permit application approval expected ~May 1.
  - Pownal permit provisionally approved.

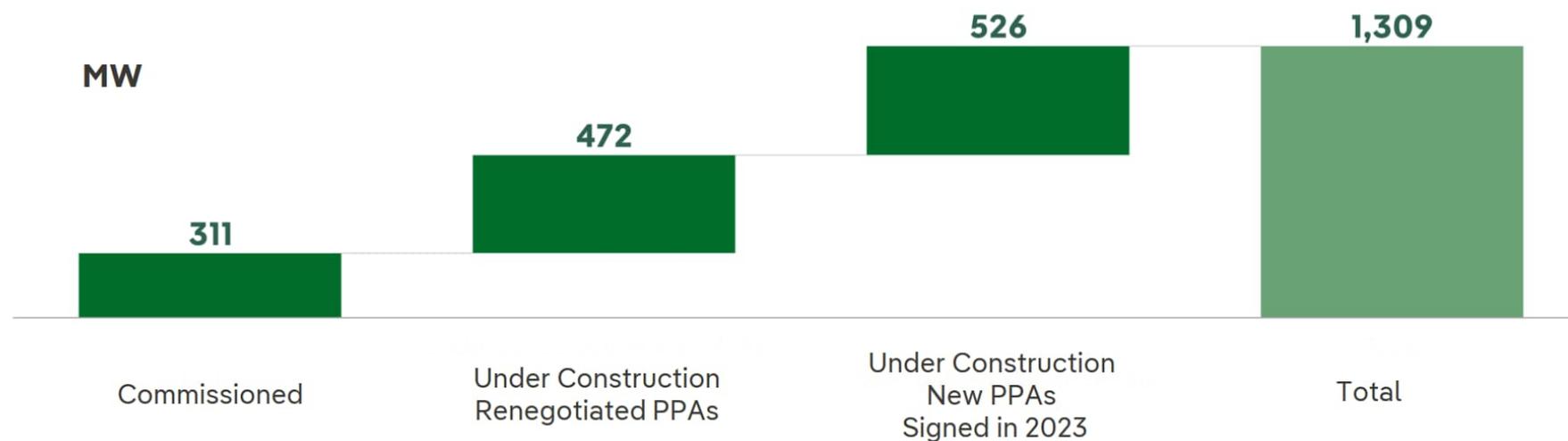


# Renewables

## Selective and Profitable Growth in Onshore Renewables



**Commissioned 0.3 GW of projects with another 1.0 GW under construction, all with PPAs**



## Repowering Opportunity of ~4.6 GW: maximizing IRA opportunity



**\$5B-\$6B plan underway to repower ~4.6 GW in 2023-2032**

**Repowering improves earnings profile** of the onshore business going forward

**Doesn't require full development and permitting**

Avangrid has **successfully completed 3 repowerings** in the last 3 years

Low-risk opportunity to **increase value of existing portfolio** at least through 2032

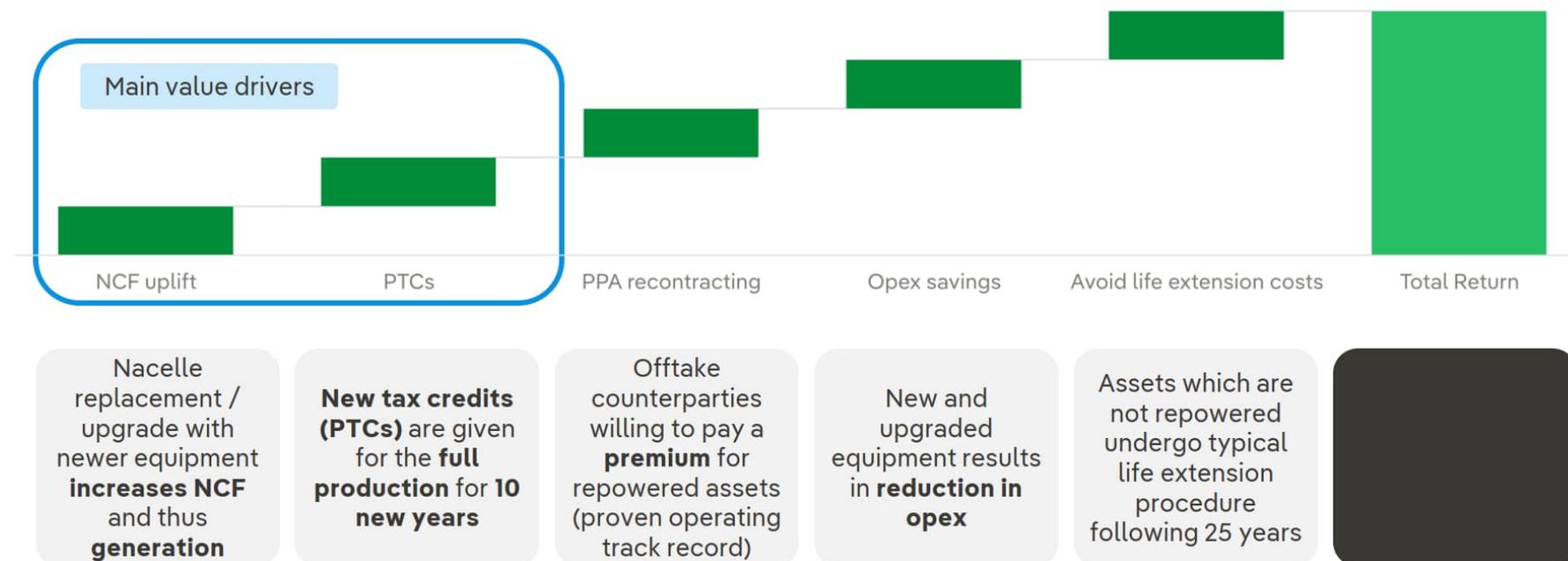
Projects are considering **transferability** or **tax equity** to support **cash generation**





## Repowering Value Drivers

### Illustrative repowering returns



Repowering also supports re-contracting strategy as it qualifies for customers sustainability goals

## Vineyard Wind 1

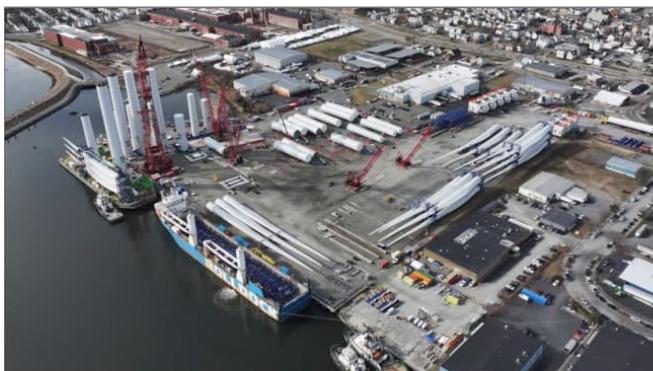


<p><input checked="" type="checkbox"/> <b>Construction Status</b></p>	<ul style="list-style-type: none"> <li>• 73% (806 MW) of construction complete.</li> <li>• Installed: 10 wind turbines, 30 transition pieces, and 47 monopiles (of 62) as of April '24.</li> <li>• 10 WTGs energized and in production. Power generation limitation lifted by ISO-NE to 136 MW.</li> <li>• Onshore and offshore substations are operational. Both export cables successfully energized.</li> </ul>
<p><input checked="" type="checkbox"/> <b>Permitting</b></p>	<ul style="list-style-type: none"> <li>• Coordinating with federal agencies in 2024 MP piling permit schedule.</li> </ul>
<p><input checked="" type="checkbox"/> <b>First Power</b></p>	<ul style="list-style-type: none"> <li>• First turbine started on Dec 31<sup>st</sup>, recurrent power flow on Jan 2<sup>nd</sup></li> </ul>
<p><input type="checkbox"/> <b>Next Steps</b></p>	<ul style="list-style-type: none"> <li>• Accelerate turbine installation and commissioning.</li> <li>• Updated 2024 program and capex.</li> <li>• Fast-track new ITC guidance implementation for 10% ITC bonus.</li> </ul>

## Vineyard Wind 1



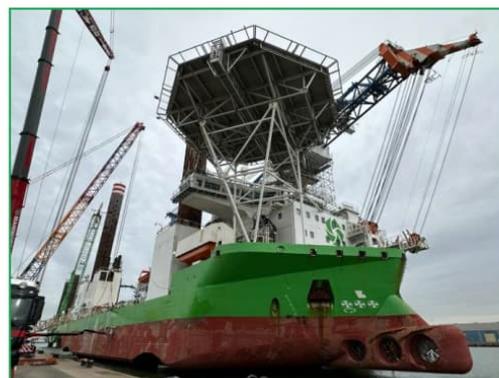
New Bedford staging Port – WTG #12 loaded



Transition Pieces load out in Canada



Mobilization of Sea Challenger (TP installation vessel) ongoing in Vlissingen, the Netherlands – on track for starting installation in May



## Multi-State Offshore RFP



**Avangrid submitted multiple proposals for New England Wind 1 & 2 projects to the Massachusetts-Connecticut-Rhode Island solicitation for offshore wind power**

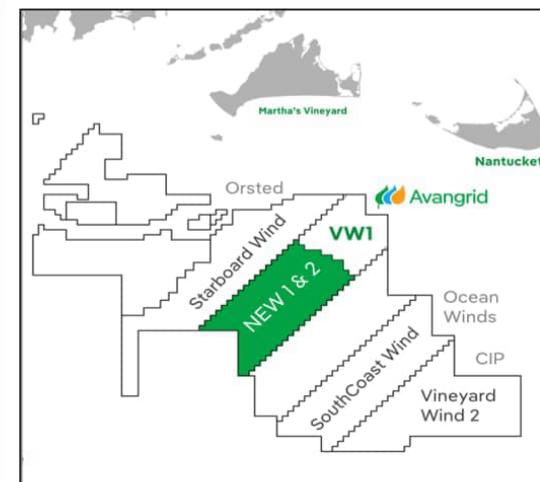
### New England Wind 1 (NEW1)

- 791 MW
- Possible COD 2029

### New England Wind 1 & 2

(NEW2 not offered as a stand-alone project)

- 1,870 MW (791 MW NEW1 & 1,080 MW NEW2)
- Possible COD 2030



### Timeline





# Other Matters

## Proposed Take Private Transaction

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The Unaffiliated Committee of the Avangrid Board is evaluating Iberdrola's proposal to acquire all the issued and outstanding shares of Avangrid stock not owned by Iberdrola or its affiliates for \$34.25 per share.



No decision has yet been made with respect to Avangrid's response to the proposal.



Avangrid will provide a further update when either the Company enters into a definitive agreement, or the Committee determines no such transaction will be approved.

## Government Controlled Power Update



### Ongoing government-controlled power efforts in upstate New York

#### Status

- Legislature voted to reject proposed study on government-controlled power
- All Republicans, and 3 Democrats voted against study

#### Actions Taken

- Secured support of 12 Unions & Labor Organizations: IBEW Local 10, 36, 86 and statewide, CSEA Local 1000 (statewide), Rochester Building & Construction Trades Council, Utility Labor Council State of NY, NYS Association of Electrical Workers, NYS Laborers LiUNA! and Local 435, Int'l Union of Operating Engineers Local 158, Rochester Building & Construction Trades Council
- Formed Advocacy Group: Citizens for Responsible Power Members which is a non-partisan coalition of associations, businesses, and labor unions, consisting of 15 organizations and local businesses.
- Developed and distributed RG&E fact sheets
- Engagement: Met with County Elected Officials – Executive and Legislature. Customer service event. Encouraged employees to contact county legislators and attend April 9<sup>th</sup> meeting



## Content

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- 02 Assessing Affiliate Support Methodology
- 03 Appendix

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Parental Support



# Introduction

## Overview



### Executing On Our Organic Growth Plan



Updated Long Term Outlook thru 2026



Executing on New York Multiyear Rate Plans



Executing on Maine Multiyear Rate Plan



\$872M of capex in 1Q 2024



Submitted proposals in tri-state offshore wind RFP



Sustainable, profitable growth in onshore renewables

### Continuing To Focus On

Completion of construction for Vineyard Wind 1

Change in law cost recovery for NECEC

Cash generation

## Removed Legacy Uncertainties in 2023



Multiyear  
Rate Plan in  
New York



Multiyear  
Rate Plan in  
Maine



Avoided  
offshore wind  
impairments



Avoided 2024  
equity  
issuance



Profitable  
onshore growth  
& renegotiation  
of PPAs



Improved  
dynamics in  
Maine



Improvement  
in diversity  
metrics



Customer  
service,  
reliability &  
cybersecurity  
successes

## Long Term Outlook I 2024 – 2026



Secured over \$9B in new capex investments in Networks:

- \$5B in New York Distribution through rate plan up to 2026
- \$2.9B in New York Transmission for CLCPA Phase I & II
- \$400M in distribution in Maine through 2025

\$5.7B of investment in repowering renewable assets in the period to 2032

Additional growth forecasted in Renewables. Commissioned 300 MW of projects with another 1,000 MW under construction, all with PPAs

**AGR will have full support from IBE under either scenario:**

Lower Dividends  
Capital Increase  
(dilutive at current stock price)

or

Balance Sheet support from  
Parent Company  
Access to Parent Company Equity  
(go private)



## Avangrid: Strong Support from Iberdrola



### Financial

- ✓ Prior to 2015 AGR was fully backstopped by IBE.
- ✓ IBE extended a \$750M revolving line of credit to AGR in 2023.
- ✓ IBE issued a \$800M green term loan to AGR in 2023.
- ✓ IBE issued a short-term deposit for \$250M providing bridge financing to AGR in 2023.
- ✓ IBE showed full commitment to AGR in its 2021 capital increase, investing \$3.26B (81.5% of the total, avoiding any dilution) & enrolling IBE's largest shareholder (Qatar Investment Authority) in the remaining 18.5%.
- ✓ IBE committed a \$4.3B backstop for funding the PNM merger.
- ✓ IBE's capex plan assumes 35% of its capex in the next three years will be allocated in the US (key to its strategy).
- ✓ AGR financing and investment proposals are presented and notated by IBE leadership.
- ✓ Any AGR insolvency or related financial event would be an event of default under IBE's bonds.
- ✓ IBE has invested \$45B in the U.S. since 2006.

### Operational

- ✓ AGR local management leverages IBE's world-class platforms and the best practices of the Global Group (e.g., ERM platform, operational knowhow, etc.).
- ✓ AGR Procurement, Corporate Development, General Services, Security, Innovation, Environment & Quality, IT, Insurance, Control, Finance, Treasury, Investor Relations, Internal Audit, Compliance, Purchasing, Legal and Tax Services are integrated with IBE functions.
- ✓ AGR financials are consolidated into IBE.
- ✓ Ignacio Sanchez Galan is Chairman of both the AGR and IBE boards.

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# Assessing Affiliate Support Methodology

## AGR Satisfies All of the Characteristics



(i)  
wholly owned



(ii)  
carry the name of the parent or group



(iii)  
highly & enduringly integrated with the group, such that a separation would be very difficult



(iv)  
failure to support would pose a meaningful risk to the parent's brand, reputation, or access to the capital markets



(v)  
the parent has taken meaningful actions indicating support in the past, such as financial contributions or advances

## Characteristics of an Affiliate That Receives Higher Support Uplift (i)



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### (i) they are wholly owned;

- ✓ IBE currently owns 81.6% of the outstanding shares of AGR and is committed to maintaining that position without dilution.
- ✓ "As the Company's controlling shareholder, IBE, S.A. continues to exercise significant influence over AGR, including the composition of our board and any action requiring the approval of our shareholders." (*AGR Proxy statement filed with the SEC on April 26, 2024, page 33*)
- ✓ Ignacio Sanchez Galan is Chairman of both AGR and IBE boards.
- ✓ Pedro Azagra Blazquez, appointed CEO of AGR in 2022, previous Chief Development Officer for IBE with 25+ years of experience.
- ✓ AGR's financials roll into IBE's at the consolidated level.
- ✓ On 3/7/24, IBE made a non-binding proposal to acquire all of the issued and outstanding shares of common stock of AGR not currently owned by IBE or its affiliates. The proposal is currently being evaluated by the Unaffiliated Committee of the AGR Board. If consummated, IBE would own 100% of the outstanding shares of AGR.
  - ✓ *Moody's 3/8: "100% ownership by IBE would be credit positive for AGR, since it would underscore AGR's strategic importance to IBE, could provide more financial flexibility for AGR through equity infusions from the larger, well capitalized parent that has substantial liquidity."*



## Characteristics of an Affiliate That Receives Higher Support Uplift (ii)



### (ii) they carry the name of the parent or group;

- ✓ AGR's brand is directly linked to IBE's (including use of same logo and reference to the IBE Group where the AGR name appears):



- ✓ AGR local management leverages IBE's world-class platforms and the best practices of the Global Group (e.g., ERM platform, operational knowhow, etc.).
- ✓ AGR Procurement, Corporate Development, General Services, Security, Innovation, Environment & Quality, IT, Insurance, Control, Finance, Treasury, Investor Relations, Internal Audit, Compliance, Purchasing, Legal and Tax Services are integrated with IBE functions and benefit from economies of scale, which, in turn, reduce costs for AGR and improve the level of service for each function.



## Characteristics of an Affiliate That Receives Higher Support Uplift (iii) Avangrid Parental Support

(iii) they are highly and enduringly integrated with the group, such that a separation would be very difficult;

### AGR-related:

- ✓ AGR Procurement, Corporate Development, General Services, Security, Innovation, Environment & Quality, IT, Insurance, Control, Finance, Treasury, Investor Relations, Internal Audit, Compliance, Purchasing, Legal and Tax Services are integrated with IBE functions.
- ✓ Creates economies of scale and reduce cost pressure.
- ✓ AGR financials are consolidated into IBE.
- ✓ AGR financing and investment proposals are presented and notated by IBE leadership.

### IBE-related:

- ✓ Ignacio Sanchez Galan is Chairman of both AGR and IBE boards.
- ✓ IBE bonds (Euro Medium Term Notes or "EMTNs") go into default in the event of an insolvency or related event for AGR.
- ✓ Global compliance framework that is applied locally.
- ✓ Global IT and reporting system.
- ✓ AGR activities essential to IBE achieving Sustainability goals.



## Characteristics of an Affiliate That Receives Higher Support Uplift (iv) Avangrid Parental Support

(iv) failure to support would pose a meaningful risk to the parent's brand, reputation, or access to capital and credit markets;

### AGR-related:

- ✓ Participation in US market – growth potential/opportunities.
- ✓ AGR's EBITDA represents 20-25% of the IBE Group's EBITDA.
- ✓ AGR's regulated utilities give IBE a lasting, fixed presence in the northeastern U.S.
- ✓ AGR's regulated utility presence plus renewable contracted energy focus yields a strong & strategic position for IBE's clean energy transition.
- ✓ AGR sustainability goals aligned with IBE and significant for Global view.

### IBE-related:

- ✓ IBE has never let any subsidiary go bankrupt or experience extended financial, brand, operational, or other challenges.
- ✓ IBE bonds (Euro Medium Term Notes or "EMTNs") go into default in the event of an insolvency or related event or AGR (meaning IBE would be directly and materially adversely impacted as to brand, reputation, and access to capital and credit markets in the event of an AGR issue).
- ✓ IBE has invested ~\$45B in the U.S. since 2006.
- ✓ U.S. provides geographical diversity, which is key for the success of IBE's strategy.
- ✓ U.S. is an A-rated country with stable regulation and is the hub for quality investors.



## Characteristics of an Affiliate That Receives Higher Support Uplift (v) Avangrid Parental Support

(v) the parent has taken meaningful actions indication support in the past, such as financial contributions or advances.

- ✓ Prior to 2015 AGR was fully backstopped by IBE.
- ✓ AGR benefits from economies of scale for being part of the IBE Group.
- ✓ IBE showed full commitment to AGR with its 2021 capital increase, investing \$3.26B (81.5% of the total, avoiding dilution) and enrolling IBE's largest shareholder (Qatar Investment Authority) in the remaining 18.5%.
- ✓ IBE committed to \$4.3B backstop for the funding of the proposed merger with PNM.
- ✓ IBE has extended a \$750M revolving line of credit to AGR.
- ✓ IBE issued a \$800M green term loan to AGR in 2023.
- ✓ IBE issued a short-term deposit for \$250M providing bridge financing to AGR in 2023. Global suppliers and enhancing banking relationships.
- ✓ On 3/7/24, IBE made a non-binding proposal to acquire all of the issued and outstanding shares of common stock of AGR not owned by IBE or its affiliates. The proposal is currently being evaluated by the Unaffiliated Committee of the AGR Board.
- ✓ *Moody's 3/8: "100% ownership by IBE would be credit positive for AGR, since it would underscore AGR's strategic importance to IBE, could provide more financial flexibility for AGR through equity infusions from the larger, well capitalized parent that has substantial liquidity."*



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# Appendix



## AGR Relevant Subsidiary in IBE EMTN Program

### AGR is considered a relevant subsidiary in IBE's EMTN Program:

Relevant Subsidiary means a Subsidiary of the Guarantor which is incorporated in a country whose sovereign debt is rated A or more by Standard & Poor's (or any equivalent rating) and whose total assets or revenues or EBITDA (consolidated if it has Subsidiaries) represent 7 percent or more of the consolidated total assets, revenues or EBITDA of the Guarantor and its Subsidiaries for the time being, EBITDA for these purposes being the aggregate of (a) "profits from operations" (after adding back "depreciation and amortization charge, allowances and provisions") and (b) "results of companies accounted for using the equity method".

### AGR's potential situations considered Events of Default for IBE's EMTN Program:

(a) Enforcement Proceedings: any distress, attachment, execution or other legal process which is material in the context of the issue and offering of the Senior Notes is levied, enforced or sued on or against any part of the property, assets or revenues of the Issuer or the Guarantor or any of the Guarantor's Relevant Subsidiaries and is not discharged or stayed within 90 days; or

(b) Security Enforced: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor or any of the Guarantor's Relevant Subsidiaries which is material in the context of the issue and offering of the Senior Notes becomes enforceable and any step is taken to enforce it (including the taking of possession by or the appointment of a receiver, administrative receiver, manager or other similar person); or

(c) Insolvency: (i) the Issuer or the Guarantor or any Relevant Subsidiary becomes, or is adjudicated to be, insolvent or is adjudicated to be unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or the Guarantor or any Relevant Subsidiary or the whole or any material part of the undertaking, assets and revenues of the Issuer or the Guarantor or any Relevant Subsidiary is appointed (or application for any such appointment is made), (iii) the Issuer or the Guarantor or any Relevant Subsidiary takes any action for a general readjustment or deferment of its obligations or makes a general assignment or arrangement or composition with or for the benefit of its creditors generally or declares a moratorium in respect of its indebtedness or guarantees given by it, or (iv) any other proceeding is commenced in respect of the Issuer or the Guarantor or any Relevant Subsidiary which requires the application of priorities pursuant to (or equivalent to) any applicable Spanish laws; or

## AGR Relevant Subsidiary in IBE EMTN Program. Cont'd.



(d) Winding-up: an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or the Guarantor or any Relevant Subsidiary, or the Issuer or the Guarantor or any Relevant Subsidiary shall cease or through an official action of its board of directors threaten to cease to carry on all or a substantial part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders or (ii) in the case of a Relevant Subsidiary, whereby the undertaking or assets of the Relevant Subsidiary are transferred to or otherwise vested in (A) the Issuer or the Guarantor or another Subsidiary or (B) any other person provided, in this case, that the undertaking or assets are transferred to that person for full consideration on an arm's length basis and the proceeds of the consideration are applied as soon as practicable in the Guarantor's or the Subsidiary's business or operations or (iii) in the case of the Issuer, whereby the undertakings or assets of the Issuer are transferred to or otherwise vested in the Guarantor or any entity wholly owned by the Guarantor; or (iv) to comply with any mandatory requirements of law, regulation, directive or rule applicable to the Guarantor or any of its Relevant Subsidiaries in connection with the reorganization of the energy sector relevant to the Guarantor or any of its Relevant Subsidiaries;

(e) Cross Default Clause: Until 2018, all bonds issued under Iberdrola's EMTN Program (more than 5 Bn. Eur still outstanding) are affected by a Cross default clause which would include any Relevant Subsidiary. The clause states:  
The Senior Notes will contain a cross default as more fully set out in Condition 10 (Events of Default) of the Senior Notes. The cross default applies to any Relevant Indebtedness incurred by the Issuer or the Guarantor or any Relevant Subsidiary which becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or the Guarantor or which is not paid when due or within any applicable grace period provided that the aggregate amount of Relevant Indebtedness is equal to or exceeds 125,000,000 Eur or its equivalent in other currencies.

## Procurement Practices & Success Stories



### This is how we do it

- AGR's customers and ratepayers directly benefit from the **combined purchasing power** of IBE.
- Competitive tenders are launched for all of AGR, including Renewables where possible, by **aggregating** and **standardizing demands** across all business areas.
- For certain goods and services, e.g., electrical equipment, software licenses and hardware, tenders are launched globally to use the greater leverage of the entire Iberdrola group.
- In times of material shortages, AGR gets faster **access to critical equipment** and has **preferential access to a global supplier base** at better terms and conditions than on a stand-alone basis.
- The AGR **Purchasing Policies & Practices** are very robust, with strong governance, global **coordination** and continuous **exchange of best practices** across IBE.



## Procurement Practices & Success Stories - Cont'd.

### Success Stories (examples)

