

**LS POWER GRID NEW YORK CORPORATION I**  
**NOTES TO FINANCIAL STATEMENTS**

December 31, 2023 and 2022

The accompanying financial statements were prepared in accordance with the accounting requirements of the Federal Energy Regulatory Commission (FERC) as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (U.S. GAAP). Accordingly, certain notes are not prepared on the same basis as the financial statements presented herein as the Notes to the Financial Statements set forth below are principally from the Company's audited December 31, 2023 and 2022 U.S. GAAP Financial Statements.

The primary differences between the Company's FERC financial statements and U.S. GAAP financial statements are:

- (1) Accumulated costs of removal are reported in accumulated depreciation for FERC reporting purposes (U.S. GAAP requires that cost of removal be classified as a regulatory liability);
- (2) There is no current liability classification of the current portion of long term debt; and deferred financing costs are reported separately in the FERC balance sheet;
- (3) The presentation of regulatory assets and regulatory liabilities in the balance sheet under U.S. GAAP requirements differs from FERC requirements; and
- (4) A portion of Member's equity for U.S. GAAP reporting purposes is included in Accumulated Deferred Income Taxes for FERC reporting purposes. However, the Members pay income taxes on their allocated share of the Company's income and for purposes herein, those taxes are calculated using the federal corporate rate.

**(1) Organization**

North America Transmission Corporation, a New York corporation (the Corporation), incorporated on September 12, 2013 and immediately issued all shares of stock to LSP Transmission Holdings, LLC (the Initial Sole Shareholder). On July 11, 2018, the Initial Sole Shareholder and the Corporation approved the assignment of all the shares of the Corporation from the Initial Sole Shareholder to LS Power Grid New York Holdings, LLC (Grid New York Holdings), its current sole shareholder. On July 11, 2018, the Corporation amended its articles of incorporation to change its name to LS Power Grid New York Corporation. On July 19, 2018, the Corporation amended its articles of incorporation further to change its name to LS Power Grid New York Corporation I (the Company).

The Company is a transmission-only utility whose business is to develop, own, and operate transmission facilities in the New York Independent System Operator (NYISO) region. On April 8, 2019, the NYISO Board of Directors approved the AC Transmission Public Policy Transmission Planning Report Addendum, selecting the Company's joint proposal with the New York Power Authority (NYPA) for Segment A, now named the Central East Energy Connect. The Central East Energy Connect consists of approximately 100 miles of 345 kV transmission lines (mostly double-circuit) between the existing Marcy substation in Oneida County, New York and the existing New Scotland substation in Albany County, New York including intermediate connections to a new Princetown 345 kV substation and a new Gordon Road 345 kV substation (the Project). The Company will own 100% of certain facilities that represent approximately 62.5% of the Project, including approximately 45 miles of transmission line facilities and the new Princetown and Gordon Road substations. The facilities have been placed in service in stages, with an initial five mile segment energized at 230 kV in May 2021, and the final facilities placed in service on December 11, 2023.

**(2) Summary of Significant Accounting Policies**

***(a) Basis of Presentation***

The Company's financial statements and accompanying notes are presented in accordance with U.S. GAAP. The accounting records of the Company are maintained in accordance with the FERC Uniform System of Accounts.

The Company qualifies for the application of regulatory accounting treatment as allowed by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Regulated Operations* (ASC 980). This accounting guidance prescribes the method to be used to record the financial transactions of a

regulated entity. The criteria for applying the accounting guidance for regulated operations include the following: (i) rates are set by an independent third party regulator, (ii) approved rates are intended to recover the specific costs of the regulated products or services, and (iii) rates set at levels that will recover costs can be charged to and collected from customers. The accounting guidance for regulated operations recognizes that the rate actions of a regulator can provide reasonable assurance of the existence of an asset and requires the capitalization of incurred costs that would otherwise be charged to expense where it is probable that future revenue will be provided to recover these costs. Additionally, the rate actions of a regulator can impose a liability on a regulated entity and such liabilities are usually obligations to the entity's customers.

These financial statements and notes reflect the Company's evaluation of events occurring subsequent to the accompanying balance sheet dates through March 15, 2024, the date the U.S. GAAP financial statements were issued. This evaluation has been updated through April 15, 2024, the date the Company filed this report with FERC.

***(b) Use of Estimates***

Management makes estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses to prepare the financial statements in conformity with U.S. GAAP. Actual results could differ materially from those estimates.

***(c) Restricted Cash***

Restricted cash represents cash that is restricted under the terms of the Company's financing agreement. Such cash is used primarily for construction costs.

***(d) Accounts Receivable and Revenue***

Accounts receivable includes receivables from NYISO. The Company generates revenue through transmitting electricity to its customers. The Company's revenue streams consist of FERC approved, tariff-based revenue and are settled by NYISO. The Company recognizes revenue from the transmission of electricity in accordance with ASC 606, *Revenue from Contracts with Customers*. The Company recognizes revenue proportionately throughout the year based on the FERC-approved Transmission Revenue Requirement (TRR) as calculated prior to the beginning of each year and using the FERC-approved formula rate template. Differences between the billed rates and the amounts recognized under the TRR are recorded to a Transmission Revenue Balancing Account (TRBA). With an annual adjustment required by FERC, this ensures that any over-or under-recovery of the annual TRR flow through to transmission customers.

Accounts receivable also includes receivables from NYPA and Niagara Mohawk Power Corporation (National Grid) for their portion of the Project costs. The Company bills out these costs in accordance with the respective agreements (see notes 5(a) and 5(b)).

***(e) Inventory***

Inventory consists of materials and supplies related to transmission work. The Company values inventory at the lower of weighted average cost or net realizable value.

***(f) Property and Equipment***

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the group composite method which is designed to recover the Company's undepreciated property and equipment, adjusted for net salvage, over the remaining life of the assets on a straight-line basis. The estimated life for transmission structures and equipment ranges from 48-71 years, land rights are 70 years, and general equipment and other ranges from 4-15 years. All improvements and betterments are capitalized, while the costs of maintenance and repairs are expensed as incurred. When property is retired, the cost of such property, less salvage, is credited to the asset placed in service and charged to accumulated depreciation.

***(g) Construction in Progress***

All costs directly related to the acquisition and construction of long-lived assets are capitalized, including taxes and insurance incurred during the construction. Costs from completed construction projects are transferred to

property and equipment when the assets are placed in service or considered used and useful. In 2022 and 2023, assets constructed under various phases of the Project were placed in service and construction in progress for those phases was transferred to property and equipment. As of December 31, 2023 and 2022, Construction in progress totaled \$0.9 million and \$206.0 million, respectively.

In accordance with the FERC Uniform System of Accounts, as provided for in ASC 980, the Company recognizes allowance for funds used during construction (AFUDC) as a cost to construct work in progress. During 2023 and 2022, the Company recognized approximately \$9.7 million and \$17.0 million, respectively, in AFUDC on the accompanying statements of operations. The AFUDC rate utilized is calculated consistently with the FERC Uniform System of Accounts. The average AFUDC rate utilized in 2023 and 2022 was 8.6% and 7.3%, respectively.

#### ***(h) Impairment of Long-Lived Assets***

In accordance with ASC 360, *Property, Plant, and Equipment*, long-lived assets with determinable useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is determined by a specific regulatory disallowance or measured by a comparison of the carrying amount of the assets to the future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by either the amount of regulatory disallowance or the amount by which the carrying amount of the assets exceeds the fair value of the assets and would be charged to earnings.

#### ***(i) Regulatory Assets***

ASC 980 provides that the rate actions of a regulator can provide reasonable assurance of the existence of an asset and for the capitalization of costs that would otherwise be charged to expense if it is probable that future revenue will result from inclusion of those capitalized costs in allowable costs for rate-making purposes. The Company incurred certain costs, including rate filing expenses and other operating costs, which are recoverable through future revenues as a result of including those costs in allowable costs for rate-making purposes and are deferred in accordance with current regulatory accounting guidance. As of December 31, 2023 and 2022, the Company recognized Regulatory assets on the accompanying balance sheets totaling \$22.5 million and \$17.1 million composed of the items below.

On May 26, 2020, under Docket No. ER20-716-000, the FERC approved the deferred recovery of all prudently incurred pre-commercial, start-up, and development costs not capitalized for Segment A (including regional planning, formation, or regulatory commission expenses). The FERC also granted the Company's request to create a regulatory asset account for costs related to its proposal for Segment B. On May 31, 2021, the Company ended its accrual of costs to the regulatory asset, excluding the accrual of carrying charges through year-end 2021. On October 15, 2021, the Company made its Federal Power Act (FPA) Section 205 filing seeking FERC approval, and the Company received FERC approval on December 14, 2021. The regulatory asset, including carrying costs, totaled \$10.3 million as of December 31, 2021. In accordance with U.S. GAAP, a reserve of \$0.7 million was recorded against the regulatory asset for the equity component of the carrying charge, and this will reverse as the recovery occurs through rates. Commencing in January 2022, these costs are being amortized to expense over a ten-year period. For the years ended December 31, 2023 and 2022, \$1.0 million of regulatory asset amortization was recorded to Operations and maintenance expense and an offsetting \$70 thousand reversal of the reserve was recorded to Interest expense, net on the accompanying statements of operations.

The revenues from the Company's cost based formula rates are recorded when earned. The Company achieves matching of costs and related revenues by deferring the net under recovery or over recovery through the TRBA. Any under recovered costs or over recovered revenues are collected from or returned to customers in subsequent periods. For the year ended December 31, 2022, the Company had an under recovery position related to the 2021 rate year with a regulatory asset of \$1.4 million. This was fully collected through rates in 2023. For the year ended December 31, 2023, the Company has an estimated under recovery position related to the 2023 rate year resulting in a regulatory asset of \$5.7 million to be collected in 2025.

The Company has recorded a deferred tax regulatory asset due to the tax-on-tax gross-up related to the after-tax regulatory asset for the equity component of undepreciated AFUDC (see note 8). As of December 31, 2023 and 2022, the Company has recorded a regulatory asset of \$9.2 million and \$7.1 million, respectively.

### ***(j) Asset Retirement Obligation***

In accordance with ASC 410, *Asset Retirement Obligations and Environmental Obligations*, the Company recognizes the fair value of the liability for an asset retirement obligation (ARO) in the period in which it is incurred if a reasonable estimate of fair value can be made. An amount equal to the present value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the useful life of the asset after the start of commercial operations. The liability is accreted through charges to operating expenses that will be recovered as an allowable cost in future rates.

The Company has identified, but not recognized, ARO liabilities related to electrical transmission assets, as a result of certain easements on property on which the Company has assets. Generally, such easements are perpetual and require only the retirement and removal of the assets upon cessation of the property's use. Management does not estimate the ARO for such easements because the Company plans to use the facilities indefinitely.

### ***(k) Debt Issuance and Deferred Financing Costs***

Debt issuance and deferred financing costs are amortized over the term of the Company's financing arrangements using the effective interest method. The amortization of these costs is reflected as a component of Interest expense, net in the accompanying statements of operations. Unamortized debt issuance and deferred financing costs related to the Term Loan Facility are reflected as a component of Long term debt on the accompanying balance sheets. Unamortized debt issuance and deferred financing costs related to the Revolving Loan Facility are reflected as a component of Other assets on the accompanying balance sheets.

### ***(l) Regulatory Liabilities***

Under ASC 980, the Company recognizes regulatory liabilities for provisions that have been collected in rates for costs not yet incurred and for amounts that are expected to be refunded to customers in future periods through rates. As of December 31, 2023 and 2022, the Company recognized Regulatory liabilities on the accompanying balance sheets totaling \$2.3 million and \$1.2 million, respectively, composed of the items below.

The Company records cost of removal for its regulated transmission assets through FERC approved depreciation rates and recovers those amounts in rates charged to its customers. The amounts recorded as of December 31, 2023 and 2022 were \$1.2 million and \$0.4 million. In 2023 and 2022, the Company recovered \$773 thousand and \$323 thousand, respectively of removal costs through rates and did not incur any removal costs.

In addition to the under recovery of costs and related revenues discussed in Note 2(i), for the year ended December 31, 2022, the Company had an over recovery position related to the 2022 rate year resulting in a regulatory liability of \$0.8 million to be collected in 2024. With the 2022 true-up filing, this amount increased by \$0.3 million for a final over recovery position of \$1.1 million as of December 31, 2023.

### ***(m) Leases***

In accordance with FASB ASC 842, *Leases* (ASC 842), the Company evaluates each contract at inception to determine if it contains a lease. The Company considers a contract to be a lease when an asset is either explicitly or implicitly identified in the contract; and the contract conveys to the Company the right to control the use of the identified asset during the contract period.

Operating lease right of use assets represent the Company's right to use an underlying asset for the lease term, and operating lease liabilities represent the Company's obligation to make lease payments arising from the lease, both of which are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. Renewal options that are reasonably certain to be exercised are included in the lease term. In determining the present value of the future lease payments, the Company uses the incremental borrowing rate, which is the rate of interest that the Company would have to pay to borrow, on a collateralized basis, over a similar term an amount equal to the payments for the lease. Short-term leases, leases with a term of 12 months or less at inception, are not recorded on the Company's balance sheets. Lease expense for all operating leases are expensed on a straight-line basis over the lease term on the Company's statements of income. See note 6.

### ***(n) Fair Value Measurements***

Fair value, as defined in ASC 820, *Fair Value Measurement and Disclosures* (ASC 820), is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants

would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

***(o) Fair Value of Financial Instruments***

The carrying amount of Accounts receivable- trade, Accounts receivable- other, Other current assets, Accounts payable and accrued expenses, Accounts payable - affiliate, Accrued construction in progress, and Accrued retainage payable equals or approximates fair value due to the short-term maturity of those instruments. The fair value of the Company's long term debt approximated its book value at December 31, 2023 and 2022.

***(p) Income Taxes***

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are recognized for temporary differences between the financial statement basis and the tax basis of assets and liabilities using enacted tax rates applicable to for the year(s) in which the temporary differences are expected to reverse. In general, deferred income tax expense or benefit for a reporting period is recognized as the change in deferred tax assets and liabilities from the beginning to the end of the period.

The effects of tax positions are recognized in the financial statements when it is more likely than not that the position taken, or expected to be taken, in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. The effects of changes in tax laws or rates on deferred tax assets and liabilities are recognized in the period of enactment and the timing of recognition of the effects of such changes on income tax expense depends on applicable Commission orders.

The Company recognizes regulatory assets or liabilities for deferred taxes in certain circumstances in accordance with the applicable ratemaking and ASC 980-740. The tax-related regulatory assets recorded relate to the AFUDC accrued and capitalized on an after-tax basis. Tax-related regulatory assets and liabilities are reported at the revenue requirement level and constitute temporary differences for which deferred tax assets or liabilities must be recorded.

The Company is included in the consolidated tax return of its parent, LSP Transmission Holdings, LLC. An allocation of the consolidated current and deferred income tax expense of the corporate parent is reported by the Company based on the income tax effects of the Company's activities, including its earnings, gains, losses, deductions, and tax credits for federal and state income tax return reporting. Income taxes are calculated based on the composite federal and state income tax rates applicable to the Company on a stand-alone basis. The Company pays the applicable tax to or receives the appropriate refund from the parent. The current provision is the amount of tax payable or refundable on the basis of a hypothetical, current-year separate company return. Deferred taxes are provided on temporary differences and on any carryforwards that could be claimed on the hypothetical separate return. The need for a valuation allowance is assessed on the basis of the Company's projected separate return results. Any difference between the tax provision (or benefit) allocated to the Company and payments to be made to (or received from) the parent for tax expense is treated as either dividends or capital contributions.

Income taxes are discussed in more detail in Note 8 - "Income Taxes."

***(q) Concentrations of Credit Risk***

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of Restricted cash and Accounts receivable. Cash accounts are generally held at major financial institutions. Accounts receivable are primarily from NYISO and NYPA and are concentrated within entities engaged in the energy industry. These industry concentrations may impact the Company's overall exposure to credit risk, either positively or negatively, in that customers may be similarly affected by changes in economic, industry, or other conditions.

**(r) Risks and Uncertainties**

The Company is subject to a variety of factors, including the economy, regulatory uncertainty as a fully regulated public utility, the possibility of violations of laws, rules, and regulations promulgated by several governmental and quasi-governmental entities, the associated risk of fines and other sanctions, and the availability of capital resources. As with any electric transmission system, operation of the Company's transmission system involves risk, including interruptions or outages due to the breakdown or failure of equipment or processes, violations of permit requirements, operator error, labor disputes, weather interferences or catastrophic events such as fires, earthquakes, floods, explosions, tornadoes, pandemics, or other similar occurrences affecting a transmission system. The occurrence of any of these events could significantly increase expenditures associated with operating and maintaining the transmission system, leaving the Company with less net revenue to make payments of principal and interest on its debt when due.

**(s) Commitments and Contingencies**

In accordance with ASC 450, *Contingencies* (ASC 450), the Company records a loss contingency for matters when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Loss contingency reserves are based on estimates and judgments made by management with respect to the likely outcome of matters, including any applicable insurance coverage for such matters and are adjusted as circumstances warrant. These estimates and judgments could change based on new information, changes in laws or regulations, changes in management's plans or intentions, the outcome of legal proceedings, settlements or other factors.

Additionally, the Company follows the guidance of ASC 460, *Guarantees* (ASC 460), for disclosing and accounting of guarantees and indemnifications entered into during the course of business. When a guarantee or indemnification subject to ASC 460 is entered into the estimated fair value of the guarantee or indemnification is assessed. Some guarantees and indemnifications could have a financial impact under certain circumstances. Management considers the probability of such circumstances occurring when estimating fair value.

**(t) Recent Accounting Pronouncements (Adopted)**

In March 2020, the FASB issued ASU 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (ASU 2020-04), to provide optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform. ASU 2020-04 is elective and applies to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate (LIBOR). In addition to ASU 2020-04, the FASB issued ASU 2021-01 which provides further clarification, and ASU 2022-06 which defers the effective date of adoption. ASU 2020-04 was subject to election as of March 20, 2020 and can be elected for annual periods through December 31, 2024. The Company completed its evaluation of significant contracts under this ASU. Certain of the reviewed contracts have been amended to apply a new reference rate. This ASU did not have a material impact on the Company's financial statements.

In June 2016, FASB issued ASU 2016-13, *Financial Instruments Credit Losses* (ASU 2016-13). ASU 2016-13 introduces the current expected credit loss model, which requires an entity to measure credit losses for certain financial instruments and financial assets, including trade receivables. Under ASU 2016-13, on initial recognition and at each reporting period, an entity will be required to recognize an allowance that reflects the entity's current estimate of credit losses expected to be incurred over the life of the financial instrument. In addition to ASU 2016-13, the FASB issued ASU 2019-04 which provides further clarification. ASU 2016-13 and related ASUs will be effective for the Company for fiscal years beginning after December 15, 2022. This ASU did not have a material impact on the Company's financial statements.

**(u) Recent Accounting Pronouncements (Not Yet Adopted)**

In December 2023, FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* (ASU 2023-09), to enhance the transparency and decision usefulness of income tax disclosures. ASU 2023-09 requires certain quantitative rate reconciliation disclosures for public entities. Additionally, this ASU requires all entities to disclose income taxes paid disaggregated by jurisdiction. ASU 2023-09 is effective for the Company for fiscal years beginning after December 15, 2025.

### **(3) Regulatory Matters**

#### ***(a) Organizational Filings***

The Company has received FERC approval to use a company-specific, forward-looking or projected formula rate framework in setting its transmission rates. These projected rates are updated annually with forecasted information for collection by NYISO on behalf of the Company. An annual reconciliation or true-up, which calculates the revenue requirement using actual data, is used to adjust the projected rates in a subsequent year.

On January 9, 2019, under Docket No. EL19-30-000, the Company filed a petition for a declaratory order seeking FERC authorization for abandoned plant transmission rate incentives for the Project. On May 16, 2019, the FERC granted the Project full recovery of prudently incurred costs if the Project is abandoned for reasons beyond the Company's control.

On December 4, 2019, the Company filed an application with the State of New York Public Service Commission (NYPSC) seeking a certificate of public convenience and necessity (CPCN) to begin the construction and ownership of the Project pursuant to Section 68 of the Public Service Law. On January 21, 2021, the NYPSC issued the CPCN.

On December 31, 2019, under Docket No. ER20-716-000, NYISO filed, on behalf of the Company, a transmission formula rate template and formula rate implementation protocols, together with a request for certain incentive rate treatments. On May 26, 2020, the FERC approved certain transmission rate incentives requested by the Company. The Order granted for the Company: (1) regulatory asset incentive and accrual of carrying charges; (2) a 50 basis point ROE risk adder; (3) a 50 basis point RTO participation adder; and (4) a hypothetical capital structure of 47% debt and 53% equity until the Project achieves commercial operation.

On April 1, 2021, amended on April 9, 2021, under Docket No. ER20-716-004, NYISO filed, on behalf of the Company and settling parties, an Offer of Settlement concerning certain matters including a base return on equity of 9.65% and a provision to use the Company's actual capital structure, up to 52% equity, after all facilities of the Project are placed in service. On June 17, 2021, the FERC approved the Company's Offer of Settlement and directed the Company to make a compliance filing with updated revised tariff records which was accepted on December 3, 2021. The final facilities of the Project were placed in service on December 11, 2023.

#### ***(b) Formula Rate Updates***

In 2021, the Company projected a 2022 annual revenue requirement of \$23.4 million that included \$12.7 million in recoverable operating expenses and no applicable prior year true-up adjustment. This new revenue requirement became effective January 2022, subject to true-up. The calculated 2022 true-up adjustment has been incorporated into the 2024 projected transmission revenue requirement.

In 2022, the Company projected 2023 annual revenue requirement of \$52.1 million that included \$21.7 million in recoverable operating expenses. This projected value also included a 2021 true-up adjustment of \$1.4 million representing a calculated under recovery in 2021. This new revenue requirement became effective January 2023, subject to true-up. (note 2(i)). The calculated 2023 true-up adjustment will be incorporated into the 2025 projected transmission revenue requirement.

In 2023, the Company projected a 2024 annual revenue requirement of \$76.5 million, that included \$30.8 million in recoverable operating expenses. This projected value also included a 2022 true-up adjustment of \$1.1 million representing a calculated over recovery in 2022 (note 2(l)). The calculated 2024 true-up adjustment will be incorporated into the 2026 projected transmission revenue requirement.

#### (4) Property, Equipment and Construction in Progress, net

As of December 31, 2023 and 2022, the Property, equipment and construction in progress, net balance is as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Land and land rights	\$ 18,279	3,495
Transmission structures and equipment	415,850	167,007
General equipment and other	16,090	14,639
Construction in progress	868	206,064
Land held for future use	<u>562</u>	<u>          </u>
Property, equipment and construction in progress	451,649	391,205
Accumulated depreciation and amortization	<u>(10,946)</u>	<u>(3,319)</u>
Property, equipment and construction in progress, net	<u>\$ 440,703</u>	<u>387,886</u>

In 2023, the Company recognized \$7.6 million in depreciation and amortization costs and \$0.8 million in cost of removal, for a total of \$8.4 million of Depreciation and amortization expense on the accompanying statement of operations.

In 2022, the Company recognized \$3.0 million in depreciation and amortization costs and \$0.3 million in cost of removal, for a total of \$3.3 million of Depreciation and amortization expense on the accompanying statement of operations.

As of December 31, 2023 and 2022, the balance in Construction in progress is as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	\$ 206,064	202,589
Additions	128,389	224,629
Reimbursement (notes 5(a) and 5(b))	(68,819)	(95,014)
Transfers to property and equipment in service	<u>(264,766)</u>	<u>(126,140)</u>
Construction in progress	<u>\$ 868</u>	<u>206,064</u>

#### (5) Contracts and Commitments

##### *(a) Project Participation Agreement*

In connection with the Project, the Company entered into a Participation Agreement with NYPA on June 7, 2018 (the Original Participation Agreement). This agreement set forth the parties' respective rights and obligations regarding the development, construction, ownership, and operation of the Project in the event that NYISO selected the parties as co-providers of the Project.

The Original Participation Agreement was superseded by the First Amended and Restated Participation Agreement (Amended Participation Agreement) on January 28, 2021. The Amended Participation Agreement sets forth the rights, duties, responsibilities, and agreements of the parties and defines the points of change in ownership of the Project. All costs related to the Project will be split between both parties according to defined ownership percentages and will be billed on a monthly basis. Upon completion of the Project, NYPA and the Company will each own and manage a different discrete portion of the Project, with the Company having 100% ownership of facilities that represent 62.5% of the Project and NYPA having 100% ownership of other Project facilities. The amounts billed to NYPA represent a reduction to Property, equipment and construction in progress on the Company's balance sheet.

In 2023, the Company incurred \$67.9 million related to NYPA under the agreements, all of which is recorded as a reduction to Property, equipment and construction in progress on the accompanying balance sheet. As of December 31, 2023, \$17.2 million of this amount is included in Accounts receivable- other on the accompanying balance sheet and Payments for construction in progress on the accompanying statement of cash flows. Additionally, in 2023 NYPA billed \$549 thousand to the Company under the agreements.

In 2022, the Company incurred \$85.0 million related to NYPA under the agreements, all of which is recorded as a reduction to Property, equipment and construction in progress on the accompanying balance sheet. As of December 31, 2022, \$9.6 million of this amount is included in Accounts receivable- other on the accompanying balance sheet and Payments for construction in progress on the accompanying statement of cash flows. Additionally, in 2022 NYPA billed \$774 thousand to the Company under the agreements.

***(b) Settlement Agreement***

In connection with the Project, the Company entered into a Settlement Agreement with two unaffiliated third parties dated November 12, 2020 (Settlement Agreement). Pursuant to the Settlement Agreement, one third party shall make the capital investments, obtain cost recovery on, and earn any corresponding return related to certain portions of the Project as follows: removal of existing conductor and installation of new 345 kV conductor on existing towers owned by the third party in place of the former #30 line for approximately 12 miles in Oneida County and Herkimer County (the Reconductor Project). All costs incurred by the Company related to this work will be reimbursed by the third party under the Settlement Agreement. The costs incurred by the Company and the offsetting reimbursement from the third party are recorded in Property, equipment and construction in progress on the accompanying balance sheets. As of December 31, 2023 and 2022, the Company has incurred costs in furtherance of the Reconductor Project. As of December 31, 2023, a portion of these costs are included in Accounts receivable- other on the accompanying balance sheet and Payments for construction in progress on the accompanying statement of cash flow. As of December 31, 2022, the full amount billed to the third party was reimbursed.

***(c) Engineering, Procurement, and Construction Agreements***

The Company has various material agreements with unaffiliated third parties for the engineering, procurement, and construction of the Project, as detailed below. The total commitments under these material agreements total \$432.9 million, including \$4.9 million in change orders executed in 2023. As of December 31, 2023 and 2022, the Company incurred total costs of \$420.7 million and \$329.2 million, respectively, under these agreements, with a remaining \$12.2 million expected to be incurred in 2024. These costs are included in Property, equipment and construction in progress on the accompanying balance sheets.

In October 2015, the Company and an unaffiliated third party entered into an agreement for engineering and construction support services for the transmission lines. The unaffiliated third party furnished the services of all personnel necessary to complete the services where such personnel shall be technically competent and possess the qualifications, skills and licenses necessary to carry out their duties. No changes to the work are allowed, except in accordance with a duly issued change order executed by both parties authorizing such changes.

In September 2020, the Company and an unaffiliated third party entered into agreements for engineering, procurement and construction for each of the substations. The unaffiliated third party agreed to perform all necessary work and services required for the design, engineering, permitting, fabrication, procurement, transportation, construction, assembly, installation, testing and completion of the Project. The unaffiliated third party was solely responsible for all construction means, methods, techniques, sequences, procedures, coordination and control of labor, safety and security programs, training, commissioning and startup, in connection with the performance of the work. No changes to the work are allowed, except in accordance with a duly issued change order executed by both parties authorizing such changes.

In September 2020, the Company and an unaffiliated third party entered into an agreement for transmission line procurement & construction services. The unaffiliated third party agreed to procure transmission line major materials, to construct and install certain roads, pads, foundation, anchors, and structures, to string certain conductor wires, shield wires, and optical ground wires, and to perform certain other services in connection with the Project. The unaffiliated third party is solely responsible for the engagement and management of subcontractors in the performance of the work, for all work performed by subcontractors and for all acts, omissions, failures or faults of all subcontractors as fully as if they were the acts, omissions, failures and faults of the unaffiliated third party. No changes to the work are allowed, except those in accordance with duly issued change orders executed by both parties. On January 17, 2024, the unaffiliated third party provided the Company information about a potential change order related to acceleration of the Project to maintain schedule as a result

of claimed atypical weather and site conditions. The Company is discussing this potential change order to determine the impact.

***(d) Asset Purchase and Sale Agreement***

The Company entered into an Asset Purchase and Sale Agreement with National Grid on October 6, 2020 regarding the purchase of transmission line facilities that have predominantly been retired and must be removed for the construction of the Project to proceed. The Company completed the purchases in segments throughout 2021 and 2022. In 2022, the Company incurred costs of \$14.7 million under this agreement for total incurred costs of \$20.5 million. These costs are included in Property, equipment and construction in progress on the accompanying balance sheets.

***(e) Interconnection Agreements***

The Company entered into an agreement for interconnection with NYISO and National Grid on April 2, 2021 to govern the interconnection of a portion of the Project to the New York electric system, including responsibilities for associated system improvements necessitated by the Project. These costs are included in Property, equipment and construction in progress on the accompanying balance sheets.

Additionally, NYPA entered into an Interconnection Agreement with NYISO and National Grid on April 29, 2021 to govern the interconnection of the remaining portion of the Project to the New York electric system, including responsibilities for associated system improvements necessitated by the Project.

The Company and NYPA each have cost responsibilities under these agreements that are defined under the Amended Participation Agreement (see note 5(a)).

***(f) Operation and Maintenance Facilities Agreements***

In 2021, the Company entered into various new contracts to support the design of the operations and maintenance facilities consisting of a primary office, control center, and maintenance warehouse facility, as well as a backup control center. The Company executed agreements for architect services, project management, general contractor services, and certain operational technology equipment. The Company entered into a general contractor services contract in August 2021. Construction of the office, maintenance warehouse, and control room facilities was completed in 2022 and the associated costs are included in Property, equipment and construction in progress on the accompanying balance sheets.

On January 19, 2022, the Company entered into a Purchase and Sale Agreement for property for a future stand-alone maintenance and laydown facility that closed on July 15, 2022. In 2023, the Company entered into various construction agreements for the construction of the maintenance and laydown facility. The laydown yard was placed in service in December 2023, and the Company expects the maintenance facility to be placed in service by August 2024. These costs are included in Property, equipment and construction in progress on the accompanying balance sheets.

***(g) Land Rights***

The Company has land rights that were obtained through various purchases, land agreements, and licenses with private land owners, incumbent utility companies, and governmental agencies. Most of these land rights required a one-time upfront payment, are perpetual or long-term in nature, and were recorded to Property and equipment, net as incurred. On October 6, 2020, the Company entered into a 99-year land agreement with National Grid for Project property rights associated with one new substation and most of the transmission right-of-way.

The Company has various long term contractual and commercial commitments of which the significant contracts have been previously discussed in this note and note 6, which further discusses lease agreements.

The following table summarizes the obligations with respect to the significant contractual and commercial commitments, including lease agreements, as of December 31, 2023 (in thousands):

<b>Contractual obligations</b>	<b>Less than 1 year</b>	<b>2 to 3 years</b>	<b>4 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Leases	\$ 175	318	334	801	1,628
Total	\$ 175	318	334	801	1,628

## (6) Leases

The Company has operating leases for buildings under various terms. The Company has certain agreements that contain renewal options. The intent to renew a lease varies depending on the lease type and asset. Renewal options that are reasonably certain to be exercised are included in the lease term.

Effective November 1, 2020, the Company entered into a non-cancellable operating lease for a temporary construction office. The lease includes an initial term of three years with an option to extend the lease for four additional terms of six months each. The Company plans to exercise the first renewal option at the end of the initial lease term. Effective May 1, 2021, the Company entered into a non-cancellable operating lease for the primary office, control center, and maintenance warehouse facility. The lease includes an initial term of seven years with an option to extend the lease for one additional term of five years and one additional term of three years. The Company plans to exercise the first five-year renewal option at the end of the initial lease term.

Lease payments are payable on a monthly basis. Lease payments under certain agreements may escalate over the lease term by a fixed percentage. The Company does not have any leases that contain variable lease payments. The Company has no leases which contain residual value guarantees provided by the Company.

Upon adoption of ASC 842 on January 1, 2022, the Company recognized both an operating lease liability and related right-of-use (ROU) asset in the amount of \$1.7 million.

	<b>Year ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Lease cost</b>		
Operating lease cost	\$ 227	236
Short-term lease cost		
Total lease cost	\$ 227	236
<b>Other information:</b>		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 214	208
Right-of-use assets obtained in exchange for new operating lease liabilities	\$	1,717
Weighted-average remaining lease terms (in years)	9.28	9.94
Weighted-average discount rate	2.98%	2.98%

As of December 31, 2023, annual payments based on the maturities of the Company's operating leases are expected to be as follows:

2024	\$	175
2025		157
2026		161
2027		165
2028		169
Thereafter		801
Total operating lease payments		1,628
Less: present value adjustment		(211)
Total operating lease liabilities	\$	<u>1,417</u>

## (7) Financing Arrangements

As of December 31, 2023 and 2022, outstanding principal balances under the Company's financing arrangements are as follows (in thousands):

		<u>2023</u>	<u>2022</u>	<u>Maturity date</u>
Term Loan Facility	\$	200,000	200,000	2025
Revolving Loan Facility		20,000	7,100	2025
Total	\$	<u>220,000</u>	<u>207,100</u>	

At December 31, 2023 and 2022, the unamortized debt issuance and deferred financing costs associated with the Term Loan Facility totaled \$0.8 million and \$1.3 million, respectively, and the unamortized debt issuance and deferred financing costs associated with the Revolving Loan Facility totaled \$64 thousand and \$107 thousand. The amortization of these costs is reflected as a component of Interest expense, net on the accompanying statements of operations. For both years ended December 31, 2023 and 2022, amortization of such costs was \$0.6 million.

### (a) Credit Agreement

On December 28, 2020, the Company executed a credit agreement with a group of lenders (the Credit Agreement). The Credit Agreement consisted of:

- (i) \$200.0 million Term Loan Facility to pay project costs, initial working capital costs; and
- (ii) \$20.0 million Revolving Loan Facility to use solely for working capital and general corporate purposes.

Grid New York Holdings agreed to secure all of the Company's obligations by granting to the Bank of New York Mellon (collateral agent) a first priority lien on 100% of its equity interests in the Company.

The Credit Agreement specified a maturity date earlier of (a) 18 months after the commercial operation date and (b) the fifth anniversary of the closing date. All loans were due and payable on the maturity date. Voluntary prepayments prior to the maturity date were provided for in the Credit Agreement but such prepayments were not mandatory.

The Credit Agreement required compliance with affirmative and negative covenants, including, among other things, financial statement reporting requirements and limitations or restrictions relating to the use of the proceeds, additional indebtedness and disposition of assets. The Company was in compliance with all covenants at December 31, 2023 and 2022.

The Company is required to pay interest on the unpaid principal amount of each base rate loan made to the Company at the base rate equal to the higher of (a) the rate of interest publicly announced from time to time by the Administrative Agent and (b) 0.5% per annum above the Federal Funds Effective Rate in effect from time to time plus the applicable margin of 0.25%. The Company is required to pay interest on the unpaid principal amount of each Eurodollar Loan made to the Company at the Adjusted London Interbank Offered Rate

(LIBOR) for the interest period in effect for such Eurodollar Loan plus the applicable margin of 1.25%. At December 31, 2023 and 2022, the interest rate in effect on the unpaid principal amount of the Term Loan Facility was 6.67% and 5.64% respectively.

A commitment fee equal to 0.25% per annum on the unused portion of the Term Loan Facility and Revolving Loan Facility is payable quarterly until the commitments are terminated. For the years ended December 31, 2023 and 2022, the Company incurred total commitment fees of \$0.1 million and \$0.1 million, respectively. As of December 31, 2023 and 2022, the Company has borrowed \$200.0 million under the Term Loan Facility. As of December 31, 2023 and 2022, the Company has borrowed \$20 million and \$7.1 million, respectively, under the Revolving Loan Facility.

On July 27, 2023, the Credit Agreement was amended to replace LIBOR with Term Secured Overnight Financing Rate (Term SOFR) as the applicable benchmark interest rate. The amendment does not modify terms that change amount or timing of cash flows unrelated to the replacement of LIBOR.

## (8) Income Taxes

As of December 31, 2023 and 2022, the components of pre-tax income are as follows (in thousands):

		<u>2023</u>	<u>2022</u>
Domestic	\$	26,185	21,773
Foreign...		<u>          </u>	<u>          </u>
Total pre-tax book income	\$	<u>26,185</u>	<u>21,773</u>

The total provisions for income taxes for the years ended December 31, 2023 and 2022 were expenses of \$5.4 million and \$2.3 million, respectively. The components of the provision for income taxes are (in thousands):

		<u>2023</u>	<u>2022</u>
Current provision for income taxes:			
Federal	\$	121	191
State		<u>40</u>	<u>63</u>
Total current provision for income taxes		<u>161</u>	<u>254</u>
Deferred provision for income taxes:			
Federal		3,936	1,544
State		<u>1,303</u>	<u>511</u>
Total deferred provision for income taxes		<u>5,239</u>	<u>2,055</u>
Total provision for income taxes	\$	<u>5,400</u>	<u>2,309</u>

The reported effective tax rates for 2023 and 2022 of 20.6% and 10.6%, respectively, differ from the U.S. federal statutory tax rate of 21% primarily due to the regulatory treatment of the equity portion of the allowance for funds used during construction. For the years ended December 31, 2023 and 2022, the reconciliation of taxes computed at the statutory federal income tax rate to the income tax provision is as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Income tax expense at statutory rate	\$ 5,499	4,572
State taxes, net of federal benefit	1,061	454
AFUDC Equity	(1,248)	(2,729)
Other	88	12
Total provision for income taxes	<u>\$ 5,400</u>	<u>2,309</u>

The Company's deferred tax assets and liabilities consisted of the following (in thousands):

	<u>2023</u>	<u>2022</u>
Deferred tax assets:		
Lease obligation	\$ 364	437
Capitalized start-up costs	168	85
Total deferred tax assets	532	522
Deferred tax liabilities:		
Property, plant, and equipment	(15,361)	(8,537)
Regulatory assets	(2,627)	(2,099)
Total deferred tax liabilities	(17,988)	(10,636)
Net deferred tax assets (liabilities)	\$ (17,456)	(10,114)

The Company classifies interest related to income taxes as interest expense and penalties related to income taxes as other expense in the financial statements. As of December 31, 2023 and 2022, the Company had no unrecognized tax benefits. As a result, no interest or penalties were accrued for unrecognized tax benefits during the year. The Company has open tax years from 2020 through 2023 for federal and state tax reporting.

The Company is a member of a consolidated tax reporting group. As of December 31, 2023 and 2022, there are no material amounts due to or from the parent.

## **(9) Related-Party Transactions**

The Company receives operational and administrative services from an affiliate, LSP Electric Services, LLC (Project Manager) which is owned by an affiliate of the Company. The Company reimburses the Project Manager for all reasonable and necessary expenses incurred in the performance of such services. This includes direct labor costs, general and administrative expenses, third party costs, overhead, travel and lodging.

For the year ended December 31, 2023, the Company incurred \$14.2 million of such reimbursable costs, of which \$4.1 million are included in Property, equipment, and construction in progress, net on the accompanying balance sheet and \$10.1 million are included in Total expenses on the accompanying statement of operations. As of December 31, 2023, the Company had outstanding payables to the Project Manager of \$1.2 million.

For the year ended December 31, 2022, the Company incurred \$12.5 million of such reimbursable costs, of which \$7.6 million are included in Property, equipment and construction in progress, net on the accompanying balance sheet and \$4.9 million are included in Total expenses on the accompanying statement of operations. As of December 31, 2022, the Company had outstanding payables to the Project Manager of \$0.9 million.

## **(10) Member's Equity**

Profit, losses and distributions are allocated in accordance with the provisions of the Company's articles and bylaws. In 2023, an equity contribution of non-recoverable expenses of \$2.2 million was made and no distributions were made. In 2022, no equity contributions and no distributions were made.

As of December 31, 2022, Grid New York Holdings had agreed to contribute \$51.9 million of additional equity to the Company to fund a portion of the Project costs pursuant to an Equity Contribution Agreement entered into between Grid New York Holdings and the Collateral agent. In February 2023, Grid New York Holdings executed an amendment to the Equity Contribution Agreement to include an additional equity commitment of \$27.4 million for a total additional equity commitment of \$79.3 million. This equity commitment is supported by a guaranty from indirect parent LSP Grid Holdings, LLC.

## **(11) Commitments and Contingencies**

The Company enters into contracts in the ordinary course of business that contain various representations, warranties, indemnifications, and guarantees. Some of the agreements contain indemnities that cover the other party's negligence or limit the other party's liability with respect to third party claims, in which event the Company effectively indemnifies the other party. While there is the possibility of a loss related to such representations, warranties, indemnifications, and guarantees in the contracts and such loss could be significant, the Company considers the probability of material loss to be remote. The Company, from time to time, is a party to certain other claims arising in the ordinary course of business. The Company is of the opinion that final disposition of these claims will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.