NECEC Transmission, LLC

Financial Statements

As of and for the Years Ended December 31, 2023 and 2022

NECEC Transmission, LLC

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

Independent Auditors' Report

To the Member and Board of Directors
NECEC Transmission, LLC:

Opinion

We have audited the financial statements of NECEC Transmission, LLC (the Company), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, comprehensive income (loss), changes in member'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, 2023 and 2022, 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
June 28, 2024

NECEC Transmission, LLC
Statements of Operations

Years Ended December 31,		2023		2022
(Thousands)				
Operating Expenses				
Operations and maintenance	$	465	$	5
Taxes other than income taxes, net		2		—
Total Operating Expenses		**467**		**5**
Operating Loss		**(467)**		**(5)**
Other income		21,086		—
Other deductions		(1,244)		(1,379)
Interest expense, net of capitalization		(4,782)		(1,044)
Net Income (Loss)	**$**	**14,593**	**$**	**(2,428)**

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

NECEC Transmission, LLC
Statements of Comprehensive Income (Loss)

Years Ended December 31,		2023		2022
(Thousands)				
Net Income (Loss)	**$**	**14,593**	**$**	**(2,428)**
Other Comprehensive Loss				
Unrealized loss during period on derivatives qualifying as cash flow hedges		—		(24)
Total Other Comprehensive Loss		**—**		**(24)**
Comprehensive Income (Loss)	**$**	**14,593**	**$**	**(2,452)**

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

NECEC Transmission, LLC
Balance Sheets

As of December 31,		2023		2022
(Thousands)				
Assets				
Current Assets				
Cash and cash equivalents	$	180	$	39
Prepayments and other current assets		2,976		1,585
Total Current Assets		**3,156**		**1,624**
Utility plant, at original cost		410		410
Less accumulated depreciation		—		—
Net Utility Plant in Service		**410**		**410**
Construction work in progress		869,422		653,611
Total Utility Plant		**869,832**		**654,021**
Other assets		9,186		9,498
Total Assets	**$**	**882,174**	**$**	**665,143**

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

NECEC Transmission, LLC
Balance Sheets

As of December 31,		2023		2022
(Thousands)				
Liabilities				
Current Liabilities				
Notes payable to affiliates	$	196,100	$	47,000
Accounts payable and accrued liabilities		56,189		3,686
Accounts payable to affiliates		7,737		6,364
Interest accrued		1,027		221
Taxes accrued		92		—
Other current liabilities		2,000		2,998
Total Current Liabilities		**263,145**		**60,269**
Other Non-current Liabilities				
Other long term obligations to affiliates		56,250		57,000
Other liabilities		12,550		12,238
Total Liabilities		**331,945**		**129,507**
Member's Equity				
Member's paid-in capital		521,850		521,850
Retained earnings		34,142		19,549
Accumulated other comprehensive loss		(5,763)		(5,763)
Total Member's Equity		**550,229**		**535,636**
Total Liabilities and Equity	**$**	**882,174**	**$**	**665,143**

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

NECEC Transmission, LLC
Statements of Cash Flows

Years Ended December 31,	2023	2022
(Thousands)		
Cash Flow from Operating Activities:		
Net income (loss)	**$ 14,593**	**$ (2,428)**
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Allowance for funds used during construction	(21,084)	—
Other non-cash items	37	—
Changes in operating assets and liabilities:		
Accounts receivable, from affiliates	(524)	84
Accounts payable, to affiliates, and accrued liabilities	9,319	1,772
Other assets/liabilities	(1,092)	1,793
Net Cash Provided by Operating Activities	**1,249**	**1,221**
Cash Flow from Investing Activities:		
Capital expenditures	(150,208)	(80,919)
Contributions in aid of construction	—	(61,359)
Net Cash Used in Investing Activities	**(150,208)**	**(142,278)**
Cash Flow from Financing Activities:		
Notes payable to affiliates	149,100	47,000
Capital contribution from parent	—	93,500
Net Cash Provided by Financing Activities	**149,100**	**140,500**
Net Increase (Decrease) in Cash and Cash Equivalents	**141**	**(557)**
Cash and Cash Equivalents, Beginning of Year	**39**	**596**
Cash and Cash Equivalents, End of Year	**$ 180**	**$ 39**

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

NECEC Transmission, LLC
Statements of Changes in Member's Equity

(Thousands)		Member's Paid-in Capital		Retained Earnings		Accumulated Other Comprehensive Loss		Total Member's Equity
Balances, December 31, 2021	**$**	**428,350**	**$**	**21,977**	**$**	**(5,739)**	**$**	**444,588**
Net loss		—		(2,428)		—		(2,428)
Other comprehensive loss		—		—		(24)		(24)
Comprehensive loss								(2,452)
Capital contribution from parent		93,500		—		—		93,500
Balances, December 31, 2022		**521,850**		**19,549**		**(5,763)**		**535,636**
Net income		—		14,593		—		14,593
Balances, December 31, 2023	**$**	**521,850**	**$**	**34,142**	**$**	**(5,763)**	**$**	**550,229**

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

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

Background and nature of operations: The New England Clean Energy Connect, or NECEC, transmission project, a joint bid proposed by Central Maine Power (CMP), a wholly-owned subsidiary of Avangrid Networks, Inc. (Networks) and Hydro-Québec, was selected by the Massachusetts electric utilities and the Massachusetts Department of Energy Resources, or DOER, in the Commonwealth of Massachusetts's 83D clean energy Request for Proposal. The proposed NECEC transmission project includes a 145-mile transmission line linking the electrical grids in Québec, Canada and New England. The project, which has an estimated cost of approximately $1.5 billion in total, would add 1,200 MW of transmission capacity to supply Maine and the rest of New England with power from reliable hydroelectric generation.

On January 4, 2021, following the receipt of regulatory and permitting approvals, CMP transferred the NECEC project to NECEC Transmission, LLC (NECEC, the company, we, our, us) pursuant to the terms of a transfer agreement dated November 3, 2020. NECEC operates under the authority of the Maine Public Utilities Commission (MPUC) and is also subject to regulation by the Federal Energy Regulatory Commission (FERC), U.S. Department of Energy, U.S. Army Corp of Engineers, and the Massachusetts Department of Public Utilities (DPU).

NECEC is a single member LLC which is wholly-owned by Avangrid Networks, Inc. (Networks), which is a wholly-owned subsidiary of Avangrid, Inc. (AGR), which is an 81.6% owned subsidiary of Iberdrola, S.A. (Iberdrola), a corporation organized under the laws of the Kingdom of Spain. The term of NECEC commenced on February 13, 2020 and continues until dissolved in accordance with the terms of the underlying Amended and Restated Limited Liability Company Agreement. NECEC has not commenced planned principal operations. As such, NECEC's activities are subject to significant risks and uncertainties: for example, the outcome of ongoing legal proceedings, cost overruns and construction delays could have an adverse effect on the success of the project and our financial condition or prospects. NECEC is involved in ongoing negotiations with the Massachusetts electric utilities with respect to amending the transmission service agreement originally reached and the outcome of these negotiations are critical to reaching commercial operations.

Basis of presentation: The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP). AGR provides financial support to the company sufficient for it to satisfy debt service requirements and all liabilities and obligations of the company. AGR has the intent and ability to provide the necessary financial support to the company and there are no restrictions on AGR to provide such support. As such, this parental support will enable continuation of operations for the foreseeable future.

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:

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.

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. We did not have operating revenues for the years ended December 31, 2023 and 2022.

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. AROs would be recognized when an asset is placed into service.

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. The expected service life of NECEC's assets is 40 years. Consistent with FERC accounting requirements, we charge the original cost of utility plant retired or otherwise disposed of to accumulated depreciation.

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 being built by regulated entities. We record the portion of AFUDC attributable to borrowed funds as a reduction of interest expense and record the remainder as other income. When NECEC ceased construction in November 2021 due to legal proceedings the company stopped recording AFUDC. The company resumed the recognition of AFUDC in 2023 after construction resumed.

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

Utility Plant	**Estimated useful life range (years)**	**2023**	**2022**
(Thousands)			
Electric			
Land	N/A	$ 410	$ 410
Total Utility Plant in Service		**410**	**410**
Total accumulated depreciation		—	—
Total Net Utility Plant in Service		**410**	**410**
Construction work in progress		869,422	653,611
Total Utility Plant		**$ 869,832**	**$ 654,021**

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.

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.

In November 2021, Maine voters approved, by virtue of a referendum, L.D. 1295 (I.B. 1) (130th Legis. 2021), "An Act To Require Legislative Approval of Certain Transmission Lines, Require Legislative Approval of Certain Transmission Lines and Facilities and Other Projects on Public Reserved Lands and Prohibit the Construction of Certain Transmission Lines in the Upper Kennebec Region" (the "Initiative"), which per its terms effectively prohibits the construction of the NECEC project. Subsequently, in November 2021, Networks and NECEC Transmission LLC filed a lawsuit challenging the constitutionality of the Initiative. At December 31, 2021, an indicator of impairment was identified and we performed a test of recoverability using estimated undiscounted expected project cash flows and compared to our estimated project costs and determined no impairment loss was required. In August 2022, the Maine Law Court ruled that the Initiative provisions requiring legislative approval for the construction of any high impact transmission line anywhere in Maine and prohibiting high impact transmission lines in the Upper Kennebec Region would infringe on NECEC's constitutionally protected vested rights if NECEC Transmission LLC can demonstrate it engaged in substantial construction of the project in good-faith reliance. The case was remanded to the Maine Business & Consumer Court for further proceedings, which are ongoing. On November 29, 2022, the Maine Law Court vacated the trial court's prior decision to reverse the Bureau of Public Land's (BPL) decision to grant the lease over a small area of Maine public lands to house a 0.9-mile section of the NECEC. The Maine Law Court confirmed that BPL acted within its constitutional and statutory authority when granting the lease and the lease was not voided by the Initiative. The trial began on April 10, 2023 and concluded on April 20, 2023, when the jury reached a unanimous decision finding that NECEC had constructed substantial construction in good faith. The Court subsequently entered an Order that NECEC had obtained vested rights to continue work on the project, and that retroactively applying the Initiative to the NECEC project would violate the Maine Constitution. As a result of these positive developments, there was no indicator of impairment identified.

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. 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 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. 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.

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:

(Thousands)	2023	2022
Cash paid during the year ended December 31:		
Interest	$ 2,944	$ 853

Interest capitalized was $2.7 million for the years ended December 31, 2023. There was no interest capitalized for the year ended December 31, 2022. Accrued liabilities for utility plant additions were $56.7 million and $3.4 million as of December 31, 2023 and 2022, respectively.

***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 allowance for credit losses is our best estimate of the amount of probable credit losses in our existing trade receivables, determined based on experience. 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.

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 over the contractual life of the trade receivables. We write off amounts when we have exhausted reasonable collection efforts. We did not record an allowance for credit losses as of and for the years ended December 31, 2023 and 2022.

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.

***Environmental liability*:** From time to time environmental laws, regulations and compliance programs may require changes in NECEC's operations and facilities and may increase the cost of transmission service. NECEC is not currently incurring such costs.

Income taxes: NECEC is a single member limited liability company and as such is considered a disregarded entity for income tax purposes. As a result, any income tax incurred would be reflected in the results of NECEC's parent company, Avangrid Networks, Inc.

Adoption of New Accounting Pronouncements

Although we are not a public business entity, our parent company is a public business entity; therefore, we adopt new accounting standards based on the effective date for public entities as permitted. There were no significant new accounting pronouncements adopted as of December 31, 2023.

Accounting Pronouncements Issued But Not Yet Adopted

There have been no accounting pronouncements issued but not yet adopted that are expected to have a material impact on NECEC's financial statements.

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) reserves for professional and comprehensive general insurance liability risks; (5) contingency and litigation reserves; (6) fair value measurements; (7) environmental remediation liabilities and (8) 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.

Note 2. Industry Regulation

In 2018, the NECEC transmission project, proposed in a joint bid by CMP and Hydro-Québec, was selected by the Massachusetts electric distribution utilities (EDCs) and the DOER in the Commonwealth of Massachusetts's 83D clean energy Request for Proposal. The NECEC transmission project includes a 145-mile transmission line linking the electrical grids in Québec, Canada and New England. The project, which has an estimated cost of approximately $1.5 billion in total, would add 1,200 MW of transmission capacity to supply Maine and the rest of New England with power from reliable hydroelectric generation.

On June 13, 2018, CMP entered into transmission service agreements, or TSAs, with the Massachusetts EDCs, and H.Q. Energy Services (U.S.) Inc., or HQUS, an affiliate of Hydro-Québec, which govern the terms of service and revenue recovery for the NECEC transmission project. Simultaneous with the execution of the TSAs with CMP, the EDCs executed certain PPAs with HQUS for sales of electricity and environmental attributes to the EDCs. On October 19, 2018, FERC issued an order accepting the TSAs for filing as CMP rate schedules effective as of October 20, 2018. On June 25, 2019, the Massachusetts DPU issued an Order approving the NECEC project long term PPAs and the cost recovery by the EDCs of the TSA charges. This Order was subsequently appealed by NextEra Energy Resources. On September 3, 2020, the Massachusetts Supreme Judicial Court denied NextEra Energy Resources' appeal of the DPU Order.

The NECEC project requires a Certificate of Public Convenience and Necessity, or CPCN, from the MPUC. On May 3, 2019, the MPUC issued an Order granting the CPCN for the NECEC project. This Order was subsequently appealed by NextEra Energy Resources. On March 17, 2020, the Maine Law Court denied NextEra Energy Resources' appeal of the CPCN.

On January 4, 2021, CMP transferred the NECEC project to NECEC Transmission LLC, a wholly-owned subsidiary of Networks, pursuant to the terms of a transfer agreement dated November 3, 2020.

The NECEC project requires certain permits, including environmental, from multiple state and federal agencies and a presidential permit from the U.S. Department of Energy, or DOE, authorizing the construction, operation, maintenance and connection of facilities for the transmission of electric energy at the international border between the United States and Canada.

On January 8, 2020, the Maine Land Use Planning Commission, or LUPC, granted the LUPC Certification for the NECEC. The Maine Department of Environmental Protection, or MDEP, granted Site Location of Development Act, Natural Resources Protection Act, and Water Quality Certification permits for the NECEC by an Order dated May 11, 2020. The MDEP Order was appealed by certain intervenors. Through an Order dated July 21, 2022, the Maine Board of Environmental Protection, or MBEP, denied the appeals of the MDEP Order, as well as the appeal of MDEP's December 4, 2020 Order approving the partial transfer of the permits for the project to NECEC Transmission LLC. In August 2022, the same intervenors appealed the MBEP Order, and those appeals were subsequently dismissed.

On November 6, 2020, the project received the required approvals from the U.S. Army Corps of Engineers, or Army Corps, pursuant to Section 10 of the Rivers and Harbor Act of 1899 and Section 404 of the Clean Water Act. A complaint for declaratory and injunctive relief asking the court to, among other things, vacate or remand the Section 404 Clean Water Act permit for the NECEC project was then filed by three environmental groups in the US District Court for the District of Maine. On January 14, 2021, the DOE issued a Presidential Permit granting permission to NECEC Transmission LLC to construct, operate, maintain and connect electric transmission facilities at the international border of the United States and Canada. The plaintiffs challenging the Army Corps permit then supplemented their complaint to add claims against DOE in connection with the Presidential Permit. This case is currently pending before the District Court in Maine, and the merits briefing will be complete in the summer of 2024. We cannot predict the outcome of this proceeding.

The Independent System Operator New England, Inc. (ISO-NE) issued the final System Impact Study (SIS) for NECEC on May 13, 2020, determining the upgrades required to permit the interconnection of NECEC to the ISO-NE system. On July 9, 2020, the project received the formal I.3.9 approval associated with this interconnection request. CMP, NECEC Transmission LLC and ISO-NE executed an interconnection agreement. With respect to the upgrade required at the Seabrook Nuclear Generation Station on February 1, 2023, FERC issued an order directing Seabrook to replace the breaker at Seabrook Station pursuant to its obligations under a large generator interconnection agreement and good utility practice. Furthermore, FERC determined that Seabrook should not recover opportunity or legal costs in connection with the breaker replacement. NextEra sought reconsideration of FERC's decision, which was denied in April 2023 and by further FERC order in June 2023. NextEra appealed that decision to the U.S. Court of Appeals for the D.C. Circuit, where it remains pending. We cannot predict the outcome of this proceeding.

On November 2, 2021, Maine voters approved a referendum (the "Initiative"), which per its terms would retroactively apply to block construction of the NECEC project.

Networks and NECEC Transmission LLC subsequently filed a lawsuit challenging the constitutionality of the Initiative and requesting injunctive relief preventing retroactive enforcement of the Initiative to the NECEC transmission project. After such relief was denied, the decision was appealed to the Maine Law Court.

On August 30, 2022, the Law Court ruled that certain Initiative provisions would infringe on NECEC's constitutionally protected vested rights if NECEC Transmission LLC could demonstrate that it engaged in substantial construction of the project in good-faith reliance on its permits before Maine voters approved the Initiative. The Maine Law Court remanded the matter to the Business & Consumer Court for a trial to determine that question. A jury trial was held in April 2023, which resulted in a unanimous decision finding that NECEC had constructed substantial construction in good faith. The Court subsequently entered an Order that NECEC had obtained vested rights to continue work on the project, and that retroactively applying the Initiative to the NECEC project would violate the Maine Constitution. No party appealed that decision.

In connection with the lease granted by BPL over a small area of Maine public lands to house a 0.9-mile section of the NECEC, on November 29, 2022, the Law Court vacated the trial court's prior decision to reverse BPL's decision to grant the lease.

On August 3, 2023, NECEC resumed limited construction and is continuing to evaluate the construction schedule for the NECEC project, related commercial operation date, and total project cost, including potential impacts from increased construction costs, disputes with third party vendors regarding contracts and certain change orders, and a decrease in expected returns. As of December 31, 2023, we have capitalized approximately $870 million for the NECEC project, which includes capitalized interest costs and other additional payments related to the project along with construction costs.

At the municipal level, the project has obtained all approvals.

Note 3. Bank Loans and Other Borrowings

NECEC had $196.1 million of notes payable at December 31, 2023 and $47.0 million of notes payable outstanding at December 31, 2022. NECEC funds short-term liquidity needs through a bi-lateral intercompany credit agreement with Avangrid (the "Bi-Lateral Intercompany Facility"). The Bi-Lateral Intercompany Facility provides for borrowing of up to $500 million from Avangrid at the 1 month SOFR rate plus a spread of 1.5%. NECEC had $196.1 million of debt outstanding under this agreement at December 31, 2023 and $47.0 million outstanding at December 31, 2022. respectively.

Note 4. Commitments and Contingent Liabilities

On January 4, 2021, CMP transferred the NECEC project to NECEC Transmission, LLC. Among other things, NECEC Transmission, LLC committed to approximately $90 million of future financial support for various programs in the state of Maine, of which approximately $10.3 million was paid through the end of 2023. Each particular type of payment included within the $90 million has a unique payment stream ranging from a one-time payment to quarterly payments for 40 years. In December 2021 the remaining future payments were suspended following the halt in construction of the NECEC project. As of July 2023, the suspension of the payments under the various support programs for the state of Maine has been lifted and in August 2023, the construction related to the NECEC project has resumed.

NECEC's future payments to support various programs in the state of Maine as of December 31, 2023 consisted of:

Year ending December 31,	Support Payments	
(Thousands)		
2024	$	2,500
2025		2,500
2026		2,500
2027		3,333
2028		4,167
Thereafter		64,750
	$	**79,750**

NECEC's forward purchase commitments as of December 31, 2023 consisted of:

Year ending December 31,	Capital Expenses		Operating Expenses	
(Thousands)				
2024	$	270,929	$	26
2025		—		—
2026		—		—
2027		—		—
2028		—		—
Thereafter		—		—
	$	**270,929**	**$**	**26**

Note 5. Accounting for Derivative Instruments and Hedging Activities

We are exposed to certain risks relating to our ongoing business operations, which are managed by derivative instruments. All derivative instruments are recognized as either assets or liabilities at fair value on our balance sheets in accordance with the accounting requirements concerning derivative instruments and hedging activities.

Cash flow hedging: On June 20, 2019, Avangrid Networks, Inc. entered into a forward contract to hedge the foreign currency exchange risk of approximately $100 million in forecasted capital expenditures through June 2023. As of January 4, 2021, the forward contracts were transferred to NECEC. The forward foreign currency contracts, which were designated and qualified as cash flow hedges, were largely settled in December 2021, with some settling in January 2022. We record changes in the fair value of the cash flow hedging instruments in OCI, to the extent they are considered effective, and reclassify those gains or losses into earnings in the same period or periods during which the hedged transactions affect earnings. We did not have any derivatives designated as hedging instruments as of December 31, 2023 and 2022.

The effect of hedging instruments on OCI and income for the years ended December 31, 2023 and 2022, respectively, consisted of:

Years Ended December 31,	Loss Recognized in OCI on Derivatives	Location of Gain (Loss) Reclassified From Accumulated OCI into Income	(Loss) Gain Reclassified From Accumulated OCI into Income	Total Amount per Income Statement
(Thousands)				
2023				
Foreign exchange currency contracts	$ —	Depreciation and amortization expense	$ —	$ —
Total	**$ —**		**$ —**	
2022				
Foreign exchange currency contracts	$ (24)	Depreciation and amortization expense	$ —	$ —
Total	**$ (24)**		**$ —**	

For the years ended December 31, 2023 and 2022 the hedge was considered effective. The net loss of $5.8 million in accumulated OCI on the foreign exchange derivative as of December 31, 2023 will be reclassified into earnings over the useful life of the underlying capital expenditures.

Note 6. Other Income and Other Deductions

Other income and deductions for the years ended December 31, 2023 and 2022 consisted of:

Years Ended December 31,	2023	2022
(Thousands)		
Allowance for funds used during construction	$ 21,084	$ —
Miscellaneous	2	—
Total other income	**$ 21,086**	**$ —**
Donations	$ (1,000)	$ (571)
Marketing, advertising and consulting	(168)	(484)
Miscellaneous	(76)	(324)
Total other deductions	**$ (1,244)**	**$ (1,379)**

Note 7. Related Party Transactions

Certain Networks subsidiaries, including NECEC, borrow from AGR, the parent of Networks, through intercompany revolving credit agreements. For NECEC, the intercompany revolving credit agreements provide access to supplemental liquidity. See Note 3 for further detail on the credit facility with AGR.

AGR, through its affiliates, provides administrative and management services to Networks operating utilities, including NECEC, 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 NECEC by AGR and its affiliates was $16.3 million and $4.4 million for 2023 and 2022, respectively. Cost for services includes amounts capitalized in utility plant, which was approximately $9.9 million in 2023 and $3.4 million in 2022.

The remainder $6.4 million in 2023 and $1.0 million in 2022, respectively, was recorded as interest expense, net of interest capitalized of $2.7 million in 2023 and $0 in 2022, respectively.

There were no charges for services provided by NECEC to AGR and its subsidiaries in 2023 or 2022. Any charges for services are at cost. All of the charges associated with services provided are recorded as other income.

The balance in accounts payable to affiliates of $7.7 million at December 31, 2023 and $6.4 million at December 31, 2022 is mostly payable to Avangrid, Inc. There were no accounts receivable from affiliates at December 31, 2023 and 2022.

In addition, as consideration for the transfer of the NECEC project, NECEC Transmission, LLC agreed to pay CMP the sum total of $60 million, payable in one hundred and sixty equal installments of $375,000 each, due the first business day of each January, April, July and October, to be included in CMP's NECEC Rate Relief Fund as established by the Stipulations. The payments due to CMP under the Stipulations agreement are included in other current liabilities and other long term obligations to affiliates as of December 31, 2023 and 2022. Pursuant to the terms of the Stipulations, all these payments were suspended in December 2021 following the stoppage of construction of the NECEC project and remained suspended as of December 31, 2022. As of July 2023, the suspension of the payments under the various support programs for the state of Maine has been lifted and in August 2023, the construction related to the NECEC project has resumed. For the year ended December 31, 2023, NECEC paid $0.8 million to CMP related to NECEC Rate Relief Fund in accordance with the terms of the Stipulations.

Note 8. Subsequent Events

The company has performed a review of subsequent events through June 28, 2024, which is the date these financial statements were available to be issued.