The Southern Connecticut Gas Company

Consolidated Financial Statements

As of and for the Years Ended December 31, 2024 and 2023

The Southern Connecticut Gas Company

Index

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

Independent Auditors' Report

The Stockholder and Board of Directors
The Southern Connecticut Gas Company:

Opinion

We have audited the consolidated financial statements of The Southern Connecticut Gas Company and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income, changes in common stock equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

KPMG LLP

New York, New York
March 28, 2025

The Southern Connecticut Gas Company
Consolidated Statements of Income

Years Ended December 31,		**2024**		**2023**
(Thousands)				
Operating Revenues	$	**416,322**	$	**426,092**
Operating Expenses				
Natural gas purchased		165,854		190,283
Operations and maintenance		108,566		101,292
Depreciation and amortization		46,057		42,412
Taxes other than income taxes, net		36,551		35,557
Total Operating Expenses		**357,028**		**369,544**
Operating Income		**59,294**		**56,548**
Other income		6,173		2,639
Other deductions		(5,157)		(2,376)
Interest expense, net of capitalization		(24,675)		(18,227)
Income Before Income Tax		**35,635**		**38,584**
Income tax expense		6,170		6,904
Net Income		**29,465**		**31,680**
Less: net income attributable to noncontrolling interest		3,754		2,673
Net Income Attributable to SCG	$	**25,711**	$	**29,007**

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

The Southern Connecticut Gas Company
Consolidated Statements of Comprehensive Income

Years Ended December 31,		**2024**		**2023**
(Thousands)				
Net Income	$	**29,465**	$	**31,680**
Other Comprehensive Income (Loss), Net of Tax				
Amortization of pension cost for non-qualified plans and current year actuarial gain (loss), net of income tax expense of $8 for 2024 and income tax benefit of ($57) for 2023		21		(154)
Total Other Comprehensive Income (Loss), Net of Tax		**21**		**(154)**
Comprehensive Income		**29,486**		**31,526**
Less: Comprehensive income attributable to noncontrolling interest		3,754		2,673
Comprehensive Income Attributable to SCG	$	**25,732**	$	**28,853**

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

The Southern Connecticut Gas Company
Consolidated Balance Sheets

As of December 31,	2024	2023
(Thousands)		
Assets		
Current Assets		
Cash and cash equivalents	$ 2,684	$ 380
Accounts receivable and unbilled revenues, net	109,267	103,015
Accounts receivable from affiliates	1,186	648
Notes receivable from affiliates	41,420	15,259
Gas in storage	37,662	45,886
Materials and supplies	4,831	4,400
Other current assets	4,465	4,047
Regulatory assets	64,898	48,064
Total Current Assets	**266,413**	**221,699**
Utility plant, at original cost	1,544,496	1,435,400
Less accumulated depreciation	(433,337)	(403,611)
Net Utility Plant in Service	**1,111,159**	**1,031,789**
Construction work in progress	28,015	26,905
Total Utility Plant	**1,139,174**	**1,058,694**
Operating lease right-of-use assets	10,440	11,256
Other property and investments	11,360	10,396
Regulatory and Other Assets		
Regulatory assets	160,132	163,696
Goodwill	134,931	134,931
Other	471	372
Total Regulatory and Other Assets	**295,534**	**298,999**
Total Assets	**$ 1,722,921**	**$ 1,601,044**

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

The Southern Connecticut Gas Company
Consolidated Balance Sheets

As of December 31,	2024	2023
(Thousands, except share information)		
Liabilities		
Current Liabilities		
Current portion of long-term debt	$ 25,196	$ —
Notes payable to affiliates	67,600	2,087
Accounts payable and accrued liabilities	74,512	71,892
Accounts payable to affiliates	23,114	20,927
Interest accrued	4,569	4,096
Taxes accrued	7,472	12,324
Operating lease liabilities	990	904
Regulatory liabilities	37,636	6,279
Other	22,589	21,794
Total Current Liabilities	**263,678**	**140,303**
Regulatory and Other Liabilities		
Regulatory liabilities	213,213	245,911
Other Non-current Liabilities		
Deferred income taxes	123,888	109,708
Pension and other postretirement	36,417	48,122
Operating lease liabilities	10,664	11,364
Asset retirement obligation	13,020	12,907
Environmental remediation costs	59,737	60,624
Other	6,943	7,071
Total Regulatory and Other Liabilities	**463,882**	**495,707**
Non-current debt	369,184	364,471
Total Liabilities	**1,096,744**	**1,000,481**
Commitments and Contingencies		
Common Stock Equity		
Common stock ($13.33 par value, 2,650,000 shares authorized and 1,407,072 shares outstanding at December 31, 2024 and 2023)	18,761	18,761
Additional paid-in capital	472,737	472,737
Retained earnings	97,033	71,322
Accumulated other comprehensive loss	(5,349)	(5,370)
Total SCG Common Stock Equity	**583,182**	**557,450**
Noncontrolling interest	42,995	43,113
Total Equity	**626,177**	**600,563**
Total Liabilities and Equity	**$ 1,722,921**	**$ 1,601,044**

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

The Southern Connecticut Gas Company
Consolidated Statements of Cash Flows

Years Ended December 31,		2024		2023
(Thousands)				
Cash Flow from Operating Activities:				
Net income	**$**	**29,465**	**$**	**31,680**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		46,057		42,412
Regulatory assets/liabilities amortization		16,024		13,360
Regulatory assets/liabilities carrying cost		4,487		3,996
Amortization of debt issuance costs		(157)		(195)
Deferred taxes		11,109		1,928
Pension cost		1,185		2,274
Accretion expenses		662		656
Gain on disposal of assets		(48)		(39)
Other non-cash items		(72)		(74)
Changes in operating assets and liabilities:				
Accounts receivable, from affiliates, and unbilled revenues		(6,790)		31,379
Inventories		7,793		11,505
Accounts payable, to affiliates, and accrued liabilities		12,417		(35,035)
Taxes accrued		(4,851)		831
Other assets/liabilities		9,825		5,496
Regulatory assets/liabilities		(60,509)		(26,775)
Net Cash Provided by Operating Activities		**66,597**		**83,399**
Cash Flow from Investing Activities:				
Capital expenditures		(133,087)		(100,910)
Contributions in aid of construction		3,356		2,914
Proceeds from sale of utility plant		119		181
Notes receivable from affiliates		(26,161)		(13,599)
Net Cash Used in Investing Activities		**(155,773)**		**(111,414)**
Cash Flow from Financing Activities:				
Non-current debt issuance		29,839		59,649
Notes payable to affiliates		65,513		(22,513)
Capital contributions		—		10,000
Contributions from noncontrolling interest		2,087		—
Dividends paid		—		(20,000)
Payment of noncontrolling interest dividend		(5,959)		—
Net Cash Provided by Financing Activities		**91,480**		**27,136**
Net Increase (Decrease) in Cash and Cash Equivalents		**2,304**		**(879)**
Cash and Cash Equivalents, Beginning of Period		**380**		**1,259**
Cash and Cash Equivalents, End of Period	**$**	**2,684**	**$**	**380**

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

The Southern Connecticut Gas Company
Consolidated Statements of Changes in Common Stock Equity

(Thousands, except per share amounts)	Number of Shares (*)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Common Stock Equity
Balance, December 31, 2022	**1,407,072**	**$ 18,761**	**$ 462,737**	**$ 62,315**	**$ (5,216)**	**$ 40,440**	**$ 579,037**
Net income	—	—	—	29,007	—	—	29,007
Other comprehensive loss, net of tax	—	—	—	—	(154)	—	(154)
Comprehensive income	—						28,853
Net income attributable to noncontrolling interest	—	—	—	—	—	2,673	2,673
Payment of common stock dividend	—	—	—	(20,000)	—	—	(20,000)
Capital contributions	—	—	10,000	—	—	—	10,000
Balance, December 31, 2023	**1,407,072**	**18,761**	**472,737**	**71,322**	**(5,370)**	**43,113**	**600,563**
Net income	—	—	—	25,711	—	—	25,711
Other comprehensive income, net of tax	—	—	—	—	21	—	21
Comprehensive income							25,732
Net income attributable to noncontrolling interest	—	—	—	—	—	3,754	3,754
Payment of noncontrolling interest dividend	—	—	—	—	—	(5,959)	(5,959)
Contributions from noncontrolling interest	—	—	—	—	—	2,087	2,087
Balance, December 31, 2024	**1,407,072**	**$ 18,761**	**$ 472,737**	**$ 97,033**	**$ (5,349)**	**$ 42,995**	**$ 626,177**

(*) Par value of share amounts is $13.33

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

Notes to Consolidated Financial Statements

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

Background and nature of operations: The Southern Connecticut Gas Company (SCG, the company, we, our, us) engages in natural gas transportation, distribution and sales operations in Connecticut serving approximately 210,000 customers as of December 31, 2024, in its service territory of approximately 555 square miles. SCG is regulated by the Connecticut Public Utilities Regulatory Authority (PURA).

SCG is the principal operating utility of Connecticut Energy Corporation (CEC), a wholly-owned subsidiary of UIL Holdings Corporation (UIL Holdings). CEC is a holding company whose sole business is ownership of its operating regulated gas utility. UIL Holdings, whose primary business is ownership of its operating regulated utility businesses, is a wholly-owned subsidiary of Avangrid Networks, Inc. (Networks), which is a wholly-owned subsidiary of Avangrid, Inc. (AGR), which is a wholly-owned subsidiary of Iberdrola, S.A. (Iberdrola), a corporation organized under the laws of the Kingdom of Spain.

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

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

Variable Interest Entities: CNE Peaking LLC (CNE) and Total Peaking Services LLC (TPS), both wholly-owned subsidiaries of United Resources, Inc. (URI), which is a wholly-owned subsidiary of UIL Holdings, own a 14.6 million gallon liquefied natural gas (LNG) storage tank operated by SCG and located on property owned by SCG in Milford, Connecticut, and certain equipment, materials and supplies used in or useful for the operation of the storage tank. The assets earn a rate of return equal to SCG's allowed rate of return. CNE and TPS have been identified as Variable Interest Entities (VIEs). SCG has been determined to be the primary beneficiary as SCG has the power to direct significant activities at CNE and TPS with SCG operating the storage tank and all of the revenues at CNE and TPS being derived from SCG. As a result, CNE and TPS have been consolidated into the financial statements of SCG, which include total assets of $54.1 million and income of $3.8 million as of and for the year ended December 31, 2024. Intercompany operating revenues and natural gas purchased expenses and intercompany receivables and payables have been eliminated upon consolidation. The equity interests in CNE and TPS held by URI are reflected as a noncontrolling interest in the accompanying consolidated balance sheets and consolidated statement of changes in common stock equity. On December 1, 2024, the sole member of CNE and TPS, authorized the sale of the LNG facility and gas inventory to SCG.

The liabilities recognized as a result of combining the above VIEs do not necessarily represent additional claims on SCG's general assets outside of the VIEs; rather they represent claims against the specific assets of the combined VIEs. Conversely, assets recognized as a result of combining these VIEs do not necessarily represent additional assets that could be used to satisfy claims against SCG's general assets. The total combined VIE assets and liabilities reflected on SCG's consolidated balance sheets are as follows:

As of December 31,	2024	2023
(Thousands)		
Assets		
Current assets	$ 54,059	$ 18,914
Long-term assets	—	29,386
Total Assets	**54,059**	**48,300**
Liabilities		
Current liabilities	11,064	4,834
Long-term liabilities	—	353
Total Liabilities	**$ 11,064**	**$ 5,187**

Basis of presentation: The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) and are prepared on a consolidated basis, and therefore include the accounts of SCG and all SCG VIEs where SCG has identified that it is the primary beneficiary. All intercompany transactions and accounts have been eliminated in consolidation in all periods presented. The accounting records of SCG are also maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC).

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

Principles of consolidation: We consolidate the entities in which we have a controlling financial interest, after the elimination of intercompany transactions. We account for investments in common stock where we have the ability to exercise significant influence, but not control, using the equity method of accounting.

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

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

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

Noncontrolling interest: The noncontrolling interest represents the portion of our net income (loss), comprehensive income (loss) and net assets that is not allocable to us and is calculated based on our ownership percentage.

Goodwill**:** Goodwill represents future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the fair value of any noncontrolling interest and the acquisition date fair value of any previously held equity interest in the acquiree over the fair value of the net identifiable assets acquired and liabilities assumed.

Goodwill is not amortized, but is subject to an assessment for impairment performed in the fourth quarter or more frequently if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit to which goodwill is assigned below its carrying amount. A reporting unit is an operating segment or one level below an operating segment and is the level at which we test goodwill for impairment.

In assessing goodwill for impairment, we have the option to first perform a qualitative assessment to determine whether a quantitative assessment is necessary. If we determine, based on qualitative factors, that the fair value of the reporting unit is more likely than not greater than the carrying amount, no further testing is required. If we bypass the qualitative assessment, or perform the qualitative assessment but determine it is more likely than not that its fair value is less than its carrying amount, we perform a quantitative test to compare the fair value of the reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, we record an impairment loss as a reduction to goodwill and a charge to operating expenses, but the loss recognized would not exceed the total amount of goodwill allocated to the reporting unit.

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

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

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

We determine depreciation expense for utility plant in service using the straight-line method, based on the average service lives of groups of depreciable property, which include estimated cost of removal. Consistent with FERC accounting requirements, we charge the original cost of utility plant retired or otherwise disposed of to accumulated depreciation. Our composite rates for depreciation were 2.8% of average depreciable property for both 2024 and 2023. We amortize our capitalized software cost using the straight line method, based on useful lives of 3 to 10 years. Depreciation expense was $42.1 million in 2024 and $38.4 million in 2023. Amortization of capitalized software was $4.0 million in both 2024 and 2023.

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

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

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

Utility Plant	**Estimated useful life range (years)**	**2024**	**2023**
(Thousands)			
Gas distribution plant	6-78	$ 1,381,997	$ 1,275,329
Software	3-10	61,535	59,497
Land	N/A	7,663	7,663
Building and improvements	40-50	43,314	40,424
VIE	10-50	—	47,104
Other plant	25-39	49,987	5,383
Total Utility Plant in Service		**1,544,496**	**1,435,400**
Total accumulated depreciation		(433,337)	(403,611)
Total Net Utility Plant in Service		**1,111,159**	**1,031,789**
Construction work in progress		28,015	26,905
Total Utility Plant		**$ 1,139,174**	**$ 1,058,694**

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

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

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

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

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

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

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

We use valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated 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.

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 consolidated balance sheets. We report changes in book overdrafts in the operating activities section of the consolidated 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.

Consolidated statements of cash flows: Supplemental disclosure of cash flow information is as follows:

		2024		2023
(Thousands)				
Cash paid (refunded) during the years ended December 31:				
Interest, net of amounts capitalized	$	17,394	$	12,904
Income taxes paid (refunded), net	$	(371)	$	3,511

Of the income taxes paid (refunded), substantially all was paid to (refunded by) AGR under the tax sharing agreement. Interest capitalized was $0.9 million in both 2024 and 2023. Accrued liabilities for utility plant additions were $18.4 million and $25.0 million as of December 31, 2024 and 2023, 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 estimates for unbilled revenues are determined based on various assumptions, including current month energy load requirements, billing rates by customer class and delivery loss factors. Changes in those assumptions could significantly affect the estimated amounts of unbilled revenues.

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

Trade receivables at December 31 include unbilled revenues of $30 million for 2024 and $24.5 million for 2023, and are shown net of an allowance for credit losses at December 31 of $6.8 million for 2024 and $6.8 million for 2023. Trade receivable do not bear interest, although late fees may be assessed. Credit loss expense was $3.8 million in 2024 and $5.3 million in 2023.

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

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 consolidated balance sheets.

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

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

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

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

There were no government grants recorded as of December 31, 2024 and 2023.

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

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

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

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

Years ended December 31,		**2024**		**2023**
(Thousands)				
ARO, beginning of year	$	12,907	$	12,785
Liabilities settled during the year		(549)		(533)
Accretion expense		662		655
ARO, end of year	**$**	**13,020**	**$**	**12,907**

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

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

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

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

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

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

We amortize prior service costs for both the pension and other postretirement benefits plans on a straight-line basis over the average remaining service period of employees active on the date of the amendment. Effective March 31, 2022, the amortization period for prior service cost changes for the SCG Salaried Plan was updated from average remaining service to future expected lifetime as the plan was frozen, or predominantly frozen, to future accruals. We amortize unrecognized actuarial gains and losses in excess of 10% of the greater of PBO or market-related value of assets (MRVA) related to the pension and other postretirement benefits plans on straight line basis over future working lifetime. Effective March 31, 2022, the amortization period for the SCG Salaried Plan was updated from future working lifetime to future expected lifetime as the plan was frozen, or predominantly frozen, to future accruals. Our policy is to calculate the expected return on plan assets using the market-related value of assets. We determine that value by recognizing the difference between actual returns and expected returns over a five-year period.

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

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

The aggregate amount of the related party income tax payable to AGR is $3.3 million and $7.7 million at December 31, 2024 and 2023, respectively.

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

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

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

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

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

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

Adoption of New Accounting Pronouncements

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

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

Accounting Pronouncements Issued But Not Yet Adopted

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

(a) Improvements to Income Tax Disclosures

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

Use of estimates and assumptions: The preparation of our consolidated 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 consolidated 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) investments in equity instruments; (4) depreciable lives of assets; (5) income tax valuation allowances; (6) uncertain tax positions; (7) reserves for professional, workers' compensation, and comprehensive general insurance liability risks; (8) contingency and litigation reserves; (9) earnings sharing mechanism (ESM); (10) environmental remediation liabilities; (11) pension and other postretirement employee benefits (OPEB); (12) fair value measurements; (13) AROs, and (14) noncontrolling interest balances. 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 consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained, and as our operating environment changes. We evaluate and update our assumptions and estimates on an ongoing basis and may employ outside specialists to assist in our evaluations, as considered necessary. Actual results could differ from those estimates.

Union collective bargaining agreements: Approximately 72% of our employees are covered by collective bargaining agreements. We have no collective bargaining agreements expiring during 2025.

Note 2. Industry Regulation

Rates

Utilities are entitled by Connecticut statute to charge rates that are sufficient to allow them an opportunity to cover their reasonable operating and capital costs, to attract needed capital and to maintain their financial integrity, while also protecting relevant public interests.

In December 2017, PURA approved new tariffs for SCG effective January 1, 2018 for a three-year rate plan with rate increases of $1.5 million, $4.7 million and $5.0 million in 2018, 2019, and 2020, respectively. The approved tariffs also include, among other things, an RDM and Distribution Integrity Management Program, earnings sharing mechanism (ESM), the amortization of certain regulatory liabilities (most notably accumulated hardship deferral balances and certain accumulated deferred income taxes) and tariff increases based on a ROE of 9.25% and approximately 52% equity level. Any dollars due to customers from the ESM will be first applied against any environmental regulatory asset balance as defined in the settlement agreement (if one exists at that time) or refunded to customers through a bill credit if such environmental regulatory asset balance does not exist. Given the expiration of the rate plan, SCG has been operating under the 2018 approved rate schedules for the year ended December 31, 2023.

Additionally, SCG has a purchased gas adjustment clause, approved by PURA, which enables reasonably incurred cost of gas purchases to be passed through to customers. This clause allows utilities to recover costs associated with changes in the market price of purchased natural gas, substantially eliminating exposure to natural gas price risk.

On November 3, 2023, SCG filed a distribution revenue requirement case proposing a one-year rate plan commencing November 1, 2024 through October 31, 2025. The filing was based on a test year ending December 31, 2022. SCG requested approval of new distribution rates to recover an increase in revenue requirements of approximately $40.6 million. SCG's Rate Plan also included several measures to moderate the impact of the proposed rate update for all customers, including, the adoption of a low-income discount rate and seeks to maintain its current revenue decoupling and earning sharing mechanisms. On November 19, 2024, PURA released a final Decision, where in it decreased SCG's rates by $10.7 million. The Decision approved an allowed ROE of 9.15% and an equity ratio of 53%. The Decision maintained SCG's distribution management program, but instituted a cap of $57.7 million. The Decision also established a a low-income discount rate along with revenue decoupling and earning sharing mechanisms. On December 19, 2024, SCG filed an appeal of the Decision in the Connecticut Superior Court. We cannot predict the outcome of this matter.

Gas Supply Arrangements

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

SCG purchases the majority of their natural gas supply at market prices under seasonal, monthly or mid-term supply contracts and the remainder is acquired on the spot market. SCG diversifies its sources of supply by amount purchased and location. SCG primarily acquires gas at various locations in the US Gulf of Mexico region, in the Appalachia region and in Canada.

SCG acquires firm transportation capacity on interstate pipelines under long-term contracts and utilizes that capacity to transport both natural gas supply purchased and natural gas withdrawn from storage to the local distribution system. Tennessee Gas Pipeline, Algonquin Gas Transmission and Iroquois Gas Transmission interconnect with SCG's distribution system and the other pipelines provide indirect services upstream of the city gates. The prices and terms and conditions of the firm transportation capacity long-term contracts for firm transportation capacity are regulated by the FERC. The actual reasonable cost of such contracts is passed through to customers through state regulated purchased gas adjustment mechanisms.

SCG acquires firm underground natural gas storage capacity using long-term contracts and fills the storage facilities with gas in the summer for subsequent withdrawal in the winter months. The storage facilities are located in Pennsylvania, New York, West Virginia and Ontario, Canada.

On December 1, 2024, SCG purchased 100% of the net book value of the LNG plant attached to its distribution system in Milford, CT. Prior to this date, SCG had the rights to 100% of the Liquefied Natural Gas stored in the LNG facility through agreements with Total Peaking Services and CNE Peaking. The transfer, approved by the Public Utilities Regulatory Authority in Docket No. 23-11-02, transferred ownership of the LNG facility from Total Peaking Services to SCG. SCG uses the LNG capacity as a winter peaking resource.

Minimum Equity Requirements for Regulated Subsidiaries

Pursuant to an agreement with PURA, SCG is restricted from paying dividends if paying such dividend would result in a common equity ratio lower than 300 basis points below the equity percentage used to set rates in the most recent distribution rate proceeding as measured using a trailing 13-month average calculated as of the most recent quarter end. In addition, SCG is prohibited from paying dividends to their parent if the utility's credit rating, as rated by any of the three major credit rating agencies, falls below investment grade, or if the utility's credit rating, as determined by two of the three major credit rating agencies, falls to the lowest investment grade and there is a negative watch or review downgrade notice.

Note 3. Regulatory Assets and Liabilities

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

We also record, as regulatory liabilities, obligations to refund previously collected revenue or to spend revenue collected from customers on future costs. Of the total regulatory assets net of regulatory liabilities, approximately $130.6 million represents the offset of accrued liabilities for which funds have not been expended. The remainder is either included in rate base or accruing carrying costs.

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

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

December 31,		2024		2023
(Thousands)				
Asset retirement obligation	$	4,224	$	4,064
Debt premium		2,332		2,921
Deferred purchased gas		7,924		280
Distribution integrity management program		28,068		19,312
Environmental remediation costs		69,710		69,111
Pension and other postretirement benefits		53,016		59,934
Revenue decoupling mechanism		14,954		14,532
System expansion		11,197		12,960
Unfunded future income taxes		25,728		22,703
Other		7,877		5,943
Total regulatory assets		**225,030**		**211,760**
Less: current portion		64,898		48,064
Total non-current regulatory assets	**$**	**160,132**	**$**	**163,696**

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

Debt premium represents the regulatory asset recorded to offset the fair value adjustment to the regulatory component of the non-current debt of UIL at the acquisition date. This amount is being amortized to interest expense over the remaining term of the outstanding debt instruments.

Deferred purchased gas costs represents the difference between actual gas costs and gas costs collected in rates. Balances at the end of the rate year are normally recorded/returned in the next year.

Distribution integrity management program (DIMP) represents deferred expenses related to pipeline replacement for cast iron and bare steel mains and services. Balances at the end of each rate year are normally received/returned in the next year.

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

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

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

System expansion represents expenses not covered by system expansion rates related to expanding the natural gas system and converting customers to natural gas.

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

Other includes items such as deferred credit card fees, Environmental defense fund (EDF) legal costs and COVID-19 deferrals.

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

December 31,	2024	2023
(Thousands)		
Asset removal obligation	$ 123,753	$ 122,722
Low income program	—	4,561
Non-firm margin sharing credits	16,930	17,363
Pension and other postretirement benefits	5,438	5,349
Rate credits	2,250	3,000
Tax reform	89,030	79,816
Unfunded future income taxes	8,312	10,907
Other	5,136	8,472
Total regulatory liabilities	**250,849**	**252,190**
Less: current portion	37,636	6,279
Total non-current regulatory liabilities	**$ 213,213**	**$ 245,911**

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

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

Non-firm margin sharing credits represents the portion of interruptible and off-system sales revenue set aside to fund gas expansion projects. This balance is amortized through current rates.

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

Rate credits resulted from the acquisition of UIL by Iberdrola. This is being used to moderate increases in rates.

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

Other includes items such as Geographical information system (GIS) data conversion and energy efficiency programs.

Note 4. Revenue

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

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

SCG derives its revenue primarily from tariff-based sales of natural gas service to customers in Connecticut with no defined contractual term. For such revenues, we recognize revenues in an amount derived from the commodities delivered to customers. Another major source of revenue is wholesale sales of natural gas.

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

Wholesale sales of natural gas are generally short-term based on market prices through contracts with the specific customer.

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

SCG records revenue from Alternative Revenue Programs (ARPs), which is not ASC 606 revenue. This program, a revenue decoupling mechanism (RDM), represent a contract between the utilities and their regulators.

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

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

Years Ended December 31,	2024	2023
(Thousands)		
Regulated operations – natural gas	$ 400,156	$ 406,164
Other(a)	2,031	873
Revenue from contracts with customers	**402,187**	**407,037**
Leasing revenue	—	2
Alternative revenue programs	12,018	15,217
Other revenue	2,117	3,836
Total operating revenues	**$ 416,322**	**$ 426,092**

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

Note 5. Goodwill

We do not amortize goodwill, but perform our annual impairment assessment testing at least annually as described in Note 1, in the fourth quarter, as of October 1. Our qualitative assessment involves evaluating key events and circumstances that could affect the fair value of our company, as well as other factors. Events and circumstances evaluated include macroeconomic conditions, industry, regulatory and market considerations, cost factors and their effect on earnings and cash flows, overall financial performance as compared with projected results and actual results of relevant prior periods, other relevant entity-specific events, and events affecting SCG.

Our quantitative impairment testing includes various assumptions, primarily the discount rate, and forecasted cash flows. We use a discount rate that is developed using market participant assumptions, which consider the risk and nature of our cash flows and the rates of return market participants would require in order to invest their capital in SCG. We test the reasonableness of the conclusions of our quantitative impairment testing using a range of discount rates and a range of assumptions for long-term cash flows.

We had no impairment of goodwill in 2024 and 2023 as a result of our qualitative impairment testing. There were no events or circumstances subsequent to our annual impairment assessment for 2024 or 2023 that required us to update the assessment.

The carrying amount of goodwill was $134.9 million at both December 31, 2024 and 2023, with no accumulated impairment losses and no changes during 2024 and 2023.

Note 6. Income Taxes

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

Years Ended December 31,	2024	2023
(Thousands)		
Current		
Federal	$ (3,861)	$ (1,920)
State	(1,078)	6,896
Current taxes charged to expense (benefit)	**(4,939)**	**4,976**
Deferred		
Federal	10,664	9,593
State	445	(7,665)
Deferred taxes charged to expense	**11,109**	**1,928**
Total Income Tax Expense	**$ 6,170**	**$ 6,904**

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

Years Ended December 31,	2024	2023
(Thousands)		
Tax expense at statutory rate	$ 7,483	$ 8,103
State tax expense, net of federal income tax benefit	(500)	(607)
Variable interest entity	(1,033)	(736)
Other, net	220	144
Total Income Tax Expense	**$ 6,170**	**$ 6,904**

Income tax expense for the year ended December 31, 2024 was $1.3 million lower than it would have been at the statutory federal income tax rate of 21% due predominately to state income taxes and variable interest entity adjustments. This resulted in an effective tax rate of 17.3%. Income tax expense for the year ended December 31, 2023 was $1.2 million lower than it would have been at the statutory federal income tax rate of 21% due predominately to state income taxes and variable interest entity adjustments. This resulted in an effective tax rate of 17.9%.

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

December 31,		2024		2023
(Thousands)				
Non-current Deferred Income Tax Liabilities (Assets)				
Property related	$	152,513	$	133,945
Unfunded future income taxes		4,610		3,101
Valuation allowance - state credits		15,440		13,675
Federal and state tax credits		(15,651)		(13,883)
Goodwill		25,361		23,571
2017 Tax Act remeasurement		(23,971)		(21,491)
Federal and state NOL's		(51,121)		(36,415)
Post-retirement benefits, net		3,178		1,645
Other		13,529		5,560
Total Non-current Deferred Income Tax Liabilities	**$**	**123,888**	**$**	**109,708**
Deferred tax assets	$	90,743	$	71,789
Deferred tax liabilities		214,631		181,497
Net Accumulated Deferred Income Tax Liabilities	**$**	**123,888**	**$**	**109,708**

SCG has federal net operating losses of $36.0 million, net state net operating losses of $15.0 million and net state credit carryforward of $15.7 million for the year ended December 31, 2024. SCG had federal net operating losses of $27.7 million, net state net operating losses of $8.6 million and net state credit carryforward of $13.9 million for the year ended December 31, 2023.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that all or a portion of a tax benefit will not be realized. As of December 31, 2024, SCG had recorded a valuation allowance on its state tax credit carryforwards of $15.4 million. The company has also recorded a regulatory asset of $24.5 million to recover the associated tax expense of the valuation allowance against the state credits, whose tax benefits were previously shared with customers. As of December 31, 2023, SCG had recorded a valuation allowance on its state credit carryforwards of $13.7 million. The company has also recorded a regulatory asset of $21.7 million to recover the associated tax expense of the valuation allowance against the state credits, whose tax benefits were previously shared with customers

Uncertain tax positions are classified as non-current unless expected to be paid within one year. Our policy is to recognize interest and penalties on uncertain tax positions as a component of interest expense in the consolidated statements of income. As of December 31, 2024 and 2023, SCG did not have any gross income tax reserves for uncertain tax positions.

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

Note 7. Long-term Debt

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

As of December 31,		2024		2023	
(Thousands, except interest rates)	Maturity Dates	Balances	Interest Rates	Balances	Interest Rates
First mortgage bonds (a)	2025-2049	$ 394,000	1.87% - 7.95%	$ 364,000	1.87% - 7.95%
Unamortized debt issuance premium, net		380		471	
Total Debt		**394,380**		**364,471**	
Less: debt due within one year, included in current liabilities		25,196		—	
Total Non-current Debt		**$ 369,184**		**$ 364,471**	

(a) The first mortgages bonds are secured by a first mortgage lien on substantially all of SCG's properties.

On December 13, 2023, SCG issued $30 million of first mortgage private bonds maturing in 2034 at an interest rate of 6.04% and $30 million of first mortgage private bonds maturing in 2038 at an interest rate of 6.24% .

On August 15, 2024, SCG issued $30 million of first mortgage private bonds maturing in 2039 at an interest rate of 5.62%.

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

2025	2026	2027	2028	2029	Total
(Thousands)					
$ 25,196	$ 15,000	$ —	$ 14,000	$ —	$ 54,196

Under various long-term debt agreements, SCG is required to maintain a ratio of indebtedness to capital not to exceed 200% and to limit aggregate dividends paid pursuant specific indenture requirements. As of December 31, 2024 and 2023, SCG was in compliance with long-term debt covenants.

Note 8. Bank Loans and Other Borrowings

Notes payable balances totaled $67.6 million and $2.1 million as of December 31, 2024 and 2023, respectively. SCG funds short-term liquidity needs through an agreement among Avangrid's regulated utility subsidiaries (the Virtual Money Pool Agreement), a bi-lateral intercompany credit agreement with Avangrid (the Bi-Lateral Intercompany Facility) and a bank provided credit facility to which SCG is a party (the AGR Credit Facility), each of which are described below.

The Virtual Money Pool Agreement is an agreement among the investment grade-rated, regulated utility subsidiaries of Avangrid under which the parties to this agreement may lend to or borrow from each other. This Agreement allows Avangrid to optimize cash resources within the regulated utility companies which are prohibited by regulation from lending to unregulated affiliates. The interest rate on transactions under this agreement is the A2/P2 non-financial 30-day commercial paper rate published by the Federal Reserve. SCG has a lending/borrowing limit of $100 million under this agreement. SCG had $53.7 million outstanding under this agreement at December 31, 2024 and no debt outstanding under this agreement at December 31, 2023.

The Bi-Lateral Intercompany Facility provides for borrowing of up to $250 million from Avangrid at the A2/P2 non-financial 30-day commercial paper rate published by the Federal Reserve. SCG had $13.9 million outstanding under this agreement at December 31, 2024 and no debt outstanding under this agreement at December 31, 2023.

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

In the AGR Credit Facility we covenant not to permit, without the consent of the lenders, our ratio of total indebtedness to total capitalization to exceed 0.65 to 1.00 at any time. For purposes of calculating the maximum ratio of indebtedness to total capitalization, the facility excludes from net worth the balance of accumulated other comprehensive loss as it appears on the consolidated balance sheet. The facility contains various other covenants, including a restriction on the amount of secured indebtedness we may maintain. Continued un-remedied failure to comply with those covenants beyond any applicable cure period, constitutes an event of default, and events of default could result in termination or reduction of lenders’ commitments or acceleration of amounts owed under the facility. Our ratio of indebtedness to total capitalization pursuant to the revolving credit facility was 0.42 to 1.00 at December 31, 2024. We are not in default as of December 31, 2024.

CNE and TPS each have a current account agreement with Avangrid whereby they can lend excess cash to Avangrid or borrow from Avangrid when they have cash funding needs to meet their obligations. Interest is charged at a rate equal to three-month SOFR plus an applicable margin and is capitalized annually. As of December 31, 2024 and 2023 TPS had no balance outstanding and $2.1 million, respectively, outstanding under its agreement. CNE did not have any amounts outstanding under this agreement as of December 31, 2024 and 2023.

Note 9. Preferred Stock

At December 31, 2024, SCG had 200,000 shares of $100 par value preferred stock and 1,600,000 shares of $2 par value preferred stock authorized but unissued.

Note 10. Leases

We have operating leases for office buildings, facilities, vehicles and certain equipment. As of December 31, 2024 and 2023, we had no finance leases. Certain of our lease agreements include rental payments adjusted periodically for inflation or are based on other periodic input measures. Our leases do not contain any material residual value guarantees or material restrictive covenants. Our leases have remaining lease terms of 1 to 49 years, some of which may include options to extend the leases for up to 20 years, and some of which may include options to terminate the leases within one year. We consider extension or termination options in the lease term if it is reasonably certain we will exercise the option.

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

Years Ended December 31,	**2024**	**2023**
(Thousands)		
Lease cost		
Operating lease cost	$ 1,195	$ 1,160
Short-term lease cost	38	224
Variable lease cost	795	529
Total lease cost	**$ 2,028**	**$ 1,913**

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

As of December 31,	**2024**	**2023**
(Thousands, except lease term and discount rate)		
Operating Leases		
Operating lease right of use assets	$ 10,440	$ 11,256
Operating lease liabilities, current	990	904
Operating lease liabilities, long-term	10,664	11,364
Total operating lease liabilities	$ 11,654	$ 12,268
Weighted-average Remaining Lease Term (years):		
Operating leases	8.46	9.31
Weighted-average Discount Rate:		
Operating leases	4.45 %	4.18 %

Supplemental consolidated cash flows information related to leases was as follows:

Years Ended December 31,	**2024**	**2023**
(Thousands)		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 1,377	$ 1,168
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 352	$ 1,735

Maturities of lease liabilities were as follows:

(Thousands)	Operating
Years Ended December 31,	
2025	$ 1,402
2026	1,443
2027	2,067
2028	1,441
2029	1,484
Thereafter	6,187
Total lease payments	**14,024**
Less: imputed interest	(2,370)
Total	**$ 11,654**

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

Note 11. Environmental Liability

In complying with existing environmental statutes and regulations and further developments in areas of environmental concern, including legislation and studies in the fields of water quality, hazardous waste handling and disposal, toxic substances, climate change and electric and magnetic fields, we may incur substantial capital expenditures for equipment modifications and additions, monitoring equipment and recording devices, as well as additional operating expenses. The total amount of these expenditures is not now determinable. Significant environmental issues known to SCG at this time are described below.

Site Decontamination, Demolition and Remediation Costs

SCG owns or has previously owned properties where Manufactured Gas Plants (MGPs) had historically operated. MGP operations have led to contamination of soil and groundwater with petroleum hydrocarbons, benzene and metals, among other things, at these properties, the regulation and cleanup of which is regulated by the Federal Resource Conservation and Recovery Act as well as other federal and state statutes and regulations. SCG has or had an ownership interest in one or more such properties contaminated as a result of MGP-related activities. Under the existing regulations, the cleanup of such sites requires state and at times, federal regulators' involvement and approval before cleanup can commence. In certain cases, such contamination has been evaluated, characterized and remediated. In other cases, the sites have been evaluated and characterized, but not yet remediated. Finally, at some of these sites, the scope of the contamination has not yet been fully characterized; no liability was recorded in respect of these sites as of December 31, 2024 and no amount of loss, if any, can be reasonably estimated at this time. In the past, SCG has received approval for the recovery of MGP-related remediation expenses from customers through rates and will seek recovery in rates for ongoing MGP-related remediation expenses for all of their MGP sites.

SCG owns properties on Housatonic Avenue and Pine Street in Bridgeport, and on Chapel Street in New Haven, which are former MGP sites. Costs associated with the remediation of the sites could be significant and will be subject to a review by PURA as to whether these costs are recoverable in rates. As of December 31, 2024 and 2023, SCG reserved $51.8 million and $51.3 million, respectively, related to the property located in New Haven which was offset by a regulatory asset. Additionally, as of December 31, 2024 and 2023, SCG reserved $11.5 million and $12.0 million, respectively, related to the property located on Pine Street in Bridgeport. As of December 31, 2024 and 2023, SCG has determined that remediation of the property on Housatonic Avenue in Bridgeport is not estimable at this time and therefore not reserved.

Our environmental liability accruals are recorded on an undiscounted basis and are expected to be paid through the year 2050.

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

The estimated fair value of debt amounted to $376 million and $357 million as of December 31, 2024 and 2023, respectively. The estimated fair value was determined, in most cases, by discounting the future cash flows at market interest rates. The interest rate curve used to make these calculations takes into account the risks associated with the natural gas industry and the credit ratings of the borrowers in each case. The fair value hierarchy for the fair value of debt is considered as Level 2.

Assets and liabilities measured at fair value on a recurring basis

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

Description	(Level 1)	(Level 2)	(Level 3)	Total
(Thousands)				
As of December 31, 2024				
Assets				
Non-current investments	$ 11,360	$ —	$ —	$ 11,360
Total	**$ 11,360**	**$ —**	**$ —**	**$ 11,360**
As of December 31, 2023				
Assets				
Non-current investments	$ 10,396	$ —	$ —	$ 10,396
Total	**$ 10,396**	**$ —**	**$ —**	**$ 10,396**

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

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

Note 13. Post-retirement and Similar Obligations

SCG has multiple qualified pension plans covering eligible union and management employees and retirees. The plans are traditional defined benefit plans or cash balance plans depending on date of hire and are closed to new employees hired on or after specified dates. Employees not participating in a defined benefit plan are eligible to receive an enhanced or core 401(k) Company matching contribution. On March 31, 2022, the Board approved to freeze the SCG non-union plan, with an effective date of June 30, 2022.

Notes to Consolidated Financial Statements

SCG employees are eligible to participate in the UIL Holdings Corporation 401(k) Employee Stock Ownership Plan. Employees may defer a portion of the compensation and invest in various investment alternatives. Matching contributions are made in the form of cash which is subsequently invested in various investment alternatives offered to employees. The matching expense totaled approximately $3.6 million for 2024 and $3.1 million for 2023.

SCG has plans providing other postretirement benefits for eligible employees and retirees. The plans were closed to newly-hired non-union employees at the end of 1995 and to newly-hired union employees by the end of March 2010. These benefits consist primarily of health care, prescription drug and life insurance benefits for retired employees and their dependents. For Medicare eligible non-union retirees, SCG provides a subsidy through an HRA for retirees to purchase coverage on the individual market. Medicare eligible union retirees have the option of receiving a subsidy through an HRA or paying contributions and participating in company-sponsored retiree health plans.

Non-Qualified Retirement Benefit Plans

We also sponsor various unfunded non-qualified pension plans for certain current employees, former employees and former directors. The total liability for these plans, which is included in Other non-current liabilities on our consolidated balance sheets, was $4.4 million and $4.7 million at December 31, 2024 and 2023, respectively.

Qualified Retirement Benefit Plans

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

	Pension Benefits		Postretirement Benefits	
As of December 31,	**2024**	**2023**	**2024**	**2023**
(Thousands)				
Change in benefit obligation				
Benefit obligation at January 1	$ 127,093	$ 124,074	$ 16,721	$ 15,164
Service cost	—	—	27	29
Interest cost	5,619	6,108	742	737
Actuarial (gain) loss	(7,720)	6,834	(1,321)	3,084
Benefits paid	(10,732)	(9,923)	(1,854)	(2,293)
Benefit obligation at December 31	**$ 114,260**	**$ 127,093**	**$ 14,315**	**$ 16,721**
Change in plan assets				
Fair value of plan assets at January 1	$ 92,320	$ 87,533	$ 3,372	$ 2,939
Actual return on plan assets	2,952	11,010	163	433
Employer & plan participants' contributions	4,858	3,700	1,079	2,293
Benefits paid	(10,732)	(9,923)	(1,854)	(2,293)
Fair value of plan assets at December 31	**$ 89,398**	**$ 92,320**	**$ 2,760**	**$ 3,372**
Funded status	**$ (24,862)**	**$ (34,773)**	**$ (11,555)**	**$ (13,349)**

During 2024, the pension benefit obligation had an actuarial gain of $7.7 million. This gain was primarily driven by a $6.9 million gain from increase in discount rates. During 2024, the postretirement benefit obligation had an actuarial gain of $1.3 million. This gain was primarily driven by $0.8 million gain from increase in discount rates.

During 2023, the pension benefit obligation had an actuarial loss of $6.8 million. This loss was primarily driven by a $5.8 million loss from decrease in discount rates. During 2023, the postretirement benefit obligation had an actuarial loss of $3.1 million. This loss was primarily driven by $0.9 million loss from assumption changes in health care trend rates and $0.6 million loss from decrease in discount rates.

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

	Pension Benefits		Postretirement Benefits	
As of December 31,	**2024**	**2023**	**2024**	**2023**
(Thousands)				
Noncurrent liabilities	$ (24,862)	$ (34,773)	$ (11,555)	$ (13,349)

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

Amounts recognized as regulatory assets or regulatory liabilities consist of:

	Pension Benefits		Postretirement Benefits	
As of December 31,	**2024**	**2023**	**2024**	**2023**
(Thousands)				
Net actuarial loss	$ 15,190	$ 21,328	$ 52	$ 1,524
Prior service cost	$ 1,610	$ 1,712	$ —	$ 396

Our accumulated benefit obligation for all qualified defined benefit pension plans was $114.3 million and $127.1 million as of December 31, 2024 and 2023, respectively. SCG's postretirement benefits were partially funded as of December 31, 2024 and 2023.

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

As of December 31,	**2024**	**2023**
(Thousands)		
Projected benefit obligation	$ 114,260	$ 127,093
Accumulated benefit obligation	$ 114,260	$ 127,093
Fair value of plan assets	$ 89,398	$ 92,320

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

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

Years Ended December 31,	Pension Benefits 2024	Pension Benefits 2023	Postretirement Benefits 2024	Postretirement Benefits 2023
(Thousands)				
Net periodic benefit cost				
Service cost	$ —	$ —	$ 27	$ 29
Interest cost	5,619	6,108	742	737
Expected return on plan assets	(6,032)	(5,472)	(195)	(222)
Amortization of prior service cost	102	102	396	427
Amortization of actuarial loss (gain)	1,497	1,536	183	(194)
Net periodic benefit cost	**$ 1,186**	**$ 2,274**	**$ 1,153**	**$ 777**
Other changes in plan assets and benefit obligations recognized in regulatory assets and regulatory liabilities				
Amortization of prior service cost	$ (102)	$ (102)	$ (396)	$ (427)
Current year actuarial (gain) loss	(4,640)	1,296	(1,289)	2,871
Amortization of actuarial (loss) gain	(1,497)	(1,536)	(183)	194
Total recognized in regulatory assets and regulatory liabilities	**$ (6,239)**	**$ (342)**	**$ (1,868)**	**$ 2,638**
Total recognized in net periodic benefit cost and regulatory assets and regulatory liabilities	**$ (5,053)**	**$ 1,932**	**$ (715)**	**$ 3,415**

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

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

As of December 31,	Pension Benefits 2024	Pension Benefits 2023	Postretirement Benefits 2024	Postretirement Benefits 2023
Discount rate	5.33 %	4.65 %	5.33 %	4.65 %
Rate of compensation increase	N/A	N/A	N/A	N/A
Interest crediting rate	3.30 %	3.13 %	N/A	N/A

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

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

Years Ended December 31,	Pension Benefits 2024	Pension Benefits 2023	Postretirement Benefits 2024	Postretirement Benefits 2023
Discount rate	4.65 %	5.17 %	4.65 %	5.10 %
Expected long-term return on plan assets	7.50 %	7.50 %	7.50 %	7.50 %
Rate of compensation increase	N/A	N/A	N/A	N/A

SCG utilizes an alternative method to amortize prior service costs and unrecognized gains and losses. Prior service costs for both the pension and other postretirement benefits plans are amortized on a straight-line basis over the average remaining service period of participants expected to receive benefits.

We developed our expected long-term rate of return on plan assets assumption based on a review of long-term historical returns for the major asset classes, the target asset allocations and the effect of rebalancing of plan assets discussed below. That analysis considered current capital market conditions and projected conditions. Our policy is to calculate the expected return on plan assets using the market related value of assets. We amortize unrecognized actuarial gains and losses in excess of 10% of the greater of PBO or MRVA related to the pension and other postretirement benefits plans on straight line basis over future working lifetime. Effective March 31, 2022, the amortization period for the SCG Salaried Plan was updated from future working lifetime to future expected lifetime as the plan was frozen, or predominantly frozen, to future accruals. For other postretirement benefits, there is no such allowance for a variance in capturing the amortization of unrecognized gains and losses.

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

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

Contributions: In accordance with our funding policy, we make annual contributions of not less than the minimum required by applicable regulations. We expect to contribute $2.6 million to our pension benefits plan in 2025. We expect to contribute $0.2 million to our postretirement benefits plan in 2025.

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

	Pension Benefits	Postretirement Benefits	Medicare Act Subsidy Receipts
(Thousands)			
2025	$ 12,256	$ 1,402	$ 75
2026	$ 10,903	$ 1,322	$ 79
2027	$ 10,429	$ 1,264	$ 80
2028	$ 10,706	$ 1,284	$ —
2029	$ 10,217	$ 1,222	$ —
2030-2034	$ 44,934	$ 5,465	$ —

***Plan assets*:** Our pension benefits plan assets are held in a master trust providing for a single trustee/custodian, a uniform investment manager lineup, and an efficient, cost-effective means of allocating expenses and investment performance to each plan under the master trust. Our primary investment objective is to ensure that current and future benefit obligations are adequately funded and with volatility commensurate with our tolerance for risk. Preservation of capital and achievement of sufficient total return to fund accrued and future benefits obligations are of highest concern. Our primary means for achieving capital preservation is through diversification of the trust's investments while avoiding significant concentrations of risk in any one area of the securities markets. Within each asset group, further diversification is achieved through utilizing multiple asset managers and systematic allocation to various asset classes and providing broad exposure to different segments of the equity, fixed-income and alternative investment markets.

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

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

		Fair Value Measurements		
Asset Category	**Total**	**(Level 1)**	**(Level 2)**	**(Level 3)**
(Thousands)				
As of December 31, 2024				
Cash and cash equivalents	$ 3,628	$ 177	$ 3,451	$ —
U.S. government securities	12,489	12,489	—	—
Common stocks	3,807	3,807	—	—
Registered investment companies	7,203	7,203	—	—
Corporate bonds	14,616	—	14,616	—
Common collective trusts	29,268	—	29,268	—
Other, principally annuity, fixed income	76	—	76	—
	$ 71,087	**$ 23,676**	**$ 47,411**	**$ —**
Other investments measured at net asset value	18,311			
Total	**$ 89,398**			

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

Asset Category	Total	Fair Value Measurements (Level 1)	(Level 2)	(Level 3)
(Thousands)				
As of December 31, 2023				
Cash and cash equivalents	$ 2,198	$ 73	$ 2,125	$ —
U.S. government securities	9,736	9,736	—	—
Common stocks	4,497	4,497	—	—
Registered investment companies	4,683	4,683	—	—
Corporate bonds	24,002	—	24,002	—
Common collective trusts	35,942	—	35,942	—
Other, principally annuity, fixed income	(2,998)	(2)	(2,996)	—
	$ 78,060	**$ 18,987**	**$ 59,073**	**$ —**
Other investments measured at net asset value	14,260			
Total	**$ 92,320**			

Valuation Techniques

We value our pension benefits plan assets as follows:

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

Our postretirement benefits plan assets are held with trustees in multiple voluntary employees' beneficiary association (VEBA) and 401(h) arrangements and are invested among and within various asset classes to achieve sufficient diversification in accordance with our risk tolerance. This is achieved for our postretirement benefits plan assets through the utilization of multiple institutional mutual and money market funds, providing exposure to different segments of the fixed income, equity and short-term cash markets. The postretirement benefits plan assets are invested in VEBA and 401(h) arrangements that are not subject to income taxes.

We have established a target asset allocation policy within allowable ranges for postretirement benefits plan assets of 49% - 69% for equity securities, 31%- 51% for fixed income. Equity investments are diversified across U.S. and non-U.S. stocks, investment styles, and market capitalization ranges. Fixed income investments are primarily invested in U.S. bonds and may also include some non-U.S. bonds. Other asset classes, including alternative investments, are used to enhance long-term returns while improving portfolio diversification. We primarily minimize the risk of large losses through diversification but also through monitoring and managing other aspects of risk through quarterly investment portfolio reviews. Systematic rebalancing within target ranges increases the probability that the annualized return on investments will be enhanced, while realizing lower overall risk, should any asset categories drift outside their specified ranges.

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

		Fair Value Measurements		
Asset Category	**Total**	**(Level 1)**	**(Level 2)**	**(Level 3)**
(Thousands)				
As of December 31, 2024				
Cash and cash equivalents	$ 127	$ (1)	$ 128	$ —
U.S. government securities	40	40	—	—
Common stocks	134	134	—	—
Registered investment companies	241	241	—	—
Corporate bonds	669	—	669	—
Common collective trusts	975	—	975	—
Other, principally annuity, fixed income	3	—	3	—
	$ 2,189	**$ 414**	**$ 1,775**	**$ —**
Other investments measured at net asset value	571			
Total	**$ 2,760**			

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

		Fair Value Measurements		
Asset Category	**Total**	**(Level 1)**	**(Level 2)**	**(Level 3)**
(Thousands)				
As of December 31, 2023				
Cash and cash equivalents	$ 78	$ 3	$ 75	$ —
U.S. government securities	359	359	—	—
Common stocks	139	139	—	—
Registered investment companies	199	199	—	—
Corporate bonds	868	—	868	—
Common collective trusts	1,408	—	1,408	—
Other, principally annuity, fixed income	(110)	—	(110)	—
	$ 2,941	**$ 700**	**$ 2,241**	**$ —**
Other investments measured at net asset value	431			
Total	**$ 3,372**			

Valuation Techniques

We value our postretirement benefits plan assets as follows:

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

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

Note 14. Other Income and Other Deductions

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

Years Ended December 31,		**2024**		**2023**
(Thousands)				
Interest and dividend income	$	317	$	592
Carrying costs on regulatory assets		4,880		1,197
Allowance for funds used during construction		883		807
Miscellaneous		93		43
Total other income	**$**	**6,173**	**$**	**2,639**
Pension non-service components	$	(1,511)	$	25
Miscellaneous		(3,646)		(2,401)
Total other deductions	**$**	**(5,157)**	**$**	**(2,376)**

Note 15. Related Party Transactions

Certain Networks subsidiaries, including SCG, borrow from AGR, the parent of Networks, through intercompany revolving credit agreements. For SCG, the intercompany revolving credit agreements provide access to supplemental liquidity. See Note 8 for further detail on the credit facility with AGR.

Avangrid Service Company provides administrative and management services to Networks operating utilities, including SCG, 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 SCG by AGR and its affiliates was approximately $27.8 million and $25.0 million for the years ended December 31, 2024 and 2023, respectively. Cost for services includes amounts capitalized in utility plant, which was approximately $1.5 million for 2024 and $1.0 million for 2023. The remainder was primarily recorded as operations and maintenance expense. The charge for services provided by SCG to AGR and its subsidiaries was approximately $8.8 million for 2024 and $5.4 million for 2023. All charges for services are at cost. All of the charges associated with services provided are recorded as revenues to offset other operating expenses on the financial statements.

The balance in accounts payable to affiliates of $23.1 million at December 31, 2024 and $20.9 million at December 31, 2023, respectively, is mostly payable to UIL Holdings. The balance in accounts receivable from affiliates of $1.2 million at December 31, 2024 and $0.6 million at December 31, 2023, respectively, is mostly receivable from UI.

The balance in notes receivable from affiliates of $41.4 million at December 31, 2024 is receivable from Avangrid. The balance in notes receivable from affiliates of $15.3 million at December 31, 2023, is receivable from Avangrid and NYSEG. Notes receivable from affiliates relate to the Virtual Money Pool Agreement and the CNE and TPS agreement with Avangrid as discussed in Note 8 of these consolidated financial statements.

Note 16. Subsequent Events

The company has performed a review of subsequent events through March 28, 2025, which is the date these consolidated financial statements were available to be issued.