

# NSTAR Gas Company

Consolidated Financial Statements as of and for the  
Years Ended December 31, 2013 and 2012,  
Together With Independent Auditors' Reports

NSTAR Gas Company  
Table of Contents

NSTAR Gas Company Independent Auditors' Report	1
Consolidated Financial Statements as of and for the Years Ended December 31, 2013 and 2012:	
Balance Sheets	2
Statements of Income	4
Statements of Retained Earnings	4
Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6

## INDEPENDENT AUDITORS' REPORT

To NSTAR Gas Company  
Hartford, CT

We have audited the accompanying consolidated financial statements of NSTAR Gas Company (the "Company"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, retained earnings, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NSTAR Gas Company as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

March 26, 2014

NSTAR GAS COMPANY  
CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)	As of December 31,	
	2013	2012
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 1,898	\$ 2,546
Receivables, Net	39,967	31,849
Accounts Receivable from Affiliated Companies	6,580	53,614
Unbilled Revenues	14,251	13,912
Fuel, Materials and Supplies	22,844	23,912
Regulatory Assets	40,124	47,686
Prepayments and Other Current Assets	7,867	1,391
Total Current Assets	<u>133,531</u>	<u>174,910</u>
Property, Plant and Equipment, Net	<u>701,023</u>	<u>649,689</u>
Deferred Debits and Other Assets:		
Regulatory Assets	111,492	114,683
Receivable from Affiliates	64,172	70,221
Other Long-Term Assets	11,738	12,202
Total Deferred Debits and Other Assets	<u>187,402</u>	<u>197,106</u>
Total Assets	<u>\$ 1,021,956</u>	<u>\$ 1,021,705</u>

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

NSTAR GAS COMPANY  
CONSOLIDATED BALANCE SHEETS

As of December 31,

(Thousands of Dollars)

2013

2012

LIABILITIES AND CAPITALIZATION

Current Liabilities:

Notes Payable to Affiliated Companies	\$	102,950	\$	87,325
Accounts Payable		34,382		24,656
Accounts Payable to Affiliated Companies		73,844		130,267
Regulatory Liabilities		10,371		274
Other Current Liabilities		18,185		18,119
Total Current Liabilities		<u>239,732</u>		<u>260,641</u>

Deferred Credits and Other Liabilities:

Accumulated Deferred Income Taxes		188,668		173,995
Regulatory Liabilities		63,227		59,598
Other Long-Term Liabilities		28,582		31,941
Total Deferred Credits and Other Liabilities		<u>280,477</u>		<u>265,534</u>

Capitalization:

Long-Term Debt		<u>210,000</u>		<u>210,000</u>
----------------	--	----------------	--	----------------

Common Stockholder's Equity:

Common Stock		71,425		71,425
Capital Surplus, Paid In		122,691		122,690
Retained Earnings		97,631		91,415
Common Stockholder's Equity		<u>291,747</u>		<u>285,530</u>
Total Capitalization		<u>501,747</u>		<u>495,530</u>

Total Liabilities and Capitalization	\$	<u>1,021,956</u>	\$	<u>1,021,705</u>
--------------------------------------	----	------------------	----	------------------

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

NSTAR GAS COMPANY  
CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Dollars)	For the Years Ended December 31,	
	2013	2012
Operating Revenues	\$ 432,183	\$ 351,647
Operating Expenses:		
Cost of Natural Gas	194,252	159,448
Operations and Maintenance	93,664	91,363
Depreciation	29,875	27,711
Amortization of Regulatory Assets, Net	5,321	4,267
Energy Efficiency Programs	44,770	23,273
Taxes Other Than Income Taxes	15,728	13,597
Total Operating Expenses	<u>383,610</u>	<u>319,659</u>
Operating Income	48,573	31,988
Interest Expense:		
Interest on Long-Term Debt	12,454	12,434
Other Interest Expense	678	699
Interest Expense	<u>13,132</u>	<u>13,133</u>
Other Income, Net	738	605
Income Before Income Tax Expense	<u>36,179</u>	<u>19,460</u>
Income Tax Expense	13,963	7,536
Net Income	<u>\$ 22,216</u>	<u>\$ 11,924</u>

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

NSTAR GAS COMPANY  
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Thousands of Dollars)	For the Years Ended December 31,	
	2013	2012
Balance as of Beginning of Year	\$ 91,415	\$ 95,491
Net Income	22,216	11,924
Dividends on Common Stock	(16,000)	(16,000)
Balance as of End of Year	<u>\$ 97,631</u>	<u>\$ 91,415</u>

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

NSTAR GAS COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,  
2013 2012

(Thousands of Dollars)

	2013	2012
Operating Activities:		
Net Income	\$ 22,216	\$ 11,924
Adjustments to Reconcile Net Income to Net Cash Flows		
Provided by Operating Activities:		
Depreciation	29,875	27,711
Deferred Income Taxes	12,460	24,712
Amortization of Regulatory Assets, Net	5,321	4,267
Regulatory Over/(Under) Recoveries, Net	21,125	(12,260)
Bad Debt Expense	9,567	18,567
Other	(3,010)	(7,290)
Changes in Current Assets and Liabilities:		
Receivables and Unbilled Revenues, Net	29,010	(62,166)
Fuel, Materials and Supplies	1,069	12,224
Taxes Receivable/Accrued, Net	(5,406)	(4,982)
Accounts Payable	(50,086)	75,846
Other Current Assets and Liabilities, Net	(125)	(1,032)
Net Cash Flows Provided by Operating Activities	<u>72,016</u>	<u>87,521</u>
Investing Activities:		
Investments in Property, Plant and Equipment	<u>(72,289)</u>	<u>(78,572)</u>
Net Cash Flows Used in Investing Activities	<u>(72,289)</u>	<u>(78,572)</u>
Financing Activities:		
Cash Dividends on Common Stock	(16,000)	(16,000)
Increase in Notes Payable to Affiliated Companies	15,625	8,225
Other Financing Activities	-	(331)
Net Cash Flows Used in Financing Activities	<u>(375)</u>	<u>(8,106)</u>
Net (Decrease)/Increase in Cash	(648)	843
Cash - Beginning of Year	2,546	1,703
Cash - End of Year	<u>\$ 1,898</u>	<u>\$ 2,546</u>

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

**NSTAR GAS COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. About NSTAR Gas Company**

NSTAR Gas Company (NSTAR Gas or the Company) is a regulated public utility incorporated in Massachusetts in 1851 that is subject to regulation of rates, accounting and other matters by the Massachusetts Department of Public Utilities (DPU). The Company is engaged in the retail distribution and sale of natural gas to approximately 274,000 customers in 51 communities in central and eastern Massachusetts. NSTAR Gas is a wholly-owned subsidiary of Yankee Energy System, Inc. (Yankee), a holding company that is a wholly-owned subsidiary of Northeast Utilities (NU). A portion of the storage of natural gas supply for NSTAR Gas during the winter heating season is provided by Hopkinton LNG Corp (Hopkinton), another wholly-owned subsidiary of Yankee.

**B. Merger of NU and NSTAR**

On April 10, 2012, NU completed its merger with NSTAR (Merger), NSTAR Gas' parent prior to the merger. Pursuant to the terms and conditions of the Agreement and Plan of Merger, as amended, NSTAR was merged with and into a wholly-owned subsidiary of NU. The NSTAR Gas consolidated financial statements do not reflect the push down of the purchase price for the Merger.

**C. Basis of Presentation**

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires NSTAR Gas to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These consolidated financial statements are presented on the historical cost basis.

Certain reclassifications of prior year data were made in the accompanying consolidated balance sheets to conform to current year presentation.

NSTAR Gas has an exclusive service agreement with Hopkinton. NSTAR Gas is the sole customer of Hopkinton, bears the risk of financial losses that Hopkinton could be exposed to, and has therefore determined it is the primary beneficiary of Hopkinton. For further information, see Note 14, "Consolidation of Variable Interest Entity," to the consolidated financial statements.

NSTAR Gas evaluates events and transactions that occur after the balance sheet date but before financial statements are issued and recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed as of the balance sheet date and discloses but does not recognize in the consolidated financial statements subsequent events that provide evidence about the conditions that arose after the balance sheet date but before the financial statements are issued. In preparing the accompanying consolidated financial statements, NSTAR Gas has evaluated events subsequent to December 31, 2013 through the issuance of the consolidated financial statements on March 26, 2014.

**D. Recently Adopted Accounting Standards**

*Recently Adopted Accounting Standards:* In the first quarter of 2013, NSTAR Gas adopted the Financial Accounting Standards Board's (FASB) final Accounting Standards Updates (ASU), "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities," which clarifies the scope of the offsetting disclosure requirements under GAAP and applies to derivative instruments. The ASU was effective beginning in the first quarter of 2013 with retrospective application. For further information, see Note 5, "Derivative Instruments," to the consolidated financial statements. The ASU did not have an impact on financial position, results of operations or cash flows.

*Accounting Standards Issued but not Yet Adopted:* In July 2013, the FASB issued a final ASU effective January 1, 2014, requiring presentation of certain unrecognized tax benefits as reductions to deferred tax assets. The ASU is required to be implemented prospectively on January 1, 2014. Implementation of this guidance will have an immaterial impact on the consolidated balance sheets and no impact on the results of operations or cash flows.

**E. Cash**

Cash includes cash on hand and short-term investments that are highly liquid in nature and have original maturities of three months or less. At the end of each reporting period, any overdraft amounts are reclassified from Cash to Accounts Payable on the accompanying consolidated balance sheets.

**F. Provision for Uncollectible Accounts**

NSTAR Gas presents its receivables at net realizable value by maintaining a provision for uncollectible amounts. This provision is determined based upon a variety of factors, including historical collection and write-off experience and NSTAR Gas' assessment of collectibility from individual customers. NSTAR Gas assesses the collectibility of receivables, and if circumstances change, collectibility estimates are adjusted accordingly. Receivable balances are written off against the provision for uncollectible accounts when the accounts are terminated and these balances are deemed to be uncollectible.



Provision for uncollectible accounts, which is included in Receivables, Net on the accompanying consolidated balance sheets, was \$15.5 million and \$15.6 million for the years ended December 31, 2013 and 2012, respectively.

#### **G. Fuel, Materials and Supplies**

Fuel, Materials and Supplies include natural gas purchased for delivery to customers and materials purchased primarily for construction or operation and maintenance purposes. As of December 31, 2013 and 2012, there was \$20.7 million and \$22 million, respectively, of natural gas inventory, which is recorded at the weighted average cost, included in Fuel, Materials and Supplies. The remaining balance relates to materials and supplies that are valued at the lower of average cost or market.

#### **H. Fair Value Measurements**

NSTAR Gas applies fair value measurement guidance to derivative contracts that are not elected or designated as "normal purchases or normal sales" (normal). Fair value measurement guidance is also applied to nonrecurring fair value measurements of nonfinancial assets such as asset retirement obligations (ARO).

*Fair Value Hierarchy:* In measuring fair value, NSTAR Gas uses observable market data when available and minimizes the use of unobservable inputs. Inputs used in fair value measurements are categorized into three fair value hierarchy levels for disclosure purposes. The entire fair value measurement is categorized based on the lowest level of input that is significant to the fair value measurement. NSTAR Gas evaluates the classification of assets and liabilities measured at fair value on a quarterly basis, and NSTAR Gas' policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. The three levels of the fair value hierarchy are described below:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Inputs are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs are observable.

Level 3 - Quoted market prices are not available. Fair value is derived from valuation techniques in which one or more significant inputs or assumptions are unobservable. Where possible, valuation techniques incorporate observable market inputs that can be validated to external sources such as industry exchanges, including prices of energy and energy-related products.

*Determination of Fair Value:* The valuation techniques and inputs used in NSTAR Gas' fair value measurements are described in Note 4, "Asset Retirement Obligations," Note 5, "Derivative Instruments," and Note 12, "Fair Value of Financial Instruments," to the consolidated financial statements.

#### **I. Derivative Accounting**

NSTAR Gas has entered into New York Mercantile Exchange (NYMEX) natural gas futures that are derivatives in order to reduce cash flow variability associated with the purchase price for approximately one-third of its natural gas purchases during the winter heating season of November through March. Regulatory assets or regulatory liabilities are recorded to offset the fair values of derivative contracts, as costs are recovered from, or refunded to, customers in future rates.

The application of derivative accounting is complex and requires management judgment in the following respects: identification of derivatives and embedded derivatives, election and designation of the normal exception, and determination of the fair value of derivative contracts. All of these judgments can have a significant impact on the consolidated financial statements.

In addition, NSTAR Gas has natural gas supply contracts that are elected or designated as normal. The judgment applied in the election of the normal exception (and resulting accrual accounting) includes the conclusion that it is probable at the inception of the contract and throughout its term that it will result in physical delivery of the underlying product and that the quantities will be used or sold by the business in the normal course of business. If facts and circumstances change and management can no longer support this conclusion, then the normal exception and accrual accounting is terminated and fair value accounting is applied prospectively.

The fair value of derivative contracts is based upon the contract terms and conditions and the underlying market price or fair value per unit. When quantities are not specified in the contract, the Company determines whether the contract has a determinable quantity by using amounts referenced in default provisions and other relevant sections of the contract. The fair value of derivative assets and liabilities with the same counterparty are offset and recorded as a net derivative asset or liability on the consolidated balance sheets. Changes in the fair value of derivative contracts are recorded as regulatory assets or liabilities and do not impact net income.

For further information regarding derivative contracts see Note 5, "Derivative Instruments," to the consolidated financial statements.

#### **J. Revenues**

NSTAR Gas' revenues are based on rates approved by the DPU. In general, rates can only be changed through formal proceedings with the DPU. NSTAR Gas also utilizes DPU-approved tracking mechanisms to recover certain costs on a fully-reconciling basis. The tracking mechanisms allow for rates to be changed periodically, with overcollections refunded to customers or undercollections collected from customers in future periods.

Because customers are billed throughout the month based on pre-determined cycles rather than on a calendar month basis, an estimate of natural gas delivered to customers for which the customers have not yet been billed (unbilled sales) is calculated as of the balance sheet date. Unbilled revenues are included in Operating Revenues on the consolidated statements of income and are assets on the consolidated balance sheets. Actual amounts billed to customers when meter readings become available may vary from the estimated amount.

NSTAR Gas estimates monthly unbilled sales using the daily load cycle method. The daily load cycle method allocates billed sales to the current calendar month based on the daily load for each billing cycle. The billed sales are then subtracted from the total monthly load delivered, net of any losses, to estimate unbilled sales for the respective month. Unbilled revenues are estimated by first allocating unbilled sales to the respective customer classes, then applying an estimated rate by customer class to those sales.

**K. Allowance for Funds Used During Construction**

Allowance for funds used during construction (AFUDC) represents the cost of borrowed funds used to finance construction and is included in the cost of NSTAR Gas' plant. The portion of AFUDC attributable to borrowed funds is recorded as a reduction of Other Interest Expense on the accompanying consolidated statements of income. AFUDC costs are recovered from customers over the service life of the related plant in the form of increased revenue collected as a result of higher depreciation expense. Average AFUDC debt rates for the years ended December 31, 2013 and 2012 were 0.6 percent and 0.4 percent, respectively.

NSTAR Gas' average AFUDC rate is based on a Federal Energy Regulatory Commission prescribed formula using the cost of a company's short-term financings. The average rate is applied to average eligible construction work in progress amounts to calculate AFUDC.

**L. Supplemental Cash Flow Information**

<i>(Millions of Dollars)</i>	<b>For the Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Cash Paid/(Received) During the Year For:		
Interest, Net of Amounts Capitalized	\$ 13.1	\$ 12.9
Income Taxes	8.0	(12.7)
Non-Cash Investing Activities:		
Plant Additions Included in Accounts Payable (As of)	5.7	2.3

Short-term borrowings have original maturities of three months or less. Accordingly, borrowings and repayments are shown net on the accompanying consolidated statements of cash flows.

**M. Related Parties**

Northeast Utilities Service Company (NUSCO), an NU subsidiary, provides accounting, administrative, engineering, financial, information technology, legal, operational, planning, purchasing, and other services to NSTAR Gas.

Included in the consolidated balance sheets as of December 31, 2013 and 2012 are Accounts Receivable from Affiliated Companies and Accounts Payable to Affiliated Companies relating to transactions between NSTAR Gas and other subsidiaries that are wholly-owned by NU, primarily NUSCO.

Included in the consolidated balance sheets as of December 31, 2013 and 2012 are Deferred Debits and Other Assets - Receivable from Affiliates, which reflects a net receivable from NSTAR Electric Company (NSTAR Electric), an NU subsidiary, as a result of NSTAR Gas' participation in and funding transactions related to the NSTAR Pension Plan.

**2. REGULATORY ACCOUNTING**

The rates charged to NSTAR Gas' customers are designed to collect the Company's costs to provide service, including a return on investment. Therefore, the accounting policies of NSTAR Gas reflect the application of accounting guidance for entities with rate-regulated operations and reflect the effects of the rate-making process.

NSTAR Gas believes it is probable that it will recover its investment in long-lived assets, including regulatory assets. If NSTAR Gas were to determine that it could no longer apply the accounting guidance applicable to rate-regulated enterprises to NSTAR Gas' operations, or that management could not conclude it is probable that costs would be recovered from customers in future rates, the costs would be charged to net income in the period in which the determination is made.

*Regulatory Assets:* The components of regulatory assets are as follows:

<i>(Millions of Dollars)</i>	<b>As of December 31,</b>	
	<b>2013</b>	<b>2012</b>
Goodwill – 1999 Merger	\$ 74.4	\$ 76.0
Regulatory Tracker Mechanisms	48.7	53.9
Environmental Remediation Costs	17.4	21.1
Asset Retirement Obligations	8.4	7.9
Derivative Instruments	-	1.5
Other Regulatory Assets	2.7	2.0
Total Regulatory Assets	<u>\$ 151.6</u>	<u>\$ 162.4</u>
Less: Current Portion	<u>\$ 40.1</u>	<u>\$ 47.7</u>
Total Long-Term Regulatory Assets	<u>\$ 111.5</u>	<u>\$ 114.7</u>

*Regulatory Costs Not Yet Approved:* Additionally, NSTAR Gas had \$10.4 million of regulatory costs as of December 31, 2013, which were included in Other Long-Term Assets on the accompanying consolidated balance sheet. This amount represents incurred costs that have not yet been approved for recovery by the DPU. NSTAR Gas believes these costs are probable of recovery in future cost-of-service regulated rates.

*Goodwill – 1999 Merger:* The goodwill regulatory asset originated from the transaction that created NSTAR in 1999. This regulatory asset is currently being amortized and recovered from customers in rates without a carrying charge over a 40-year period.

*Regulatory Tracker Mechanisms:* The NSTAR Gas' approved rates are designed to recover its incurred costs to provide service to customers. NSTAR Gas is permitted to recover certain of its costs on a fully-reconciling basis through DPU-approved tracking mechanisms. The difference between the costs incurred (or the rate recovery allowed) and the actual revenues is recorded as regulatory assets (for undercollections) or regulatory liabilities (for overcollections) to be included in future customer rates each year. Carrying charges are recorded on all material regulatory tracker mechanisms.

*Environmental Remediation Costs:* Prudently incurred costs associated with the remediation of environmental sites are recorded as regulatory assets in accordance with DPU regulation. These costs do not earn a return. For further information, see Note 10A, "Commitments and Contingencies - Environmental Matters," to the consolidated financial statements.

*Asset Retirement Obligations:* The costs associated with the depreciation of NSTAR Gas' ARO assets and accretion of the ARO liabilities are recorded as regulatory assets in accordance with regulatory accounting guidance. NSTAR Gas' ARO assets, regulatory assets and liabilities offset and are excluded from rate base. These costs are being recovered over the life of the underlying property, plant and equipment.

*Derivative Instruments:* Regulatory assets and liabilities recorded as an offset to derivative liabilities and assets relate to the fair value of contracts structured to hedge a portion of future natural gas supply purchases with settled amounts to be recovered from or refunded to customers in future rates. See Note 5, "Derivative Instruments," to the consolidated financial statements for further information. These assets are excluded from rate base and are being recovered as the actual settlement occurs over the duration of the contracts, the majority of which are less than one year.

*Regulatory Liabilities:* The components of regulatory liabilities are as follows:

<i>(Millions of Dollars)</i>	<b>As of December 31,</b>	
	<b>2013</b>	<b>2012</b>
Cost of Removal	\$ 62.3	\$ 58.6
Regulatory Tracker Mechanisms	9.6	-
Derivative Instruments	1.7	-
Other Regulatory Liabilities	-	1.3
Total Regulatory Liabilities	<u>\$ 73.6</u>	<u>\$ 59.9</u>
Less: Current Portion	<u>\$ 10.4</u>	<u>\$ 0.3</u>
Total Long-Term Regulatory Liabilities	<u>\$ 63.2</u>	<u>\$ 59.6</u>

*Cost of Removal:* NSTAR Gas currently recovers amounts in rates for future costs of removal of plant assets over the lives of the assets. The estimated cost to remove assets from service is recognized as a component of depreciation expense and the cumulative amounts collected from customers but not yet expended is recognized as a regulatory liability. Expended costs that exceed amounts collected from customers are recognized as regulatory assets, as they are probable of recovery in future rates.

### 3. PROPERTY, PLANT AND EQUIPMENT AND ACCUMULATED DEPRECIATION

Property, plant and equipment is recorded at original cost. Original cost includes materials, labor, construction overhead and AFUDC. The cost of repairs and maintenance, including planned major maintenance activities, is charged to Operations and Maintenance as incurred.

The following table summarizes NSTAR Gas' investments in property, plant and equipment:

<i>(Millions of Dollars)</i>	<b>As of December 31,</b>	
	<b>2013</b>	<b>2012</b>
Property, Plant and Equipment, Gross	\$ 1,004.5	\$ 938.5
Less: Accumulated Depreciation	<u>(318.3)</u>	<u>(298.4)</u>
Property, Plant and Equipment, Net	686.2	640.1
Construction Work in Progress	14.8	9.6
Total Property, Plant and Equipment, Net	<u>\$ 701.0</u>	<u>\$ 649.7</u>

Depreciation of assets is calculated on a straight-line basis using composite rates based on the estimated remaining useful lives of the various classes of property. The composite rates are subject to approval by the DPU. The composite rates include a cost of removal component, which is collected from customers over the lives of the plant assets and is recognized as a regulatory liability. Depreciation rates are applied to property from the time it is placed in service. Upon retirement from service, the cost of the asset is charged to the accumulated provision for depreciation. The actual incurred removal costs are applied against the related regulatory liability. The depreciation rates for the various classes of property, plant and equipment aggregate to a composite rate of 3.1 percent in 2013 and 3 percent in 2012. As of December 31, 2013, the average depreciable life of NSTAR Gas' property, plant and equipment was 33.5 years.

### 4. ASSET RETIREMENT OBLIGATIONS

In accordance with accounting guidance for AROs, NSTAR Gas recognizes a liability for the fair value of an ARO on the obligation date if the liability's fair value can be reasonably estimated and is conditional on a future event. Settlement dates and future costs are reasonably estimated when sufficient information becomes available. NSTAR Gas has identified AROs related to the removal of hazardous materials and the purging and capping of natural gas mains and has performed a fair value calculation, reflecting expected probabilities for settlement scenarios.

The fair value of the ARO is recorded as a liability in Other Long-Term Liabilities with a corresponding amount included in Property, Plant and Equipment, Net on the accompanying consolidated balance sheets. As NSTAR Gas is rate-regulated on a cost-of-service basis, it applies regulatory accounting guidance and the cost associated with NSTAR Gas' AROs are included in Regulatory Assets. The ARO assets are depreciated, and the ARO liabilities are accreted over the estimated life of the obligation with corresponding credits recorded as accumulated depreciation and ARO liabilities, respectively. Both the depreciation and accretion were recorded as increases to Regulatory Assets on the accompanying consolidated balance sheets. For further information, see Note 2, "Regulatory Accounting," to the consolidated financial statements.

A reconciliation of the beginning and ending carrying amounts of the NSTAR Gas ARO liabilities are as follows:

<i>(Millions of Dollars)</i>	<b>For the Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Balance as of Beginning of Year	\$ (8.3)	\$ (7.9)
Liabilities Incurred During the Year	-	-
Accretion	<u>(0.5)</u>	<u>(0.4)</u>
Balance as of End of Year	<u>\$ (8.8)</u>	<u>\$ (8.3)</u>

### 5. DERIVATIVE INSTRUMENTS

NSTAR Gas has NYMEX futures contracts in order to reduce variability associated with the purchase price of approximately 11.5 million MMBtu of natural gas. NSTAR Gas has entered into these contracts in accordance with a DPU order. These are financial instruments that do not procure natural gas supply and qualify as derivative instruments. The costs and benefits from all of the NYMEX futures contracts are recoverable from or refundable to customers, and therefore, changes in fair value are recorded as Regulatory Assets or Regulatory Liabilities on the accompanying consolidated balance sheets.

In addition, NSTAR Gas has natural gas supply contracts that are derivative contracts and meet the definition of, and are designated as, normal. The costs and benefits of these derivative contracts qualify for accrual accounting under the applicable accounting guidance and are recognized in Operating Expenses or Operating Revenues on the consolidated statements of income, as applicable, as natural gas is delivered.

The gross fair values of derivative assets and liabilities with the same counterparty are offset and reported as net Derivative Assets or Derivative Liabilities, with current and long-term portions, on the accompanying consolidated balance sheets. Cash collateral posted or collected under master netting agreements is recorded as an offset to the derivative asset or liability.

The following tables present the gross fair values of contracts categorized by risk type and the net amount recorded as current or long-term derivative asset or liability with all valuations classified as Level 2 in the fair value hierarchy:

	As of December 31, 2013		
	Commodity Supply and Price Risk Management	Netting	Net Amount Recorded as Derivative Asset/(Liability)
(Millions of Dollars)			
Current Derivative Assets	\$ 1.8	\$ (0.3)	\$ 1.5
Long-Term Derivative Assets	0.2	-	0.2

	As of December 31, 2012		
	Commodity Supply and Price Risk Management	Netting	Net Amount Recorded as Derivative Asset/(Liability)
(Millions of Dollars)			
Current Derivative Assets	\$ 0.2	\$ -	\$ 0.2
Current Derivative Liabilities	(1.5)	0.2	(1.3)
Long-Term Derivative Liabilities	(0.2)	-	(0.2)

Derivative assets are included in Prepayments and Other Current Assets and Other Long-Term Assets on the accompanying consolidated balance sheets. Derivative liabilities are included in Other Current Liabilities and Other Long-Term Liabilities on the accompanying consolidated balance sheets.

For further information on the fair value of derivative contracts, see Note 1H, "Summary of Significant Accounting Policies - Fair Value Measurements," and Note 11, "Summary of Significant Accounting Policies - Derivative Accounting," to the consolidated financial statements.

#### Credit Risk

NSTAR Gas' derivative contracts contain credit risk contingent features. These features require NSTAR Gas to maintain investment grade credit ratings from the major rating agencies and to post collateral for contracts in a net liability position over specified credit limits. As of December 31, 2013, there were no derivative contracts in a net liability position that were subject to credit risk contingent features. As of December 31, 2012, NSTAR Gas had \$1.5 million of derivative contracts in a net liability position that were subject to credit risk contingent features and would have been required to post additional collateral of \$1.5 million if NSTAR Gas' credit ratings had been downgraded to below investment grade.

#### Fair Value Measurements of Derivative Instruments

*Valuation of Derivative Instruments:* Derivative contracts are classified as Level 2 in the fair value hierarchy and relate to the financial contracts for natural gas futures. Prices are obtained from broker quotes and are based on actual market activity and incorporate discount rates.

## 6. SHORT-TERM DEBT

*Credit Agreement:* NU and certain of its subsidiaries, including NSTAR Gas, are parties to a five-year revolving credit facility. The revolving credit facility is to be used primarily to backstop the NU commercial paper program, which commenced July 25, 2012. The commercial paper program allows NU to issue commercial paper as a form of short-term debt. On September 6, 2013, the \$1.15 billion revolving credit facility dated July 25, 2012 was amended to increase the aggregate principal amount available thereunder by \$300 million to \$1.45 billion and to extend the expiration date from July 25, 2017 to September 6, 2018. NSTAR Gas has a borrowing sublimit of \$200 million. On September 6, 2013, NU's \$1.15 billion commercial paper program was increased by \$300 million to \$1.45 billion.

As of December 31, 2013 and 2012, there were intercompany loans from NU of \$103 million and \$87.3 million, respectively, included in Notes Payable to Affiliated Companies and classified in current liabilities on the accompanying consolidated balance sheets as all borrowings are outstanding for no more than 364 days at one time. The weighted-average interest rate on these borrowings as of December 31, 2013 and 2012 was 0.24 percent and 0.46 percent, respectively, which is generally based on money market rates.

Under the credit facilities, NSTAR Gas must comply with certain financial and non-financial covenants, including a consolidated debt to total capitalization ratio. As of December 31, 2013 and 2012, NSTAR Gas was in compliance with these covenants. If NSTAR Gas was not in compliance with these covenants, an event of default would occur requiring all outstanding borrowings by such borrower to be repaid and additional borrowings by such borrower would not be permitted under its credit facility.

*Working Capital:* NSTAR Gas uses its available capital resources to fund its construction expenditures, meet debt requirements, pay operating costs, pay dividends and fund other corporate obligations, such as pension contributions. NSTAR Gas recovers its natural gas distribution construction expenditures as the related project costs are depreciated over the life of the assets. This impacts the timing of the revenue stream designed to fully recover the total investment plus a return on the equity portion of the cost and related financing costs. These factors have resulted in current liabilities exceeding current assets by \$106.2 million as of December 31, 2013.

NSTAR Gas will reduce its short-term borrowings with cash received from operating cash flows or with the issuance of new long-term debt, as deemed appropriate given capital requirements and maintenance of its credit rating and profile. NSTAR Gas expects its future

operating cash flows, along with the access to financial markets, will be sufficient to meet any future operating requirements and capital investment forecasted opportunities.

## 7. LONG-TERM DEBT

Details of NSTAR Gas' first mortgage bonds outstanding are as follows:

<i>(Millions of Dollars)</i>	<b>As of December 31,</b>	
	<b>2013</b>	<b>2012</b>
9.95% Series J, due 2020	\$ 25.0	\$ 25.0
7.11% Series K, due 2033	35.0	35.0
7.04% Series M, due 2017	25.0	25.0
4.46% Series N, due 2020	125.0	125.0
Total Long-Term Debt	<u>\$ 210.0</u>	<u>\$ 210.0</u>

The utility plant of NSTAR Gas is subject to the lien of NSTAR Gas' first mortgage bond indenture.

NSTAR Gas' long-term debt agreements provide that it must comply with certain covenants as are customarily included in such agreements, including a minimum equity requirement. Under the minimum equity requirement, the outstanding long-term debt of NSTAR Gas must not exceed equity. NSTAR Gas was in compliance with these covenants as of December 31, 2013 and 2012.

## 8. PENSION BENEFITS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

### A. Pension

NSTAR Gas participates in the NSTAR Pension Plan (the Plan). The Plan is a noncontributory plan, with certain limited contributory features, that covers substantially all employees of NSTAR Gas and certain other participating NU subsidiaries and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006. NSTAR Electric (Employer Identification Number 04-1278810) serves as the Plan sponsor. The risk of participating in a multi-employer pension plan is different from single-employer plans. Assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. The only participants in the Plan are certain subsidiaries of NU and the Plan is at least 80 percent funded as of December 31, 2013 and 2012.

NSTAR Gas accounts for the obligations of the Plan as if it were a multi-employer plan, recognizing only unpaid contributions that are due as a liability on the accompanying consolidated balance sheets. NSTAR Electric allocates the costs of the Plan to other participating NU subsidiaries, including NSTAR Gas, based on a percentage of total direct labor charged to each participating NU subsidiary. The funded status of the Plan cannot be presented separately for NSTAR Gas since NSTAR Gas participates in the Plan trust that holds the Plan assets with other participating NU subsidiaries. Plan assets are available to provide benefits for all Plan participants. The periodic pension costs allocated to NSTAR Gas were \$8 million and \$11.1 million in 2013 and 2012, respectively, and represent cash transfers between NSTAR Gas and NSTAR Electric.

NSTAR Electric annually funds the Plan in an amount at least equal to an amount that will satisfy federal requirements. NSTAR Electric made a contribution to the Plan of \$82 million in 2013 and expects to make a contribution of \$3 million in 2014 to the Plan.

NSTAR Gas is allowed to fully recover its allocated share of qualified pension expenses through a DPU-approved reconciling rate mechanism tariff (pension adjustment mechanism or PAM) and is collected from customers in rates. The PAM removes the volatility in earnings that could result from fluctuations in financial market conditions and Plan experience. PAM-related costs are a part of NSTAR Gas' local distribution adjustment clause that is reset annually in a filing with the DPU.

### B. Postretirement Benefits Other than Pensions

NSTAR Gas provides health care and other benefits to retired employees who meet certain age and years of service eligibility requirements through the Group Welfare Benefit Plans for Retirees of NSTAR (PBOP Plan). Under certain circumstances, eligible retirees are required to contribute to the costs of postretirement benefits. NUSCO is the PBOP Plan sponsor.

These benefits are not vested and NSTAR Gas has the right to modify any benefit provision, including contribution requirements, with respect to any current or former employee, dependent or beneficiary.

To fund these PBOP benefits, NUSCO, on behalf of NSTAR Gas, makes contributions to various voluntary employees' beneficiary association (VEBA) trusts that were established pursuant to section 501(c)(9) of the Internal Revenue Code.

NSTAR Gas accounts for the obligations of the PBOP Plan as if it were a multi-employer plan, recognizing only unpaid contributions that are due as a liability on the accompanying consolidated balance sheets. PBOP Plan assets are available to provide benefits for all PBOP Plan participants.

The net periodic postretirement benefits cost allocated to NSTAR Gas was \$0.7 million and \$5.1 million in 2013 and 2012, respectively, and represents cash transfers between NSTAR Gas and NUSCO based on a percentage of total direct labor charged to NSTAR Gas.

The Company is allowed to fully recover its allocated share of qualified PBOP expense through the PAM.

## 9. INCOME TAXES

NSTAR Gas recognizes deferred tax assets and liabilities for the future tax effects of temporary differences between the carrying amounts and the tax basis of assets and liabilities. A net regulatory asset of \$2.8 million and net regulatory liability of \$1.0 million related to income taxes are offset by a corresponding amount in accumulated deferred income taxes as of December 31, 2013 and 2012, respectively. The regulatory assets represent future revenues to be collected from customers for deferred income taxes.

Accumulated deferred income taxes consisted of the following:

<i>(Millions of Dollars)</i>	<b>As of December 31,</b>	
	<b>2013</b>	<b>2012</b>
Deferred Tax Assets:		
Regulatory Deferrals	\$ 25.1	\$ 26.3
Other	14.7	18.1
Total Deferred Tax Assets	<u>\$ 39.8</u>	<u>\$ 44.4</u>
Deferred Tax Liabilities:		
Accelerated Depreciation and Other Plant-Related Differences	\$ 172.5	\$ 160.2
Regulatory Amounts:		
Other Regulatory Deferrals	21.3	21.0
Goodwill – 1999 Merger	29.9	29.8
Other	10.6	11.1
Total Deferred Tax Liabilities	<u>\$ 234.3</u>	<u>\$ 222.1</u>
Net Accumulated Deferred Income Tax Liability	<u>\$ 194.5</u>	<u>\$ 177.7</u>

For federal income tax purposes, the Company filed its return as part of the NSTAR consolidated income tax return for the period ended April 10, 2012. The Company filed its short period return for the period ended December 31, 2012 and for the twelve months ended December 31, 2013 as part of the NU consolidated income tax return. The amount of current and deferred federal income tax expense or benefit is calculated based on NSTAR Gas' stand-alone taxable income and reflects the impact of both temporary and permanent book to tax differences. Current deferred income taxes of \$5.8 million and \$3.7 million are included in other current liabilities as of December 31, 2013 and 2012, respectively.

The following is a summary of the Company's provisions for income tax expense for the years ended December 31, 2013 and 2012:

<i>(Millions of Dollars)</i>	<b>2013</b>	<b>2012</b>
Current Income Taxes:		
Federal	\$ 0.3	\$ (16.6)
State	1.4	(0.4)
Total Current	<u>1.7</u>	<u>(17.0)</u>
Deferred Income Taxes, Net:		
Federal	11.5	23.0
State	1.0	1.7
Total Deferred	<u>12.5</u>	<u>24.7</u>
Investment Tax Credit Amortization	(0.2)	(0.2)
Total Income Tax Expense	<u>\$ 14.0</u>	<u>\$ 7.5</u>

The effective income tax rates reflected in the accompanying consolidated financial statements and the reasons for their differences from the statutory federal income tax rate were as follows:

<i>(Millions of Dollars, except percentages)</i>	<b>2013</b>	<b>2012</b>
Income Before Income Tax Expense	\$ 36.2	\$ 19.5
Statutory Federal Income Tax Expense at 35%	12.7	6.8
Tax Effect of Differences:		
Investment Tax Credit Amortization	(0.2)	(0.2)
State Income Taxes, Net of Federal Impact	1.6	0.8
Other, Net	(0.1)	0.1
Income Tax Expense	<u>\$ 14.0</u>	<u>\$ 7.5</u>
Effective Tax Rate	<u>38.6%</u>	<u>38.5%</u>

*Uncertain Tax Positions:* As of December 31, 2013 and 2012, there were no unrecognized tax benefits of a permanent nature that if recognized would have an impact on the Company's effective tax rate. The Company did not have a reserve for uncertain tax positions at December 31, 2013 and 2012.

*Open Tax Years:* The following table summarizes NSTAR Gas' tax years that remain subject to examination by major tax jurisdictions as of December 31, 2013:

<b>Description</b>	<b>Tax Years</b>
Federal (NU consolidated)	2013
Massachusetts	2010-2013

*2013 Federal Legislation:* On January 2, 2013, the "American Taxpayer Relief Act of 2012" became law, which extended the accelerated deduction of depreciation to businesses through 2013. This extended stimulus provided NSTAR Gas with cash flow benefits of approximately \$13 million.

*2013 Massachusetts Legislation:* On July 24, 2013, Massachusetts enacted a law that changed the income tax rate applicable to utility companies effective January 1, 2014, from 6.5 percent to 8 percent. The tax law change required NSTAR Gas to remeasure its accumulated deferred income taxes and resulted in increasing its deferred tax liability with an offsetting regulatory asset of approximately \$4 million.

## **10. COMMITMENTS AND CONTINGENCIES**

### **A. Environmental Matters**

*General:* NSTAR Gas is subject to environmental laws and regulations intended to mitigate or remove the effect of past operations and improve or maintain the quality of the environment. These laws and regulations require the removal or the remedy of the effect on the environment of the disposal or release of certain specified hazardous substances at current and former operating sites. NSTAR Gas has an active environmental auditing and training program and believes that it is substantially in compliance with all enacted laws and regulations. The environmental sites are primarily comprised of former manufactured gas plant (MGP) sites that were operated several decades ago, which resulted in certain by-products that may pose a risk to human health and the environment.

Environmental reserves are accrued when assessments indicate it is probable that a liability has been incurred and an amount can be reasonably estimated. The approach used estimates the liability based on the most likely action plan from a variety of available remediation options, including no action required or several different remedies ranging from establishing institutional controls to full site remediation and monitoring. The environmental liability also takes into account recurring costs of managing hazardous substances and pollutants, mandated expenditures to remediate previously contaminated sites and any other infrequent and non-recurring clean-up costs. These liabilities are estimated on an undiscounted basis and do not assume that any amounts are recoverable from insurance companies or other third parties. The environmental reserves include sites at different stages of discovery and remediation and do not include any unasserted claims.

These estimates are subjective in nature as they take into consideration several different remediation options at each specific site. The reliability and precision of these estimates can be affected by several factors, including new information concerning either the level of contamination at the site, the extent of NSTAR Gas' responsibility or the extent of remediation required, recently enacted laws and regulations or a change in cost estimates due to certain economic factors. It is possible that new information or future developments could require a reassessment of the potential exposure to related environmental matters. As this information becomes available, NSTAR Gas will continue to assess the potential exposure and adjust the reserves accordingly.



The amounts recorded as environmental liabilities included in Other Current Liabilities and Other Long-Term Liabilities on the accompanying consolidated balance sheets represent NSTAR Gas' best estimate of the liability for environmental costs. A reconciliation of the activity in the environmental reserves is as follows:

(Millions of Dollars)	For the Years Ended December 31,	
	2013	2012
Balance as of Beginning of Year	\$ 10.5	\$ 9.9
Additions	-	1.6
Payments	(2.7)	(1.0)
Balance as of End of Year	\$ 7.8	\$ 10.5

NSTAR Gas had 10 environmental sites as of December 31, 2013. For eight of the 10 environmental sites that were included in the Company's reserve for environmental costs, the \$3.3 million accrual represents management's best estimate of the liability and no additional loss is anticipated. For one of the 10 environmental sites, the site is under investigation and NSTAR Gas cannot reasonably estimate the exposure to loss, or range of loss. For the remaining environmental site that was included in the Company's reserve for environmental costs, the information known and nature of the remediation options at this site allows for the Company to estimate the range of loss for environmental costs. As of December 31, 2013, \$4.5 million had been accrued as a liability for this site, which represents management's best estimate of the liability for environmental costs. This amount is the best estimate with an estimated range of additional loss from zero to \$16.4 million.

**CERCLA Matters:** The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) and its amendments or state equivalents impose joint and several strict liabilities, regardless of fault, upon generators of hazardous substances resulting in removal and remediation costs and environmental damages. Liabilities under these laws can be material and in some instances may be imposed without regard to fault or for past acts that may have been lawful at the time they occurred. Of the 10 sites, 4 sites are superfund sites under CERCLA for which the Company has been notified that it is a potentially responsible party but for which the site assessment and remediation are not being managed by the Company. As of December 31, 2013, a liability of \$0.3 million accrued on these sites represents management's best estimate of its potential remediation costs with respect to these superfund sites.

**Environmental Rate Recovery:** NSTAR Gas has a rate recovery mechanism for environmental costs for the clean-up of former MGP sites over a seven-year period without a return. Collection of these amounts begins following payment of related costs. As of December 31, 2013 and 2012, \$17.4 million and \$21.1 million, respectively, have been recorded as Regulatory Assets on the accompanying consolidated balance sheets.

## B. Long-Term Contractual Arrangements

**Estimated Future Annual Costs:** The estimated future annual costs of NSTAR Gas' significant long-term contractual arrangements as of December 31, 2013 are as follows:

(Millions of Dollars)	2014	2015	2016	2017	2018	Thereafter	Total
Natural Gas Procurement	\$ 56.5	\$ 53.2	\$ 34.3	\$ 10.8	\$ 8.2	\$ 67.5	\$ 230.5

**Natural Gas Procurement:** NSTAR Gas' natural gas distribution business has long-term contracts for the purchase, transportation and storage of natural gas in the normal course of business as part of its portfolio of supplies. These contracts extend through 2029. The total cost of NSTAR Gas' procurement portfolio, including these contracts, amounted to \$180.5 million in 2013 and \$160.2 million in 2012.

## C. Other Litigation and Legal Proceedings

NSTAR Gas is involved in legal, tax and regulatory proceedings regarding matters arising in the ordinary course of business, which involve management's assessment to determine the probability of whether a loss will occur and, if probable, its best estimate of probable loss. The Company records and discloses losses when these losses are probable and reasonably estimable, discloses matters when losses are probable but not estimable or reasonably possible, and expenses legal costs related to the defense of loss contingencies as incurred.

## 11. LEASES

NSTAR Gas has entered into lease agreements for the use of data processing and office equipment, vehicles, service centers, and office space. The provisions of these lease agreements generally contain renewal options. Certain lease agreements contain payments impacted by the London Interbank Offered Rate (LIBOR) rate plus a credit spread.

For the years ended December 31, 2013 and 2012, total rental expense for all operating leases was \$1.3 million and \$1.1 million, respectively.

Future minimum rental payments to external third parties excluding executory costs, such as property taxes, state use taxes, insurance, and maintenance, under long-term noncancelable leases, as of December 31, 2013 are as follows:

**Operating Leases**

(Millions of Dollars)

2014	\$	2.5
2015		2.3
2016		2.0
2017		1.7
2018		1.2
Thereafter		2.7
Future minimum lease payments	\$	<u>12.4</u>

**12. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following methods and assumptions were used to estimate the fair value of each of the following financial instruments:

*Long-Term Debt:* The fair value of NSTAR Gas' fixed-rate long-term debt securities is based upon pricing models that incorporate quoted market prices for those issues or similar issues adjusted for market conditions, credit ratings and treasury benchmark yields.

The carrying amount of NSTAR Gas' long-term debt, including the current portion, was \$210 million as of both December 31, 2013 and 2012. The estimated fair values of these financial instruments were \$231.5 million and \$248.8 million as of December 31, 2013 and 2012, respectively. These fair values were classified as Level 2 in the fair value hierarchy. For further information regarding long-term debt, see Note 7, "Long-Term Debt," to the consolidated financial statements.

*Derivative Instruments:* NSTAR Gas holds various derivative instruments that are carried at fair value. For further information, see Note 5, "Derivative Instruments," to the consolidated financial statements.

*Other Financial Instruments:* The carrying value of other financial instruments included in current assets and current liabilities approximates their fair value due to the short-term nature of these instruments.

**13. COMMON STOCK**

The following table sets forth the shares of NSTAR Gas common stock authorized, issued, outstanding and related per share par value as of December 31, 2013 and 2012:

	Per Share Par Value	Shares of Common Stock		
		Authorized	Issued	Outstanding
		2013 and 2012	2013 and 2012	2013 and 2012
NSTAR Gas	\$ 25	2,857,000	2,857,000	2,857,000

**14. CONSOLIDATION OF VARIABLE INTEREST ENTITY**

An enterprise is required to consolidate a variable interest entity (VIE) if the company is the primary beneficiary of a VIE's activities. NSTAR Gas has an exclusive service agreement with Hopkinton. Hopkinton owns several facilities including a natural gas liquefaction and vaporization plant, a satellite vaporization plant and storage tanks having an aggregate storage capacity equivalent to 3.5 billion cubic feet (Bcf) of natural gas. Hopkinton provides a portion of the storage of gas supply for NSTAR Gas during the winter heating season. NSTAR Gas is Hopkinton's sole customer, approves its operating budget, and controls the use of its facilities. Accordingly, NSTAR Gas has the power to direct the activities of Hopkinton that most significantly impact its economic performance and has therefore determined it is the primary beneficiary of Hopkinton. NSTAR Gas has consolidated Hopkinton, an affiliated company and under common control by Yankee, in the accompanying consolidated financial statements. All significant intercompany transactions have been eliminated in consolidation. Creditors of Hopkinton have no recourse to NSTAR Gas.

The impact of consolidating Hopkinton to NSTAR Gas is as follows:

Condensed consolidating statement of income for the year ended December 31, 2013:

<i>(Millions of Dollars)</i>	<b>NSTAR Gas</b>	<b>Hopkinton</b>	<b>Intercompany Eliminations</b>	<b>Consolidated Total</b>
Operating Revenues	\$ 432.2	\$ 12.5	\$ (12.5)	\$ 432.2
Operating Expenses	384.8	11.3	(12.5)	383.6
Operating Income	47.4	1.2	-	48.6
Interest Expense	13.1	-	-	13.1
Other Income, Net	0.7	-	-	0.7
Income Before Income Tax Expense	35.0	1.2	-	36.2
Income Tax Expense	13.5	0.5	-	14.0
Net Income	\$ 21.5	\$ 0.7	\$ -	\$ 22.2

Condensed consolidating balance sheet as of December 31, 2013:

<i>(Millions of Dollars)</i>	<b>NSTAR Gas</b>	<b>Hopkinton</b>	<b>Intercompany Eliminations</b>	<b>Consolidated Total</b>
Total Current Assets	\$ 133.3	\$ 12.0	\$ (11.7)	\$ 133.6
Property, Plant & Equipment	945.1	59.4	-	1,004.5
Accumulated Depreciation	(267.0)	(51.3)	-	(318.3)
Construction Work-in-Progress	13.1	1.7	-	14.8
Property, Plant & Equipment, Net	691.2	9.8	-	701.0
Total Deferred Debits and Other Assets	187.4	0.5	(0.5)	187.4
Total Assets	\$ 1,011.9	\$ 22.3	\$ (12.2)	\$ 1,022.0
Total Current Liabilities	\$ 238.2	\$ 13.2	\$ (11.7)	\$ 239.7
Total Deferred Credits and Other Liabilities	281.0	-	(0.5)	280.5
Long-Term Debt	210.0	-	-	210.0
Common Stockholder's Equity	282.7	9.1	-	291.8
Total Liabilities and Capitalization	\$ 1,011.9	\$ 22.3	\$ (12.2)	\$ 1,022.0

Condensed consolidating statement of income for the year ended December 31, 2012:

<i>(Millions of Dollars)</i>	<b>NSTAR Gas</b>	<b>Hopkinton</b>	<b>Intercompany Eliminations</b>	<b>Consolidated Total</b>
Operating Revenues	\$ 351.6	\$ 12.2	\$ (12.2)	\$ 351.6
Operating Expenses	320.6	11.2	(12.2)	319.6
Operating Income	31.0	1.0	-	32.0
Interest Expense	13.1	-	-	13.1
Other Income, Net	0.6	-	-	0.6
Income Before Income Tax Expense	18.5	1.0	-	19.5
Income Tax Expense	7.2	0.4	-	7.6
Net Income	\$ 11.3	\$ 0.6	\$ -	\$ 11.9

Condensed consolidating balance sheet as of December 31, 2012:

<i>(Millions of Dollars)</i>	<b>NSTAR Gas</b>	<b>Hopkinton</b>	<b>Intercompany Eliminations</b>	<b>Consolidated Total</b>
Total Current Assets	\$ 174.8	\$ 6.6	\$ (6.5)	\$ 174.9
Property, Plant & Equipment	881.0	57.5	-	938.5
Accumulated Depreciation	(249.1)	(49.3)	-	(298.4)
Construction Work-in-Progress	7.3	2.3	-	9.6
Property, Plant & Equipment, Net	639.2	10.5	-	649.7
Total Deferred Debits and Other Assets	197.1	-	-	197.1
Total Assets	\$ 1,011.1	\$ 17.1	\$ (6.5)	\$ 1,021.7
Total Current Liabilities	\$ 258.7	\$ 8.5	\$ (6.5)	\$ 260.7
Total Deferred Credits and Other Liabilities	265.2	0.3	-	265.5
Long-Term Debt	210.0	-	-	210.0
Common Stockholder's Equity	277.2	8.3	-	285.5
Total Liabilities and Capitalization	\$ 1,011.1	\$ 17.1	\$ (6.5)	\$ 1,021.7