Combined Yankee Energy System, Inc. and Subsidiaries and Yankee Gas Services Company

Financial Statements as of and for the
Years Ended December 31, 2011 and 2010,
Together With Independent Auditors' Reports

Combined
Yankee Energy System, Inc. and Subsidiaries
and
Yankee Gas Services Company

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of
Yankee Energy System, Inc.
Hartford, CT

We have audited the accompanying consolidated balance sheets of Yankee Energy System, Inc. and subsidiaries (a Connecticut corporation and a wholly owned subsidiary of Northeast Utilities) (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, common stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Yankee Energy System, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 23, 2012

YANKEE ENERGY SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)	As of December 31, 2011	2010
ASSETS		
Current Assets:		
Cash	$ 230	$ 547
Receivables, Net	33,691	39,683
Unbilled Revenues	16,715	24,998
Taxes Receivable	1,038	8,924
Fuel, Materials and Supplies	58,629	58,704
Regulatory Assets	22,168	22,378
Prepayments and Other Current Assets	4,627	3,131
Total Current Assets	137,098	158,365
Property, Plant and Equipment, Net	943,285	872,047
Deferred Debits and Other Assets:		
Regulatory Assets	138,953	119,331
Goodwill	287,591	287,591
Other Long-Term Assets	5,172	10,802
Total Deferred Debits and Other Assets	431,716	417,724
Total Assets	$ 1,512,099	$ 1,448,136

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

YANKEE ENERGY SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)	As of December 31, 2011	2010
<u>LIABILITIES AND CAPITALIZATION</u>		
Current Liabilities:		
Notes Payable to Banks	$ 30,000	$ -
Notes Payable to Affiliated Companies	11,200	1,300
Long-Term Debt - Current Portion	4,286	4,286
Accounts Payable	27,627	34,233
Accounts Payable to Affiliated Companies	6,519	8,751
Accrued Taxes	9,444	10,326
Accrued Interest	7,390	7,090
Regulatory Liabilities	8,961	7,364
Reserve for Environmental Remediation	4,386	6,300
Other Current Liabilities	15,289	11,897
Total Current Liabilities	125,102	91,547
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	190,833	179,661
Accumulated Deferred Investment Tax Credits	3,326	3,703
Regulatory Liabilities	55,762	59,582
Accrued Pension, SERP and PBOP	89,592	65,005
Other Long-Term Liabilities	33,208	31,904
Total Deferred Credits and Other Liabilities	372,721	339,855
Capitalization:		
Long-Term Debt	345,920	350,297
Common Stockholder's Equity:		
Common Stock	-	-
Capital Surplus, Paid In	627,949	619,196
Retained Earnings	41,792	48,401
Accumulated Other Comprehensive Loss	(1,385)	(1,160)
Common Stockholder's Equity	668,356	666,437
Total Capitalization	1,014,276	1,016,734
Total Liabilities and Capitalization	$ 1,512,099	$ 1,448,136

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

YANKEE ENERGY SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Dollars)	For the Years Ended December 31, 2011	2010
Operating Revenues	$ 430,799	$ 434,277
Operating Expenses:		
Cost of Natural Gas	191,286	206,435
Other Operating Expenses	99,652	92,778
Maintenance	11,787	11,962
Depreciation	27,511	25,770
Amortization of Regulatory Assets/(Liabilities), Net	181	(1,940)
Taxes Other Than Income Taxes	30,911	28,885
Total Operating Expenses	361,328	363,890
Operating Income	69,471	70,387
Interest Expense/(Income):		
Interest on Long-Term Debt	19,891	19,816
Other Interest Expense/(Income)	1,076	(2,670)
Interest Expense/(Income)	20,967	17,146
Other Income, Net	1,290	775
Income Before Income Tax Expense	49,794	54,016
Income Tax Expense	18,243	20,076
Net Income	$ 31,551	$ 33,940
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME		
Net Income	$ 31,551	$ 33,940
Other Comprehensive Income/(Loss), Net of Tax:		
Changes in Funded Status of SERP Benefit Plan	(318)	-
Other	93	93
Other Comprehensive Income/(Loss), Net of Tax	(225)	93
Comprehensive Income	$ 31,326	$ 34,033

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

YANKEE ENERGY SYSTEM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(Thousands of Dollars, Except Stock Information)	Common Stock Stock	Common Stock Amount	Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance as of January 1, 2010	1,000	$ -	$594,827	$ 33,261	$ (1,253)	$ 626,835
Net Income				33,940		33,940
Dividends on Common Stock				(18,800)		(18,800)
Capital Contributions from NU Parent			24,216			24,216
Allocation of Benefits – ESOP			153			153
Other Comprehensive Income					93	93
Balance as of December 31, 2010	1,000	-	619,196	48,401	(1,160)	666,437
Net Income				31,551		31,551
Dividends on Common Stock				(38,160)		(38,160)
Capital Contributions from NU Parent			8,503			8,503
Allocation of Benefits - ESOP			250			250
Other Comprehensive Loss					(225)	(225)
Balance as of December 31, 2011	1,000	$ -	$627,949	$ 41,792	$ (1,385)	$ 668,356

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

YANKEE ENERGY SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Dollars)	For the Years Ended December 31, 2011	2010
Operating Activities:		
Net Income	$ 31,551	$ 33,940
Adjustments to Reconcile Net Income to Net Cash		
Flows Provided by Operating Activities:		
Bad Debt Expense	3,037	5,256
Depreciation	27,511	25,770
Deferred Income Taxes	9,818	31,612
Pension and PBOP Expense, Net of PBOP Contributions	7,169	4,973
Amortization of Regulatory Assets/(Liabilities), Net	181	(1,940)
Regulatory Overrecoveries, Net	3,790	1,847
Other	(5,192)	(3,188)
Changes in Current Assets and Liabilities:		
Receivables and Unbilled Revenues, Net	8,946	(16,378)
Fuel, Materials and Supplies	75	14,774
Accounts Payable	(4,788)	(2,474)
Taxes Receivable/Accrued, Net	11,376	(14,160)
Other Current Assets and Liabilities, Net	(450)	(5,986)
Net Cash Flows Provided by Operating Activities	93,024	74,046
Investing Activities:		
Investments in Property, Plant and Equipment	(98,188)	(82,477)
Other Investing Activities	(1,046)	10
Net Cash Flows Used in Investing Activities	(99,234)	(82,467)
Financing Activities:		
Increase in Short-Term Debt	30,000	-
Issuance of Long-Term Debt	-	50,000
Retirements of Long-Term Debt	(4,286)	(4,286)
Increase/(Decrease) in NU Money Pool Borrowings	9,900	(43,900)
Capital Contributions from NU Parent	8,503	24,216
Cash Dividends on Common Stock	(38,160)	(18,800)
Other Financing Activities	(64)	(431)
Net Cash Flows Provided by Financing Activities	5,893	6,799
Net Decrease in Cash	(317)	(1,622)
Cash - Beginning of Year	547	2,169
Cash - End of Year	$ 230	$ 547

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of
Yankee Gas Services Company
Hartford, CT

We have audited the accompanying balance sheets of Yankee Gas Services Company (a Connecticut corporation and a wholly owned subsidiary of Yankee Energy System, Inc.) (the "Company") as of December 31, 2011 and 2010, and the related statements of income, comprehensive income, common stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Yankee Gas Services Company as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 23, 2012

YANKEE GAS SERVICES COMPANY
BALANCE SHEETS

(Thousands of Dollars)	As of December 31, 2011	2010
ASSETS		
Current Assets:		
Cash	$ -	$ 309
Receivables, Net	32,980	38,951
Unbilled Revenues	16,715	24,998
Taxes Receivable	1,139	9,001
Fuel, Materials and Supplies	58,629	58,704
Regulatory Assets	22,168	22,378
Prepayments and Other Current Assets	4,626	3,140
Total Current Assets	136,257	157,481
Property, Plant and Equipment, Net	943,285	872,047
Deferred Debits and Other Assets:		
Regulatory Assets	138,953	119,331
Goodwill	287,591	287,591
Other Long-Term Assets	5,172	10,771
Total Deferred Debits and Other Assets	431,716	417,693
Total Assets	$ 1,511,258	$ 1,447,221

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

YANKEE GAS SERVICES COMPANY
BALANCE SHEETS

(Thousands of Dollars)	As of December 31, 2011	2010
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable to Banks	$ 30,000	$ -
Notes Payable to Affiliated Companies	12,500	8,900
Long-Term Debt - Current Portion	4,286	4,286
Accounts Payable	27,627	34,233
Accounts Payable to Affiliated Companies	6,520	8,750
Accrued Taxes	9,431	10,309
Accrued Interest	7,390	7,090
Regulatory Liabilities	8,961	7,364
Reserve for Environmental Remediation	4,386	6,300
Other Current Liabilities	16,229	12,621
Total Current Liabilities	127,330	99,853
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	190,735	179,676
Accumulated Deferred Investment Tax Credits	3,326	3,703
Regulatory Liabilities	55,762	59,582
Accrued Pension, SERP and PBOP	89,592	65,005
Other Long-Term Liabilities	33,209	31,757
Total Deferred Credits and Other Liabilities	372,624	339,723
Capitalization:		
Long-Term Debt	345,920	350,297
Common Stockholder's Equity:		
Common Stock	5	5
Capital Surplus, Paid In	615,961	601,212
Retained Earnings	50,803	57,291
Accumulated Other Comprehensive Loss	(1,385)	(1,160)
Common Stockholder's Equity	665,384	657,348
Total Capitalization	1,011,304	1,007,645
Total Liabilities and Capitalization	$ 1,511,258	$ 1,447,221

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

YANKEE GAS SERVICES COMPANY
STATEMENTS OF INCOME

(Thousands of Dollars)	For the Years Ended December 31, 2011	2010
Operating Revenues	$ 430,799	$ 434,277
Operating Expenses:		
Cost of Natural Gas	191,286	206,435
Other Operating Expenses	99,562	92,694
Maintenance	11,787	11,962
Depreciation	27,511	25,770
Amortization of Regulatory Assets/(Liabilities), Net	181	(1,940)
Taxes Other Than Income Taxes	30,912	28,886
Total Operating Expenses	361,239	363,807
Operating Income	69,560	70,470
Interest Expense/(Income):		
Interest on Long-Term Debt	19,891	19,816
Other Interest Expense/(Income)	1,075	(1,919)
Interest Expense/(Income)	20,966	17,897
Other Income, Net	1,283	760
Income Before Income Tax Expense	49,877	53,333
Income Tax Expense	18,205	20,671
Net Income	$ 31,672	$ 32,662

STATEMENTS OF COMPREHENSIVE INCOME

	2011	2010
Net Income	$ 31,672	$ 32,662
Other Comprehensive Income/(Loss), Net of Tax:		
Changes in Funded Status of SERP Benefit Plan	(318)	-
Other	93	93
Other Comprehensive Income/(Loss), Net of Tax	(225)	93
Comprehensive Income	$ 31,447	$ 32,755

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

YANKEE GAS SERVICES COMPANY
STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(Thousands of Dollars, Except Stock Information)	Common Stock Stock	Common Stock Amount	Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance as of January 1, 2010	1,000	$ 5	$576,869	$ 43,429	$ (1,253)	$ 619,050
Net Income				32,662		32,662
Dividends on Common Stock				(18,800)		(18,800)
Capital Contributions from NU Parent			24,190			24,190
Allocation of Benefits - ESOP			153			153
Other Comprehensive Income					93	93
Balance as of December 31, 2010	1,000	5	601,212	57,291	(1,160)	657,348
Net Income				31,672		31,672
Dividends on Common Stock				(38,160)		(38,160)
Capital Contributions from NU Parent			14,500			14,500
Allocation of Benefits - ESOP			249			249
Other Comprehensive Loss					(225)	(225)
Balance as of December 31, 2011	1,000	$ 5	$615,961	$ 50,803	$ (1,385)	$ 665,384

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

YANKEE GAS SERVICES COMPANY
STATEMENTS OF CASH FLOWS

(Thousands of Dollars)	For the Years Ended December 31, 2011	2010
Operating Activities:		
Net Income	$ 31,672	$ 32,662
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:		
Bad Debt Expense	3,037	5,256
Depreciation	27,511	25,770
Deferred Income Taxes	9,922	30,948
Pension and PBOP Expense, Net of PBOP Contributions	7,169	4,973
Amortization of Regulatory Assets/(Liabilities), Net	181	(1,940)
Regulatory Overrecoveries, Net	3,790	1,847
Other	(5,048)	(3,196)
Changes in Current Assets and Liabilities:		
Receivables and Unbilled Revenues, Net	8,934	(16,404)
Fuel, Materials and Supplies	75	14,774
Accounts Payable	(4,786)	(2,480)
Taxes Receivable/Accrued, Net	11,356	(12,790)
Other Current Assets and Liabilities, Net	(448)	(5,230)
Net Cash Flows Provided by Operating Activities	93,365	74,190
Investing Activities:		
Investments in Property, Plant and Equipment	(98,188)	(82,477)
Other Investing Activities	(1,076)	-
Net Cash Flows Used in Investing Activities	(99,264)	(82,477)
Financing Activities:		
Increase in Short-Term Debt	30,000	-
Issuance of Long-Term Debt	-	50,000
Retirements of Long-Term Debt	(4,286)	(4,286)
Increase/(Decrease) in NU Money Pool Borrowings	3,600	(44,100)
Capital Contributions from Parent	14,500	24,190
Cash Dividends on Common Stock	(38,160)	(18,800)
Other Financing Activities	(64)	(431)
Net Cash Flows Provided by Financing Activities	5,590	6,573
Net Decrease in Cash	(309)	(1,714)
Cash - Beginning of Year	309	2,023
Cash - End of Year	$ -	$ 309

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

YANKEE ENERGY SYSTEM, INC. AND SUBSIDIARIES
YANKEE GAS SERVICES COMPANY
COMBINED NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. About Yankee Energy System, Inc. and Yankee Gas Services Company

Yankee Energy System, Inc. (Yankee or the Company) is a holding company and is a wholly owned subsidiary of Northeast Utilities (NU). Yankee's principal operating subsidiary, Yankee Gas Services Company (Yankee Gas), owns and operates the largest natural gas distribution system in Connecticut and provides service to approximately 208,000 customers.

B. NU Pending Merger with NSTAR

NU is currently in the process of closing its acquisition of NSTAR, which is a holding company for two rate-regulated cost of service electric and gas utilities in Massachusetts, and has reached separate settlement agreements that need to be approved by both the Connecticut Public Utility Regulatory Authority (PURA) and the Massachusetts Department of Public Utility, respectively. If these approvals are received, then NU would complete this acquisition in mid-April 2012 and NSTAR would become a wholly owned subsidiary of NU.

C. Presentation

The consolidated financial statements of Yankee and its subsidiaries include the accounts of all of Yankee's subsidiaries, including Yankee Gas, which does not have any subsidiaries. Intercompany transactions have been eliminated in consolidation. The consolidated financial statements of Yankee and the financial statements of Yankee Gas are herein referred to as the "financial statements."

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

As of December 31, 2011, Yankee Gas has adjusted the presentation of Regulatory Assets and Liabilities to reflect the current portions, and related deferred tax amounts, as current assets and liabilities on the balance sheets. Amounts as of December 31, 2010 have been reclassified to conform to the December 31, 2011 presentation. For additional information, see Note 2, “Regulatory Accounting,” to the financial statements.

Certain other reclassifications of prior year data were made in the accompanying balance sheets for Yankee and Yankee Gas to conform to the current year’s presentation.

Yankee and Yankee Gas evaluate events and transactions that occur after the balance sheet date but before financial statements are issued and recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed as of the balance sheet date and disclose, but do not recognize, in the 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 financial statements, Yankee and Yankee Gas have evaluated events subsequent to December 31, 2011 through the issuance of the financial statements on March 23, 2012 and did not identify any such events that required recognition or disclosure under this guidance.

D. Accounting Standards Issued But Not Yet Adopted

In September 2011, the Financial Accounting Standards Board issued a final Accounting Standards Update on testing goodwill for impairment, effective January 1, 2012 with early adoption permitted. The standard provides the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value; if so, quantitative testing is required. The standard does not change existing guidance relating to when an entity should test goodwill for impairment or the methodology to be utilized in performing quantitative testing. The standard will not have an impact on Yankee and Yankee Gas’ financial position, results of operations or cash flows.

E. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and short-term cash 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 balance sheets.

F. Provision for Uncollectible Accounts

Yankee and Yankee Gas maintain provisions for uncollectible accounts primarily to record receivables at estimated net realizable values. These provisions are determined based upon a variety of factors, including applying an estimated uncollectible account percentage to each receivable aging category, based upon historical collection and write-off experience and management's assessment of collectibility from individual customers. Management reviews at least quarterly the collectibility of the 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.

The provision for uncollectible accounts, which is included in Receivables, Net on the accompanying balance sheets, was as follows:

	As of December 31,	
(Millions of Dollars)	**2011**	**2010**
Yankee	$ 8.2	$ 9.8
Yankee Gas	5.9	8.0

The PURA allows Yankee Gas to accelerate the recovery of uncollectible receivable balances attributable to qualified customers under financial or medical duress (uncollectible hardship accounts receivable) outstanding for greater than 90 days. As of December 31, 2011 and 2010, Yankee Gas had uncollectible hardship accounts receivable reserves in the amount of $6.8 million and $7.5 million, respectively, with the corresponding bad debt expense recorded as Regulatory Assets as these amounts are probable of recovery in future rates.

Loans Receivable, Net: Yankee Energy Financial Services Company (Yankee Financial) had a loan conversion program under which commercial customers of Yankee Gas were provided the opportunity to finance their purchase of various energy efficient natural gas cooling and heating equipment through loans. As of December 31, 2011, the balance of loans receivable, net of a provision for uncollectible accounts of $2.3 million, was $0.2 million. As of December 31, 2010, the balance of loans receivable, net of a provision for uncollectible accounts of $1.8 million, was $0.3 million. These amounts are included in Receivables, Net on the accompanying consolidated balance sheets.

G. Fuel, Materials and Supplies

Yankee Gas' 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, 2011 and 2010, $55.7 million and $55.4 million, respectively, of Fuel, Materials and Supplies related to natural gas inventory that is valued at the weighted average cost of natural gas. The remaining balance relates to materials and supplies that are valued at the lower of average cost or market.

H. Revenues

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

Unbilled revenues represent an estimate of natural gas delivered to customers for which the customers have not yet been billed. Unbilled revenues are included in Operating Revenues on the statements of income and are assets on the balance sheets that are reclassified to accounts receivable in the following month as customers are billed. Such estimates are subject to adjustment when actual meter readings become available, when changes in estimating methodology occur and under other circumstances.

Yankee Gas estimates unbilled revenues monthly 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 subtracted from total month load, net of delivery losses, to estimate unbilled sales. Unbilled revenues are estimated by first allocating sales to the respective customer classes, then applying an average rate by customer class to the estimate of unbilled sales.

I. Allowance for Funds Used During Construction

Allowance for funds used during construction (AFUDC) is included in the cost of Yankee Gas' plant and represents the cost of borrowed and equity funds used to finance construction. The portion of AFUDC attributable to borrowed funds is recorded as a reduction of Other Interest Expense and the AFUDC related to equity funds is recorded as Other Income, Net on the accompanying statements of income.

Yankee Gas	For the Years Ended December 31,	
(Millions of Dollars, except percentages)	**2011**	**2010**
AFUDC:		
Borrowed Funds	$ 0.8	$ 0.5
Equity Funds	1.3	0.7
Total	$ 2.1	$ 1.2
Average AFUDC Rate	6.9 %	6.1 %

Yankee Gas' average AFUDC rate is based on a Federal Energy Regulatory Commission (FERC) prescribed formula that produces an average rate using the cost of a company's short-term financings as well as a company's capitalization (long-term debt and common equity). The average rate is applied to average eligible construction work in progress amounts to calculate AFUDC.

J. Other Taxes

Certain excise taxes levied by state or local governments are collected by Yankee Gas from its customers. These excise taxes are shown on a gross basis with collections in revenues and payments in expenses. For the years ended December 31, 2011 and 2010, gross receipts taxes, franchise taxes and other excise taxes of $16.2 million and $15.8 million, respectively, were included in Operating Revenues and Taxes Other Than Income Taxes on the accompanying statements of income. Certain sales taxes are also collected by Yankee Gas from its customers as agent for state and local governments and are recorded on a net basis with no impact on the accompanying statements of income.

K. Supplemental Cash Flow Information

	For the Years Ended December 31,			
	Yankee		Yankee Gas	
(Millions of Dollars)	2011	2010	2011	2010
Cash Paid/(Received) During the Year For:				
Interest, Net of Amounts Capitalized	$ 21.0	$ 19.8	$ 21.0	$ 19.0
Income Taxes	(2.3)	3.3	(2.4)	3.1
Non-Cash Investing Activities:				
Capital Expenditures Incurred But Not Paid	10.3	14.5	10.3	14.5

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

L. Self-Insurance Accruals

Yankee Gas is self-insured for employee medical coverage, long-term disability coverage and general liability coverage and up to certain limits for workers compensation coverage. Liabilities for insurance claims include accruals of estimated settlements for known claims, as well as accruals of estimates of incurred but not reported claims. Accruals for employee medical coverage are included in Other Current Liabilities and the remainder of these accruals are included in Other Long-Term Liabilities on the accompanying balance sheets. In estimating these costs, Yankee Gas considers historical loss experience and makes judgments about the expected levels of costs per claim. These claims are accounted for based on estimates of the undiscounted claims, including those claims incurred but not reported.

M. Related Parties

Northeast Utilities Service Company (NUSCO), a NU subsidiary, provides centralized accounting, administrative, engineering, financial, information technology, legal, operational, planning, purchasing, and other services to Yankee and Yankee Gas. In addition, Yankee and Yankee Gas incur costs associated with leases entered into by The Rocky River Realty Company (RRR), a related party.

Included in the balance sheets as of December 31, 2011 and 2010 are Accounts Receivable from Affiliated Companies of $0.6 million and $0.3 million, respectively, at both Yankee and Yankee Gas, and Accounts Payable to Affiliated Companies of $6.5 million and $8.8 million, respectively, at both Yankee and Yankee Gas, relating to transactions between Yankee and Yankee Gas and other subsidiaries that are wholly owned by NU, primarily NUSCO. The transactions between Yankee and Yankee Gas have been eliminated in consolidation on the Yankee financial statements.

2. REGULATORY ACCOUNTING

Yankee Gas continues to be rate-regulated by the PURA on a cost-of-service basis; therefore, the accounting policies of Yankee Gas conform to GAAP applicable to rate-regulated enterprises and historically reflect the effects of the rate-making process.

Management believes it is probable that Yankee Gas will recover its investment in long-lived assets, including regulatory assets. If management determined that it could no longer apply the accounting guidance applicable to rate-regulated enterprises to Yankee Gas' operations, or that management could not conclude it is probable that costs would be recovered or reflected 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:

Yankee Gas	As of December 31,	
(Millions of Dollars)	2011	2010
Deferred Benefit Costs	$ 82.7	$ 68.9
Deferred Environmental Remediation Costs	28.8	27.1
Income Taxes, Net	27.7	24.4
Hardship Customer Receivables	6.8	8.4
Deferred Conservation Costs	6.5	4.9
Asset Retirement Obligations	2.9	2.7
Other Regulatory Assets	5.8	5.3
Total Regulatory Assets	$ 161.2	$ 141.7
Less: Current Portion	$ 22.2	$ 22.4
Total Long-Term Regulatory Assets	$ 139.0	$ 119.3

Additionally, Yankee Gas had $3.4 million and $8.5 million of regulatory costs as of December 31, 2011 and 2010, respectively, which were included in Other Long-Term Assets on the accompanying balance sheets. These amounts represent incurred costs that have not yet been approved for recovery by the PURA. Management believes these costs are probable of recovery in future cost-of-service regulated rates.

Yankee Gas Rate Case: On June 29, 2011, the PURA issued a final decision in the Yankee Gas rate proceeding that it amended on September 28, 2011. The final decision approved a regulatory ROE of 8.83 percent, based on a capital structure of 52.2 percent common equity and 47.8 percent debt, approved Yankee Gas' WWL Project, and also allowed for an increase for bare steel and cast iron pipe annual replacement funding, as requested by Yankee Gas. The changes were effective July 20, 2011 and will have the effect of decreasing revenues by $0.2 million for the twelve months ending June 30, 2012 and increasing revenues by $6.9 million for the twelve months ending June 30, 2013.

Deferred Benefit Costs: Yankee Gas participates in NU's Pension Plan and postretirement benefits other than pension (PBOP) Plans, which are accounted for in accordance with accounting guidance on defined benefit pension and other postretirement plans. Under this accounting guidance, the funded status of pension and other postretirement plans is recorded with an offset to Accumulated Other Comprehensive Income/(Loss) and is remeasured annually. However, because Yankee Gas is rate-regulated on a cost-of-service basis, offsets were recorded as regulatory assets as of December 31, 2011 and 2010 as these amounts have been, and continue to be, recoverable in cost-of-service regulated rates. The deferred benefit costs are not in rate base. Pension and PBOP costs are expected to be amortized into expense over the average future employee service period of approximately 10 and 9 years, respectively. As part of Yankee Gas' rate case decision, effective July 19, 2011, changes in the Supplemental Executive Retirement Plan (SERP) funded status are recorded to Accumulated Other Comprehensive Loss.

Deferred Environmental Remediation Costs: Yankee Gas has recorded regulatory assets related to environmental remediation costs. The PURA approved an allowed level of remediation cost recoveries of approximately $2.7 million annually effective July 19, 2011. The PURA has stated that to the extent that environmental remediation expenses are prudently incurred, they should be allowed as proper operating expenses; therefore, management continues to believe that recording the regulatory asset is appropriate as such costs are probable of recovery. These costs earn a return. For further information, see Note 10A, "Commitments and Contingencies - Environmental Matters," to the financial statements.

Income Taxes, Net: The tax effect of temporary differences (differences between the periods in which transactions affect income in the financial statements and the periods in which they affect the determination of taxable income, including those differences relating to uncertain tax positions) is accounted for in accordance with the rate-making treatment of the PURA and accounting guidance for income taxes. Differences in income taxes between the accounting guidance and the rate-making treatment of the PURA are recorded as regulatory assets. These assets are excluded from rate base. For further information regarding income taxes, see Note 9, "Income Taxes," to the financial statements.

Hardship Customer Receivables: Yankee Gas has recorded regulatory assets for the reserve of customer receivables that qualify as Hardship Forgiveness and Matching Payment Program (hardship accounts receivable), which represent uncollectible amounts attributable to qualified customers under financial or medical duress outstanding for greater than 90 days. These deferred costs are included in rate base. The PURA approved an allowed level of recoverable hardship costs of approximately $7.6 million annually effective July 19, 2011. For further information regarding hardship accounts receivable, see Note 1F, "Summary of Significant Accounting Policies - Provision for Uncollectible Accounts," to the financial statements.

Deferred Conservation Costs: As part of Yankee Gas' rate case decision on July 19, 2011, PURA has modified its long established Conservation Adjustment Mechanism (CAM) to allow 100 percent recovery of conservation costs through this mechanism, with a return. The reconciliation process produces deferrals for future recovery or refund in future customer rates each year.

Asset Retirement Obligations: The costs associated with the depreciation of Yankee Gas' ARO assets and accretion of the ARO liabilities are recorded as regulatory assets in accordance with regulatory accounting guidance. Yankee 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.

Other Regulatory Assets: As of December 31, 2011 and 2010, other regulatory assets included $1 million and $1.1 million, respectively, of regulatory assets related to losses on reacquired debt, $3.5 million and $2.6 million, respectively, related to the 2010 Patient Protection and Affordable Care Act (2010 Healthcare Act), and $1.3 million and $1.6 million, respectively, of various items that are also probable of recovery.

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

Yankee Gas *(Millions of Dollars)*	**As of December 31, 2011**	**2010**
Cost of Removal	$ 48.0	$ 49.4
Pension Liability	10.0	12.5
Overrecovered Natural Gas Costs	4.3	4.4
Other Regulatory Liabilities	2.5	0.6
Total Regulatory Liabilities	$ 64.8	$ 66.9
Less: Current Portion	$ 9.0	$ 7.3
Total Long-Term Regulatory Liabilities	$ 55.8	$ 59.6

Cost of Removal: Through its rate settlement with the PURA, effective July 2007, Yankee Gas has restored recovery of a net negative salvage rate in its depreciation provision to cover future costs of removal of plant assets over the lives of the assets. These amounts are classified as Regulatory Liabilities on the accompanying balance sheets.

Pension Liability: When Yankee Gas was acquired by NU in 2000, the pension liability was adjusted to fair value with an offset to the adjustment recorded as a regulatory liability, as approved by the PURA. This amount will offset the deferred benefit costs regulatory asset that will be recovered. The pension liability was approved for amortization over an approximate 13-year period beginning in 2002.

Overrecovered Natural Gas Costs: The Purchased Gas Adjustment (PGA) clause is a PURA-approved tracking mechanism that allows Yankee Gas to recover the costs of the procurement of natural gas for its firm and seasonal customers. Differences between actual natural gas costs and collection amounts on August 31st of each year are deferred and then recovered or returned to customers during the following year. Carrying charges on outstanding balances are calculated using Yankee Gas' weighted average cost of capital in accordance with the directives of the PURA.

3. PROPERTY, PLANT AND EQUIPMENT AND ACCUMULATED DEPRECIATION

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

Yankee Gas *(Millions of Dollars)*	**As of December 31, 2011**	**2010**
Total Property, Plant and Equipment, Gross	$ 1,247.6	$ 1,126.6
Less: Accumulated Depreciation	(322.5)	(304.9)
Property, Plant and Equipment, Net	925.1	821.7
Construction Work in Progress	18.2	50.3
Total Property, Plant and Equipment, Net	$ 943.3	$ 872.0

As of December 31, 2011, the average depreciable life of Yankee Gas' property, plant and equipment was 41.6 years. The provision for depreciation is calculated using the straight-line method based on the estimated remaining useful lives of depreciable plant-in-service, adjusted for salvage value and removal costs, as approved by the PURA. Depreciation rates are applied to plant-in-service from the time it is placed in service. When a plant is retired from service, the original cost of the plant is charged to the accumulated provision for depreciation, which includes cost of removal less salvage. Cost of removal is classified as a Regulatory Liability on the accompanying balance sheets. The depreciation rates for the several classes of utility plant-in-service are equivalent to a composite rate of 2.4 percent in both 2011 and 2010.

4. ASSET RETIREMENT OBLIGATIONS

In accordance with accounting guidance for conditional AROs, Yankee 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. Management has identified an ARO related to the cutting and capping of natural gas mains. A fair value calculation, reflecting expected probabilities for settlement scenarios, has been performed.

The fair value of the ARO is recorded as a liability in Other Long-Term Liabilities with an offset included in Property, Plant and Equipment, Net on the accompanying balance sheets. As Yankee Gas is rate-regulated on a cost-of-service basis, it applies regulatory accounting guidance and the cost associated with Yankee Gas' AROs are included in Other Regulatory Assets as of December 31, 2011 and 2010. 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 balance sheets as of December 31, 2011 and 2010. For further information, see Note 2, "Regulatory Accounting," to the financial statements.

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

Yankee Gas	**For the Years Ended December 31,**	
(Millions of Dollars)	**2011**	**2010**
Balance as of Beginning of Year	$ (2.8)	$ (2.3)
Accretion	(0.2)	(0.2)
Revisions in Estimated Cash Flows	-	(0.3)
Balance as of End of Year	$ (3.0)	$ (2.8)

5. GOODWILL

Goodwill and intangible assets deemed to have indefinite useful lives are reviewed for impairment at least annually by applying a fair value-based test. Yankee Gas uses October 1st as the annual goodwill impairment testing date. However, if an event occurs or circumstances change that would indicate that goodwill might be impaired, the goodwill would be tested between the annual testing dates. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value and if the implied fair value of goodwill based on the estimated fair value of the reporting unit is less than the carrying amount.

As of December 31, 2011 and 2010, Yankee Gas maintained $287.6 million of goodwill that is not being recovered from its customers. Yankee Gas completed its impairment analysis of the goodwill balance as of October 1, 2011 and determined that no impairment exists. In completing this analysis, the fair value of Yankee Gas was estimated using a discounted cash flow methodology and analyses of comparable companies and transactions.

6. SHORT-TERM DEBT

Limits: Yankee and Yankee Gas are not required to obtain approval from any state or federal authority to incur short-term debt.

Credit Agreement: On September 24, 2010, Yankee Gas along with CL&P, PSNH and WMECO jointly entered into a three-year unsecured revolving credit facility in the amount of $400 million, which terminates on September 24, 2013. Yankee Gas is able to borrow up to $200 million under this facility, subject to the $400 million maximum aggregate borrowing limit. This total commitment may be increased to $500 million at the request of the borrowers, subject to lender approval. Under this facility, each company can borrow either on a short-term or a long-term basis subject to regulatory approval. As of December 31, 2011, Yankee Gas had $30 million in short-term borrowings outstanding under this facility. The weighted average interest rate on such borrowings outstanding under this credit facility as of December 31, 2011 was 2.07 percent. As of December 31, 2010, Yankee Gas had no borrowings outstanding under this facility.

Under this facility Yankee Gas may borrow at prime rates or LIBOR-based rates, plus an applicable margin based upon the higher of Standard and Poor's or Moody's Investors Service credit ratings assigned to the borrower.

In addition, Yankee Gas must comply with certain financial and non-financial covenants, including a debt to total capitalization ratio. Yankee Gas was in compliance with these covenants as of December 31, 2011. If Yankee Gas was not in compliance with these covenants, an event of default would occur requiring all outstanding borrowings to be repaid and additional borrowings would not be permitted under the credit facility.

Amounts outstanding under this credit facility are classified as current liabilities as Notes Payable to Banks on the accompanying balance sheets, as management anticipates that all borrowings under this credit facility will be outstanding for no more than 364 days at one time.

NU Money Pool: Yankee and Yankee Gas are members of the NU Money Pool (Money Pool). The Money Pool provides an efficient use of cash resources of NU and reduces outside short-term borrowings. NUSCO participates in the Money Pool and administers the Money Pool as agent for the member companies. Short-term borrowing needs of the member companies are met with available funds of other member companies, including funds borrowed by NU parent. NU parent and Yankee may lend to the Money Pool but may not borrow. Yankee Gas may both lend to and borrow from the Money Pool. Funds may be withdrawn from or repaid to the Money Pool at any time without prior notice. Investing and borrowing subsidiaries receive or pay interest based on the average daily federal funds rate. Borrowings based on external loans of NU, however, accrue interest at NU's cost and are payable on demand. As of December 31, 2011 and 2010, Yankee and Yankee Gas had the following borrowings from the Money Pool with the respective weighted-average interest rate on borrowings from the Money Pool:

	As of and for the Years Ended December 31,			
	Yankee*		**Yankee Gas**	
(Millions of Dollars, except percentage)	**2011**	**2010**	**2011**	**2010**
Borrowings From	$ 11.2	$ 1.3	$ 12.5	$ 8.9
Weighted-Average Interest Rates	0.09 %	0.16 %	0.09 %	0.16 %

* Yankee's borrowings from the Money Pool are reported on a consolidated basis and include the activity of Yankee Gas. As indicated above, Yankee cannot borrow from the Money Pool as a separate entity.

The borrowings from the Money Pool are recorded in Notes Payable to Affiliated Companies on the accompanying balance sheets.

7. LONG-TERM DEBT

Details of Yankee Gas' long-term debt outstanding are as follows:

Yankee Gas	**As of December 31,**	
(Millions of Dollars)	**2011**	**2010**
First Mortgage Bonds:		
7.19% Series E due 2012	$ 4.3	$ 8.6
4.80% Series G due 2014	75.0	75.0
6.90% Series J due 2018	100.0	100.0
5.26% Series H due 2019	50.0	50.0
4.87% Series K due 2020	50.0	50.0
8.48% Series B due 2022	20.0	20.0
5.35% Series I due 2035	50.0	50.0
Total First Mortgage Bonds	349.3	353.6
Less Amounts Due Within One Year	(4.3)	(4.3)
Unamortized Premium, Net	0.9	1.0
Long-Term Debt	$ 345.9	$ 350.3

Long-term debt maturities and cash sinking fund requirements on debt outstanding as of December 31, 2011 for the years 2012 through 2016 are $4.3 million in 2012 for the 7.19 percent Series E bonds and $75 million in 2014 for the 4.80 percent Series G bonds.

The unamortized premium, net represents an adjustment to record Yankee Gas' long-term debt at its fair value as of the date of the merger with NU in 2000.

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

Yankee Gas' long-term debt agreements provide that it must comply with certain financial and non-financial covenants as are customarily included in such agreements, including a debt to total capitalization ratio. Yankee Gas was in compliance with these covenants as of December 31, 2011.

Yankee Gas has certain long-term debt agreements that contain cross-default provisions applicable to all of Yankee Gas' outstanding first mortgage bond series. The cross-default provisions on Yankee Gas' Series B Bonds would be triggered if Yankee Gas were to default on a payment due on indebtedness in excess of $2 million. The cross-default provisions on all other series of Yankee Gas' first mortgage bonds would be triggered if Yankee Gas were to default in a payment due on indebtedness in excess of $10 million.

8. PENSION BENEFITS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Pursuant to GAAP, NU is required to record the funded status of its Pension and PBOP Plans on its consolidated balance sheets, based on the difference between the projected benefit obligation for the Pension Plan and accumulated postretirement benefit obligation for the PBOP Plans and the fair value of plan assets measured in accordance with fair value measurement accounting guidance. Pursuant to GAAP, the funded status of pension and PBOP plans is recorded with an offset to Accumulated Other Comprehensive Income/(Loss). This amount is remeasured annually, or as circumstances dictate.

Charges for the Yankee Gas pension and PBOP plans are recorded as Regulatory Assets and included as deferred benefit costs as these benefits expense amounts have been and continue to be recoverable in cost-of-service, regulated rates. Charges for the SERP plan are recorded on an after-tax basis to Accumulated Other Comprehensive Loss. For further information see Note 2, "Regulatory Accounting," and Note 13, "Accumulated Other Comprehensive Loss," to the financial statements.

Pension Benefits: NUSCO sponsors a Pension Plan, which is subject to the provisions of ERISA, as amended by the PPA of 2006. The Pension Plan covers nonbargaining unit employees (and bargaining unit employees, as negotiated) of NU, including Yankee Gas, hired before 2006 (or as negotiated, for bargaining unit employees). Benefits are based on years of service and the employees' highest eligible compensation during 60 consecutive months of employment. NU allocates net periodic pension expense to its subsidiaries based on the actual participant demographic data for each subsidiary's participants. Benefit payments to participants and contributions are also tracked by the trustee for each subsidiary. The actual investment return for the trust each year is allocated to each of the subsidiaries in proportion to the investment return expected to be earned during the year. NU uses a December 31st measurement date for the Pension Plan.

In addition, NU has maintained a SERP since 1987. The SERP provides its eligible participants, who are officers of NU, with benefits that would have been provided to them under the Pension Plan if certain Internal Revenue Code limitations were not imposed. NU allocates net periodic SERP benefit costs to its subsidiaries based upon actuarial calculations by participant.

Although the Company maintains a trust to support the SERP with marketable securities held in the NU supplemental benefit trust, the plan itself does not contain any assets.

PBOP Plan: On behalf of NU's retirees, NUSCO also sponsors plans that provide certain retiree health care benefits, primarily medical and dental, and life insurance benefits through PBOP Plans. These benefits are available for employees retiring from NU who have met specified service requirements. For current employees and certain retirees, the total benefit is limited to two times the 1993 per retiree health care cost. These costs are charged to expense over the estimated work life of the employee. NU uses December 31 as the measurement date for the PBOP Plan.

NU annually funds postretirement costs through external trusts with amounts that have been and will continue to be recovered in rates and that are tax deductible.

NU allocates net periodic postretirement benefits expense to its subsidiaries based on the actual participant demographic data for each subsidiary's participants. Benefit payments to participants and contributions are also tracked for each subsidiary. The actual investment return for the trust each year is allocated to each of the subsidiaries in proportion to the investment return expected to be earned during the year.

Actuarial Determination of Expense: Pension and PBOP expense consists of the service cost and prior service cost determined by actuaries, the interest cost based on the discounting of the obligations and the amortization of the net transition obligation, offset by the expected return on plan assets. Pension and PBOP expense also includes amortization of actuarial gains and losses, which represent differences between expected and actual plan experience.

The expected return on plan assets is calculated by applying the assumed rate of return to a four-year rolling average of plan asset fair values, which reduces year-to-year volatility. This calculation recognizes investment gains or losses over a four-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the calculated expected return and the actual return based on the change in the fair value of assets during the year. As investment gains and losses are reflected in the average plan asset fair values, they are subject to amortization with other unrecognized gains/losses. Unrecognized gains/losses are amortized as a component of pension and PBOP expense over the estimated average future service period of the employees of approximately 10 and 9 years, respectively.

The following tables represent information on NU's and Yankee Gas' plan benefit obligations, fair values of plan assets, and funded status. Amounts related to the SERP obligation and expense are included with the Pension Plan in the tables below:

	Pension and SERP Benefits			
	As of December 31, 2011		**As of December 31, 2010**	
(Millions of Dollars)	**NU**	**Yankee Gas**	**NU**	**Yankee Gas**
Change in Benefit Obligation				
Benefit Obligation as of Beginning of Year	$ (2,820.9)	$ (141.9)	$ (2,610.3)	$ (128.3)
Service Cost	(55.4)	(3.5)	(51.0)	(3.1)
Interest Cost	(153.3)	(7.8)	(152.6)	(7.7)
Actuarial Loss	(206.1)	(11.5)	(140.6)	(8.8)
Benefits Paid - Excluding Lump Sum Payments	134.4	6.2	130.2	5.9
Benefits Paid - SERP	2.4	0.1	2.5	0.1
Benefits Paid - Lump Sum Payments	-	-	0.9	-
Benefit Obligation as of End of Year	$ (3,098.9)	$ (158.4)	$ (2,820.9)	$ (141.9)
Change in Pension Plan Assets				
Fair Value of Plan Assets as of Beginning of Year	$ 1,977.6	$ 85.8	$ 1,789.6	$ 78.7
Actual Return on Plan Assets	19.1	0.9	274.1	13.0
Employer Contribution	143.6	-	45.0	-
Benefits Paid - Excluding Lump Sum Payments	(134.4)	(6.2)	(130.2)	(5.9)
Benefits Paid - Lump Sum Payments	-	-	(0.9)	-
Fair Value of Plan Assets as of End of Year	$ 2,005.9	$ 80.5	$ 1,977.6	$ 85.8
Funded Status as of December 31st	$ (1,093.0)	$ (77.9)	$ (843.3)	$ (56.1)

(Millions of Dollars)	PBOP Benefits As of December 31, 2011 NU	PBOP Benefits As of December 31, 2011 Yankee Gas	PBOP Benefits As of December 31, 2010 NU	PBOP Benefits As of December 31, 2010 Yankee Gas
Change in Benefit Obligation				
Benefit Obligation as of Beginning of Year	$ (489.9)	$ (22.2)	$ (475.7)	$ (20.2)
Service Cost	(9.2)	(0.6)	(8.5)	(0.6)
Interest Cost	(25.7)	(1.2)	(26.8)	(1.2)
Actuarial Loss	(30.1)	(1.8)	(17.5)	(1.8)
Federal Subsidy on Benefits Paid	(4.1)	(0.3)	(3.7)	(0.1)
Benefits Paid	38.1	1.8	42.3	1.7
Benefit Obligation as of End of Year	$ (520.9)	$ (24.3)	$ (489.9)	$ (22.2)
Change in Plan Assets				
Fair Value of Plan Assets as of Beginning of Year	$ 278.5	13.2	$ 240.3	$ 11.8
Actual Return on Plan Assets	(2.5)	(0.3)	34.9	1.9
Employer Contribution	47.5	1.4	45.6	1.2
Benefits Paid	(38.1)	(1.8)	(42.3)	(1.7)
Fair Value of Plan Assets as of End of Year	$ 285.4	$ 12.5	$ 278.5	$ 13.2
Funded Status as of December 31st	$ (235.5)	$ (11.8)	$ (211.4)	$ (9.0)

Pension and SERP benefits funded status includes the current portion of the SERP liability, which is included in Other Current Liabilities on the accompanying balance sheets.

The accumulated benefit obligation for the Pension Plan as of December 31, 2011 and 2010 is as follows:

(Millions of Dollars)	Pension and SERP Benefits 2011	Pension and SERP Benefits 2010
NU	$ 2,810.6	$ 2,551.1
Yankee Gas	140.6	127.1

The following actuarial assumptions were used in calculating the plans' year end funded status:

	As of December 31, Pension and SERP Benefits 2011	Pension and SERP Benefits 2010	PBOP Benefits 2011	PBOP Benefits 2010
Discount Rate	5.03 %	5.57 %	4.84 %	5.28 %
Compensation/Progression Rate	3.50 %	3.50 %	N/A	N/A
Health Care Cost Trend Rate	N/A	N/A	7.00 %	7.00 %

The following is a summary of the changes in plan assets and benefit obligations recognized in Regulatory Assets and Other Comprehensive Income (OCI) as well as amounts in Regulatory Assets and OCI reclassified as net periodic benefit (expense)/income during the years presented:

	Amount Reclassified To/From			
	Regulatory Assets		OCI	
NU	For the Years Ended December 31,			
(Millions of Dollars)	2011	2010	2011	2010
Pension and SERP				
Actuarial Losses Reclassified as Net Periodic Benefit Expense	$ (79.4)	$ (51.0)	$ (4.8)	$ (2.7)
Actuarial Losses Arising During the Year	334.8	45.3	23.0	3.7
Prior Service Cost Reclassified as Net Periodic Benefit Expense	(9.4)	(9.5)	(0.3)	(0.3)
PBOP				
Actuarial Losses Reclassified as Net Periodic Benefit Expense	$ (18.1)	$ (15.9)	$ (0.9)	$ (0.8)
Actuarial Losses Arising During the Year	50.2	4.2	4.0	0.7
Prior Service Credit Reclassified as Net Periodic Benefit Income	0.3	0.3	-	-
Transition Obligation Reclassified as Net Periodic Benefit Expense	(11.3)	(11.3)	(0.2)	(0.2)

The following is a summary of the remaining Regulatory Assets and Accumulated Other Comprehensive Loss (AOCL) amounts that have not been recognized as components of net periodic benefit expense as of December 31, 2011 and 2010, and the amounts that are expected to be recognized as components in 2012:

NU *(Millions of Dollars)*	Regulatory Assets as of December 31, 2011	Regulatory Assets as of December 31, 2010	Expected 2012 Expense	AOCL as of December 31, 2011	AOCL as of December 31, 2010	Expected 2012 Expense
Pension and SERP						
Actuarial Loss	$ 1,126.1	$ 871.2	$ 113.4	$ 70.2	$ 51.9	$ 7.0
Prior Service Cost	29.3	38.8	8.1	1.4	1.7	0.3
PBOP						
Actuarial Loss	$ 196.3	$ 164.2	$ 20.6	$ 12.1	$ 9.0	$ 1.2
Prior Service Credit	(2.4)	(2.7)	(0.3)	-	-	-
Transition Obligation	11.4	22.7	11.3	0.2	0.5	0.2

The Company amortizes the prior service cost on an individual subsidiary basis and amortizes unrecognized net actuarial gains/(losses) and any remaining transition obligation over the remaining service lives of its employees as calculated on an NU consolidated basis. The pension transition obligation is fully amortized and the PBOP transition obligation will be fully amortized in 2013.

The components of net periodic benefit expense, the portion of pension amounts capitalized related to employees working on capital projects, and intercompany allocations not included in the net periodic benefit expense amounts for the Pension and PBOP Plans are as follows:

	For the Years Ended December 31,			
NU	Pension and SERP Benefits		PBOP Benefits	
(Millions of Dollars)	2011	2010	2011	2010
Service Cost	$ 55.4	$ 51.0	$ 9.2	$ 8.5
Interest Cost	153.3	152.6	25.7	26.8
Expected Return on Plan Assets	(170.8)	(182.6)	(21.6)	(21.7)
Actuarial Loss	84.2	53.5	19.0	16.7
Prior Service Cost/(Credit)	9.7	9.9	(0.3)	(0.3)
Net Transition Obligation Cost	-	-	11.6	11.6
Total Net Periodic Benefit Expense	$ 131.8	$ 84.4	$ 43.6	$ 41.6
Capitalized Pension Expense	$ 29.7	$ 16.9		

	For the Years Ended December 31,			
Yankee Gas	Pension and SERP Benefits		PBOP Benefits	
(Millions of Dollars)	2011	2010	2011	2010
Service Cost	$ 3.5	$ 3.1	$ 0.6	$ 0.6
Interest Cost	7.8	7.7	1.2	1.2
Expected Return on Plan Assets	(7.1)	(8.0)	(1.2)	(1.3)
Actuarial Loss	5.8	4.3	0.7	0.5
Prior Service Cost/(Credit)	0.2	0.2	(0.1)	(0.1)
Total - Net Periodic Expense	$ 10.2	$ 7.3	$ 1.2	$ 0.9
Related Intercompany Allocations	$ 3.5	$ 2.3	$ 0.9	$ 0.8
Capitalized Pension Expense	$ 2.7	$ 1.8		

The following assumptions were used to calculate Pension and PBOP expense and income amounts:

	For the Years Ended December 31,			
	Pension and SERP		PBOP	
	2011	2010	2011	2010
Discount Rate	5.57 %	5.98 %	5.28 %	5.73 %
Expected Long-Term Rate of Return	8.25 %	8.75 %	N/A	N/A
Compensation/Progression Rate	3.50 %	4.00 %	N/A	N/A
Expected Long-Term Rate of Return -				
Health Assets, Taxable	N/A	N/A	6.45	6.85 %
Life Assets and Non-Taxable Health Assets	N/A	N/A	8.25	8.75 %

For 2011 through 2013, the health care cost trend assumption is 7 percent, subsequently decreasing 50 basis points per year to an ultimate rate of 5 percent in 2017.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The effect of changing the assumed health care cost trend rate by one percentage point for the year ended December 31, 2011 would have the following effects:

(Millions of Dollars) **NU**	**One Percentage Point Increase**	**One Percentage Point Decrease**
Effect on Postretirement Benefit Obligation	$ 16.2	$ (13.5)
Effect on Total Service and Interest Cost Components	1.2	(1.0)

Estimated Future Benefit Payments: The following benefit payments, which reflect expected future service, are expected to be paid/(received) by the Pension, SERP and PBOP Plans:

NU *(Millions of Dollars)*	**Pension and SERP Benefits**	**PBOP Benefits**	**Government Subsidy**
2012	$ 145.4	$ 41.4	$ (4.7)
2013	152.8	42.0	(5.0)
2014	159.5	42.4	(5.4)
2015	166.3	42.7	(5.7)
2016	173.7	42.9	(6.0)
2017-2021	983.9	215.7	(34.9)

The government benefits represent amounts expected to be received from the federal government for the Medicare prescription drug benefit under the PBOP Plan related to the corresponding year's benefit payments.

Contributions: NU's policy is to annually fund the Pension Plan in an amount at least equal to an amount that will satisfy the requirements of ERISA, as amended by the PPA of 2006, and the Internal Revenue Code. A contribution of $143.6 million was made in 2011. Based on the current status of the Pension Plan, NU is required to make a contribution to the Pension Plan of approximately $197.3 million in 2012, which will be made in quarterly installments, to meet minimum current funding requirements under the PPA.

For the PBOP plan, it is NU's policy to annually fund an amount equal to the PBOP Plan's postretirement benefit cost, excluding curtailment and termination benefits. NU contributed $43.8 million to the PBOP plan in 2011 and expects to make $44.7 million in contributions to the PBOP plan in 2012. NU also makes an additional contribution to the PBOP plan for the amounts received from the federal Medicare subsidy. This amount was $3.7 million in 2011 and is expected to be $4.7 million in 2012.

Fair Value of Pension and PBOP Assets: Pension and PBOP funds are held in external trusts. Trust assets, including accumulated earnings, must be used exclusively for Pension and PBOP payments. NU's investment strategy for its Pension and PBOP Plans is to maximize the long-term rates of return on these plans' assets within an acceptable level of risk. The investment strategy for each asset category includes a diversification of asset types, fund strategy and fund managers and establishes target asset allocations that are routinely reviewed and periodically rebalanced. In 2011, PBOP assets are comprised of specific assets within the defined benefit pension plan trust (401(h) assets) as well as assets held in the PBOP Plans. The investment policy and strategy of the 401(h) assets is consistent with those of the defined benefit pension plans, which are detailed below. NU's expected long-term rates of return on Pension and PBOP Plan assets are based on these target asset allocation assumptions and related expected long-term rates of return. In developing its expected long-term rate of return assumptions for the Pension and PBOP Plans, NU evaluated input from actuaries and consultants, as well as long-term inflation assumptions and historical returns. As of December 31, 2011, management has assumed long-term rates of return of 8.25 percent on Pension and PBOP Plan assets. These long-term rates of return are based on the assumed rates of return for the target asset allocations as follows:

	As of December 31,					
	Pension and PBOP		Pension and PBOP Life and Non-Taxable Health		PBOP Taxable Health	
	2011		2010		2010	
	Target Asset Allocation	Assumed Rate of Return	Target Asset Allocation	Assumed Rate of Return	Target Asset Allocation	Assumed Rate of Return
Equity Securities:						
United States	24%	9%	24%	9%	55%	9%
International	13%	9%	13%	9%	15%	9%
Emerging Markets	3%	10%	3%	10%	-	-
Private Equity	12%	13%	12%	13%	-	-
Debt Securities:						
Fixed Income	20%	5%	20%	5%	30%	5%
High Yield Fixed Income	3.5%	7.5%	3.5%	7.5%	-	-
Emerging Markets Debt	3.5%	7.5%	3.5%	7.5%	-	-
Real Estate and Other Assets	8%	7.5%	8%	7.5%	-	-
Hedge Funds	13%	7%	13%	7%	-	-

The following table presents, by asset category, the Pension and PBOP Plan assets recorded at fair value on a recurring basis by the level in which they are classified within the fair value hierarchy:

NU	Pension Plan							
(Millions of Dollars)	Fair Value Measurements as of December 31,							
	2011				2010			
Asset Category:	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity Securities:								
United States [1]	$ 218.7	$ 14.8	$ 259.4	$ 492.9	$ 256.3	$ 46.9	$ 266.0	$ 569.2
International [1]	20.0	221.9	-	241.9	6.4	250.9	-	257.3
Emerging Markets [1]	-	66.6	-	66.6	-	81.1	-	81.1
Private Equity	11.3	-	255.1	266.4	6.9	-	229.5	236.4
Fixed Income [2]	17.8	268.7	276.2	562.7	7.6	261.6	247.6	516.8
Real Estate and Other Assets	24.8	57.8	71.8	154.4	-	26.0	43.7	69.7
Hedge Funds	-	-	240.0	240.0	-	-	247.1	247.1
Total Master Trust Assets	$ 292.6	$ 629.8	$ 1,102.5	$ 2,024.9	$ 277.2	$ 666.5	$ 1,033.9	$ 1,977.6
Less: 401(h) PBOP Assets				(19.0)				-
Total Pension Assets				$ 2,005.9				$ 1,977.6

NU	PBOP Plan							
(Millions of Dollars)	Fair Value Measurements as of December 31,							
	2011				2010			
Asset Category:	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	$ 5.9	$ -	$ -	$ 5.9	$ 4.4	$ -	$ -	$ 4.4
Equity Securities:								
United States	116.9	-	10.7	127.6	132.1	-	10.1	142.2
International	29.6	-	-	29.6	34.8	-	-	34.8
Emerging Markets	4.6	-	-	4.6	7.7	-	-	7.7
Debt Securities:								
Fixed Income [2]	-	34.9	26.0	60.9	-	35.3	23.4	58.7
High Yield Fixed Income	-	4.5	-	4.5	-	4.4	-	4.4
Emerging Market Debt	-	4.9	-	4.9	-	4.8	-	4.8
Hedge Funds	-	-	16.1	16.1	-	-	16.4	16.4
Private Equity	-	-	5.1	5.1	-	-	0.3	0.3
Real Estate and Other Assets	-	4.7	2.5	7.2	-	4.8	-	4.8
Total	$ 157.0	$ 49.0	$ 60.4	$ 266.4	$ 179.0	$ 49.3	$ 50.2	$ 278.5
Add: 401(h) PBOP Assets				19.0				-
Total PBOP Assets				$ 285.4				$ 278.5

(1) United States, International and Emerging Markets equity securities classified as Level 2 include investments in commingled funds and unrealized gains/(losses) on holdings in equity index swaps. Level 3 investments include hedge funds that are overlayed with equity index swaps and futures contracts.

(2) Fixed Income investments classified as Level 3 investments include fixed income funds that invest in a variety of opportunistic fixed income strategies, and hedge funds that are overlayed with fixed income futures.

The Company values assets based on observable inputs when available. Equity securities, exchange traded funds and futures contracts classified as Level 1 in the fair value hierarchy are priced based on the closing price on the primary exchange as of the balance sheet date. Commingled funds included in Level 2 equity securities are recorded at the net asset value provided by the asset manager, which is based on the market prices of the underlying equity securities. Swaps are valued using pricing models that incorporate interest rates and equity and fixed income index closing prices to determine a net present value of the cash flows. Fixed income securities, such as government issued securities, corporate bonds and high yield bond funds, are included in Level 2 and are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The pricing models utilize observable inputs such as recent trades for the same or similar instruments, yield curves, discount margins and bond structures. Hedge funds and investments in opportunistic fixed income funds are recorded at net asset value based on the values of the underlying assets. The assets in the hedge funds and opportunistic fixed income funds are valued using observable inputs and are classified as Level 3 within the fair value hierarchy due to redemption restrictions. Private Equity investments and Real Estate and Other Assets are valued using the net asset value provided by the partnerships, which are based on discounted cash flows of the underlying investments, real estate appraisals or public market comparables of the underlying investments. These investments are classified as Level 3 due to redemption restrictions.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3): The following tables present changes for the Level 3 category of Pension and PBOP Plan assets for the years ended December 31, 2011 and 2010:

	Pension Plan					
NU *(Millions of Dollars)*	**United States Equity**	**Private Equity**	**Fixed Income**	**Real Estate and Other Assets**	**Hedge Funds**	**Total**
Balance as of January 1, 2010	$ 252.1	$ 193.8	$ 174.0	$ 38.5	$ 231.2	$ 889.6
Actual Return on Plan Assets:						
Relating to Assets Still Held as of Year End	13.9	10.9	21.0	0.5	15.9	62.2
Relating to Assets Distributed During the Year	-	-	-	0.5	-	0.5
Purchases, Sales and Settlements	-	24.8	52.6	4.2	-	81.6
Balance as of December 31, 2010	$ 266.0	$ 229.5	$ 247.6	$ 43.7	$ 247.1	$ 1,033.9
Actual Return on Plan Assets:						
Relating to Assets Still Held as of Year End	(6.6)	20.0	(1.5)	1.6	(7.1)	6.4
Relating to Assets Distributed During the Year	-	19.5	(2.8)	0.3	-	17.0
Purchases, Sales and Settlements	-	(13.9)	32.9	26.2	-	45.2
Balance as of December 31, 2011	$ 259.4	$ 255.1	$ 276.2	$ 71.8	$ 240.0	$ 1,102.5

	PBOP Plan					
NU *(Millions of Dollars)*	**United States Equity**	**Private Equity**	**Fixed Income**	**Real Estate and Other Assets**	**Hedge Funds**	**Total**
Balance as of January 1, 2010	$ -	$ -	$ 24.6	$ -	$ -	$ 24.6
Actual Return/(Loss) on Plan Assets:						
Relating to Assets Still Held as of Year End	0.5	-	3.2	-	0.4	4.1
Purchases, Sales and Settlements	9.6	0.3	(4.4)	-	16.0	21.5
Balance as of December 31, 2010	$ 10.1	$ 0.3	$ 23.4	$ -	$ 16.4	$ 50.2
Actual Return/(Loss) on Plan Assets:						
Relating to Assets Still Held as of Year End	0.6	0.6	0.2	(0.1)	(0.3)	1.0
Purchases, Sales and Settlements	-	4.2	2.4	2.6	-	9.2
Balance as of December 31, 2011	$ 10.7	$ 5.1	$ 26.0	$ 2.5	$ 16.1	$ 60.4

9. INCOME TAXES

The tax effect of temporary differences is accounted for in accordance with the rate-making treatment of the PURA and relevant accounting authoritative literature. Details of income tax expense and the components of the federal and state income tax provisions are as follows:

	For the Years Ended December 31,			
	Yankee		Yankee Gas	
(Millions of Dollars)	**2011**	**2010**	**2011**	**2010**
Current Income Taxes:				
Federal	$ 4.7	$ (12.3)	$ 4.6	$ (12.4)
State	4.1	1.2	4.1	2.5
Total Current	8.8	(11.1)	8.7	(9.9)
Deferred Income Taxes, Net:				
Federal	11.4	32.8	11.5	32.2
State	(1.6)	(1.2)	(1.6)	(1.3)
Total Deferred	9.8	31.6	9.9	30.9
Investment Tax Credits, Net	(0.4)	(0.4)	(0.4)	(0.3)
Income Tax Expense	$ 18.2	$ 20.1	$ 18.2	$ 20.7

A reconciliation between income tax expense and the expected tax expense at the statutory rate is as follows:

	For the Years Ended December 31,			
	Yankee		Yankee Gas	
(Millions of Dollars, except percentages)	**2011**	**2010**	**2011**	**2010**
Income Before Income Tax Expense	$ 49.8	$ 54.0	$ 49.9	$ 53.3
Statutory Federal Income Tax Expense at 35%	17.4	18.9	17.5	18.7
Tax Effect of Differences:				
Depreciation	(0.6)	(0.4)	(0.6)	(0.4)
Investment Tax Credit Amortization	(0.4)	(0.4)	(0.4)	(0.4)
State Income Taxes, Net of Federal Impact	(0.6)	(0.6)	(0.6)	(0.6)
Adjustments For Prior Years Taxes/Reserves	2.0	0.7	2.0	1.6
Medicare Subsidy	-	1.4	-	1.4
Other, Net	0.4	0.5	0.3	0.4
Income Tax Expense	$ 18.2	$ 20.1	$ 18.2	$ 20.7
Effective Tax Rate	36.5 %	37.2 %	36.5 %	38.8 %

Yankee and Yankee Gas file a consolidated federal income tax return with NU and unitary, combined and separate state income tax returns. Yankee and Yankee Gas are also parties to a tax allocation agreement with NU under which taxable subsidiaries do not pay any more taxes than they would have otherwise paid had they filed a separate company tax return, and subsidiaries generating tax losses, if any, are paid for their losses when utilized.

The PURA requires the tax effect of certain property, plant and equipment related temporary differences that directly impact Yankee Gas' customers receive "flow-through" treatment. Using flow-through treatment, the deferred tax expense is not recorded on the statements of income, rather, the tax effect of the temporary difference impacts the amount for income tax expense currently included in customers' rates and may also effect the Company's net income. Flow-through treatment can result in effective income tax rates that are different than statutory income tax rates and therefore are part of the income tax rate reconciliation for Yankee and Yankee Gas. Recording deferred taxes on flow-through items is required by relevant accounting guidance and the offset to the deferred tax amounts is a regulatory asset or liability.

The tax effects of temporary differences that give rise to the net accumulated deferred tax obligations are as follows:

	As of December 31,			
	Yankee		Yankee Gas	
(Millions of Dollars)	**2011**	**2010**	**2011**	**2010**
Deferred Tax Assets:				
Allowance for Uncollectible Accounts	$ 6.1	$ 6.4	$ 5.2	$ 6.4
Regulatory Deferrals	25.2	26.9	25.2	26.9
Employee Benefits	39.1	28.8	39.2	28.8
Tax Effect - Tax Regulatory Assets	1.0	1.1	1.0	1.1
Federal Net Operating Loss Carryforwards	17.0	-	17.0	-
Other	13.4	11.4	13.3	10.7
Total Deferred Tax Assets	$ 101.8	$ 74.6	$ 100.9	$ 73.9
Deferred Tax Liabilities:				
Accelerated Depreciation and Other Plant-Related Differences	$ 232.7	$ 200.3	$ 232.7	$ 200.3
Property Tax Accruals	7.2	6.2	7.2	6.2
Regulatory Deferrals	52.8	46.6	52.8	46.6
Tax Effect – Tax Regulatory Assets	12.1	10.8	12.1	10.8
Other	(7.7)	(6.9)	(7.7)	(6.9)
Total Deferred Tax Liabilities	$ 297.1	$ 257.0	$ 297.1	$ 257.0

As of December 31, 2011, Yankee and Yankee Gas have adjusted the presentation of Deferred Tax Assets and Liabilities. Amounts as of December 31, 2010 have been reclassified to conform to the December 31, 2011 presentation.

As of December 31, 2011, Yankee and Yankee Gas had a $48.5 million federal net operating loss carryforward that expires on December 31, 2031.

Unrecognized Tax Benefits: A reconciliation of the activity in unrecognized tax benefits from January 1, 2010 to December 31, 2011, all of which would impact the effective tax rate, if recognized, is as follows:

(Millions of Dollars)	Yankee	Yankee Gas
Balance as of January 1, 2010	$ 14.1	$ 12.8
Gross Increases - Current Year	2.7	2.7
Settlement	(7.9)	(6.6)
Balance as of December 31, 2010	8.9	8.9
Gross Increases - Current Year	3.2	3.2
Balance as of December 31, 2011	$ 12.1	$ 12.1

Interest and Penalties: Interest on uncertain tax positions is recorded and generally classified as a component of Other Interest Expense. However, when resolution of uncertainties results in Yankee or Yankee Gas receiving interest income, any related interest benefit is recorded in Other Income, Net on the accompanying statements of income. No penalties have been recorded. If penalties are recorded in the future, then the estimated penalties would be classified as a component of Other Income, Net on the accompanying statements of income. The components of interest on uncertain tax positions by company in 2011 and 2010 are as follows:

	For the Years Ended December 31,	
Other Interest Expense/(Income)	**2011**	**2010**
(Millions of Dollars)		
Yankee	$ 0.4	$ (5.6)
Yankee Gas	0.4	(4.8)

	As of December 31,	
Accrued Interest Expense	**2011**	**2010**
(Millions of Dollars)		
Yankee	$ 1.0	$ 0.6
Yankee Gas	1.0	0.6

Tax Positions: Yankee and Yankee Gas are currently working to resolve the treatments of certain costs in the remaining open periods in the state of Connecticut.

Tax Years: The following table summarizes Yankee and Yankee Gas' tax years that remain subject to examination by major tax jurisdictions as of December 31, 2011:

Description	Tax Years
Federal (NU consolidated)	2011
Connecticut	2005-2011

While tax audits are currently ongoing, it is reasonably possible that one or more of these open tax years could be resolved within the next twelve months. For both Yankee and Yankee Gas, management estimates that potential resolutions of differences of a non-timing nature, could result in a zero to $4.5 million decrease in unrecognized tax benefits. These estimated changes could have an impact on both Yankee's and Yankee Gas' 2011 earnings of zero to $2.9 million, respectively.

10. COMMITMENTS AND CONTINGENCIES

A. Environmental Matters

General: Yankee 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. Yankee Gas has an active environmental auditing and training program and believes that it is substantially in compliance with all enacted laws and regulations.

Environmental reserves are accrued when assessments indicate that 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.

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 Yankee Gas' responsibility or the extent of remediation required, recently enacted laws and regulations or a change in cost estimates due to certain economic factors.

The amounts recorded as environmental liabilities included in Reserve for Environmental Remediation and Other Long-Term Liabilities on the accompanying balance sheets represent management's best estimate of the liability for environmental costs, and take into consideration site assessment and remediation costs. Yankee Gas' 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. A reconciliation of the activity in the environmental reserves is as follows:

Yankee Gas	**For the Years Ended December 31,**	
(Millions of Dollars)	**2011**	**2010**
Balance as of Beginning of Year	$ 22.0	$ 16.6
Additions	0.9	6.0
Payments	(3.8)	(0.6)
Balance as of End of Year	$ 19.1	$ 22.0

These liabilities are estimated on an undiscounted basis and do not assume that any amounts are recoverable from insurance companies or other third parties. Yankee Gas has not recorded any probable recoveries from third parties. The environmental reserve includes sites at different stages of discovery and remediation and does not include any unasserted claims.

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, management will continue to assess the potential exposure and adjust the reserves accordingly.

All of the 15 sites in the environmental reserve relate to manufactured gas plant sites that were operated several decades ago and produced manufacturing gas from coal, which resulted in certain byproducts in the environment that may pose a risk to human health and the environment.

As of December 31, 2011, for 2 environmental sites that are included in Yankee Gas' reserve for environmental costs, the information known and nature of the remediation options at those sites allow for Yankee Gas to estimate the range of losses for environmental costs. As of December 31, 2011, $4.2 million had been accrued as a liability for these sites, which represents management's best estimates of the liabilities for environmental costs. These amounts are the best estimates within estimated ranges of losses from $2.2 million to $4.2 million. For the 13 remaining sites that comprise the remaining $14.9 million of the environmental reserve, determining an estimated range of loss is not possible at this time.

As of December 31, 2011, in addition to the sites identified above, there were 4 sites for which there are unasserted claims; however, any related site assessment or remediation costs are not probable or estimable at this time.

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. Yankee Gas currently does not have any superfund sites under CERCLA for which it has been notified that it is a potentially responsible party.

Environmental Rate Recovery: Yankee Gas has a rate recovery mechanism for environmental costs and has recorded regulatory assets related to deferred environmental remediation costs. The PURA approved an allowed level of remediation cost recoveries of approximately $2.7 million annually effective on July 19, 2011. The PURA has stated that to the extent that environmental remediation expenses are prudently incurred, they should be allowed as proper operating expenses; therefore, management continues to believe that recording the regulatory asset is appropriate as such costs are probable of recovery. As of December 31, 2011 and 2010, $28.8 million and $27.1 million, respectively, have been recorded as Regulatory Assets on the accompanying balance sheets.

B. Long-Term Contractual Arrangements

Estimated Future Annual Costs: The estimated future annual costs of Yankee Gas' significant long-term contractual arrangements as of December 31, 2011 are as follows:

Yankee Gas *(Millions of Dollars)*	**2012**	**2013**	**2014**	**2015**	**2016**	**Thereafter**	**Total**
Natural Gas Procurement Contracts	$ 68.1	$ 55.6	$ 52.0	$ 36.8	$ 31.7	$ 73.3	$ 317.5

Natural Gas Procurement Contracts: Yankee Gas has entered into long-term contracts for the purchase of natural gas in the normal course of business as part of its portfolio of supplies. These contracts extend through 2022. The total cost of Yankee Gas' procurement portfolio, including these contracts, amounted to $191.7 million in 2011 and $209.5 million in 2010.

C. Other Litigation and Legal Proceedings
Yankee and Yankee Gas are 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. Yankee and Yankee Gas record and disclose losses when these losses are probable and reasonably estimable, disclose matters when losses are probable but not estimable or reasonably possible, and expense legal costs related to the defense of loss contingencies as incurred.

11. LEASES

Yankee and Yankee Gas have entered into operating lease agreements for the use of office equipment, vehicles and office space. In addition, Yankee and Yankee Gas incur costs associated with certain leases entered into by NUSCO and RRR. These costs are included below in operating lease payments charged to expense and amounts capitalized as well as future operating lease payments from 2012 through 2016 and thereafter. The provisions of these lease agreements generally contain renewal options. Certain lease agreements contain payments impacted by the commercial paper rate plus a credit spread or the consumer price index.

For the years ended December 31, 2011 and 2010, operating lease rental payments charged to expense and the capitalized portion of operating lease payments were as follows:

	Expensed		**Capitalized**	
(Millions of Dollars)	**Yankee**	**Yankee Gas**	**Yankee**	**Yankee Gas**
2011	$ 1.2	$ 1.2	$ 0.2	$ 0.2
2010	2.0	2.0	0.6	0.6

Future minimum rental payments to third parties, RRR, a related party, excluding executory costs such as property taxes, state use taxes, insurance, and maintenance, under long-term noncancelable operating leases, as of December 31, 2011 are as follows:

(Millions of Dollars)	**Yankee and Yankee Gas to Third Parties**	**Yankee and Yankee Gas to RRR**	**Total**
2012	$ 0.6	$ 0.1	$ 0.7
2013	0.5	0.1	0.6
2014	0.4	0.1	0.5
2015	0.4	0.1	0.5
2016	0.4	0.1	0.5
Thereafter	0.8	-	0.8
Future Minimum Lease Payments	$ 3.1	$ 0.5	$ 3.6

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 Yankee 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 amounts of Yankee Gas' long-term debt, including the current portion, are $349.3 million and $353.6 million as of December 31, 2011 and 2010, respectively, excluding any unamortized premiums or discounts. The estimated fair values of these financial instruments are $396.7 million and $387.6 million as of December 31, 2011 and 2010, respectively. For further information regarding long-term debt, see Note 7, "Long-Term Debt," to the financial statements.

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. ACCUMULATED OTHER COMPREHENSIVE LOSS

The Yankee Gas accumulated balance for other comprehensive loss, net of tax, is as follows:
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Yankee Gas	**As of December 31,**			
(Millions of Dollars)	**2011**		**2010**	
Qualified Cash Flow Hedging Instruments	$	(1.1)	$	(1.2)
SERP Benefit Plan		(0.3)		-
Total	$	(1.4)	$	(1.2)

Qualified cash flow hedging instruments impacting Net Income relate to the amortization of existing interest rate swap agreements and are reported net of $0.1 million in income tax effects for both December 31, 2011 and 2010.

For 2011, Accumulated Other Comprehensive Loss included the changes in the funded status of the SERP benefit plan. These amounts were recorded net of $0.2 million in tax benefits. Prior to 2011, changes in the SERP funded status were recorded in Regulatory Assets.

It is estimated that a charge of $0.1 million will be reclassified from Accumulated Other Comprehensive Loss as a decrease to earnings over the next 12 months as a result of amortization of the interest rate swap agreements which have been settled.

14. COMMON STOCK

The following table sets forth the Yankee and Yankee Gas common stock authorized, issued, outstanding and related par values as of December 31, 2011 and 2010:

			Stock		
			Authorized	**Issued**	**Outstanding**
	Par Value		**2011 and 2010**	**2011 and 2010**	**2011 and 2010**
Yankee	$	-	20,000	1,000	1,000
Yankee Gas	$	5	1,000	1,000	1,000