2010 combined annual report

YANKEE ENERGY SYSTEM, INC. AND SUBSIDIARIES
YANKEE GAS SERVICES COMPANY

Yankeegas®

A Northeast Utilities Company

Directors
(as of February 28, 2011)

David R. McHale

Leon J. Olivier

Rodney O. Powell

Charles W. Shivery

Officers
(as of February 28, 2011)

Charles W. Shivery
Chairman

Leon J. Olivier
Chief Executive Officer

Rodney O. Powell
President and Chief Operating Officer

David R. McHale
Executive Vice President
and Chief Financial Officer

Gregory B. Butler
Senior Vice President
and General Counsel

Marc N. Andrukiewicz
Vice President — Operations

Jay S. Buth
Vice President — Accounting
and Controller

Randy A. Shoop
Vice President and Treasurer

Samuel K. Lee
Secretary

O. Kay Comendul
Assistant Secretary

Susan B. Weber
Assistant Treasurer — Finance

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

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2010 Company Report
Yankee Energy System, Inc. and Yankee Gas Services Company

The following report should be read in conjunction with our financial statements and related combined notes included in this annual report. References in this company report to "Yankee," "Yankee Gas," "we," "us" and "our" refer to Yankee Energy System, Inc. (Yankee) or Yankee Gas Services Company (Yankee Gas), as applicable.

Yankee is a holding company and its principal subsidiary, Yankee Gas, owns and operates the largest natural gas distribution system in Connecticut. Yankee is wholly-owned by Northeast Utilities (NU).

Yankee Gas Earnings Overview: Our 2010 earnings were $11.7 million higher than 2009 due primarily to lower uncollectibles expenses, higher distribution revenues, which excludes the cost of natural gas, attributable to a 1.9 percent increase in firm sales as compared to 2009, and lower depreciation expense. Partially offsetting these favorable items were higher employee benefit costs. Yankee Gas' regulatory Return on Equity (ROE) was 8.6 percent in 2010 compared to 6.6 percent in 2009. In June 2011 we anticipate the DPUC will issue a decision on Yankee Gas' request to raise its distribution rates effective July 1, 2011. Yankee Gas' request includes a recommendation to maintain its authorized regulatory ROE of 10.1 percent.

A summary of our firm natural gas sales in million cubic feet for 2010 and 2009 as well as the changes in our firm natural gas sales for 2010 as compared to 2009 on an actual and weather normalized basis (using a 30-year average) is as follows:

	Firm Natural Gas			
	2010	**2009**	**Percentage Increase/(Decrease)**	**Weather-Normalized Percentage Increase**
Residential	13,403	13,562	(1.2)%	4.9%
Commercial	14,982	14,063	6.6 %	12.1%
Industrial	14,866	14,825	0.3 %	1.7%
Total	43,251	42,450	1.9 %	6.2%

Actual firm natural gas sales in 2010 compared to 2009 were higher despite the milder weather during the first quarter 2010 heating season. Firm natural gas sales have also benefited from a favorable price for natural gas and the addition of gas-fired distributed generation in Yankee Gas' service territory. Heating degree days in 2010 for Connecticut were 11 percent below 2009 levels and 11 percent below normal levels. Firm natural gas sales benefitted from commercial and industrial customers switching from interruptible service to firm service, additional gas-fired distributed generation, and a large commercial customer who began to take service from Yankee Gas mid-way through the third quarter of 2009 and continued to take service throughout all of 2010.

Our expense related to uncollectible receivable balances (our uncollectibles expense) is influenced by the economic conditions of our region. Fluctuations in our uncollectibles expense are mitigated from an earnings perspective because write-offs of uncollectible receivable balances attributable to qualified customers under financial or medical duress (or hardship customers) are fully recovered through our tariffs. In 2010, our total pre-tax uncollectibles expense was approximately $15.8 million lower than 2009, and that entire amount impacted our 2010 earnings. In 2011, we expect the pre-tax uncollectibles expense that impacts earnings to increase slightly over 2010 levels based on anticipated higher revenues.

Yankee Gas Rate Case: On January 7, 2011, we filed an application with the DPUC to increase natural gas distribution rates by $32.8 million, or 7.3 percent, to be effective July 1, 2011, and by an additional $13 million, or 2.8 percent, to be effective July 1, 2012. Among other items, we requested to maintain our current authorized ROE of 10.1 percent, that $57.6 million of costs associated with the WWL Project be placed into rates, and a substantial increase in capital funding to replace bare steel and cast iron pipe throughout our natural gas distribution system. A final decision is expected in June 2011.

Yankee Gas Liquidity: We had positive operating cash flows in 2010 of $74.2 million, compared with positive operating cash flows of $129.4 million in 2009. The decrease in 2010 operating cash flows was due primarily to a negative cash flow impact of $43 million from changes in accounts receivable and unbilled revenue balances, along with a negative cash flow impact of $21.7 million from fuel, materials and supplies. Partially offsetting these negative cash flow impacts was a 1.9 percent increase in firm sales in 2010 over 2009.

Yankee Gas Capital Expenditures: On January 6, 2010, the DPUC issued a decision approving our request to sell our four remaining propane plants that were used to supply natural gas during peak periods. These facilities are expected to be sold in 2011, with the exception of the Kensington facility, which may not close until 2012. As a result, in order to meet future supply needs during peak periods, we have commenced construction on 16 miles of natural gas pipeline between Waterbury, Connecticut and Wallingford, Connecticut and an expansion of our liquefied natural gas (LNG) plant's vaporization output (collectively, the WWL Project). The WWL Project is now expected to cost $57.6 million, down from our previously announced cost of approximately $63 million. Construction during 2010, which cost $26.6 million, included the completion of Phase I, a seven-mile segment of pipeline connecting the Cheshire and Wallingford distribution systems, and four miles of Phase II. The remainder of the Phase II pipeline construction (approximately five miles) and the expansion of the vaporization capacity of the LNG facility are expected to be completed by the fourth quarter of 2011. Construction of the project was 46 percent complete as of December 31, 2010 and is currently on schedule.

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INDEPENDENT AUDITORS' REPORT

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

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, 2010 and 2009, 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, 2010 and 2009, 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 25, 2011

YANKEE ENERGY SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)	As of December 31, 2010	2009
ASSETS		
Current Assets:		
Cash	$ 547	$ 2,169
Receivables, Net	39,683	34,825
Unbilled Revenues	24,998	21,923
Accounts Receivable from Affiliated Companies	294	626
Taxes Receivable	8,924	52
Fuel, Materials and Supplies	58,704	73,477
Accumulated Deferred Income Taxes	5,032	9,373
Prepayments and Other Current Assets	2,837	2,343
Total Current Assets	141,019	144,788
Property, Plant and Equipment, Net	872,047	804,891
Deferred Debits and Other Assets:		
Regulatory Assets	141,709	132,835
Goodwill	287,591	287,591
Other Long-Term Assets	10,802	9,950
Total Deferred Debits and Other Assets	440,102	430,376
Total Assets	$ 1,453,168	$ 1,380,055

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, 2010	2009
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable to Affiliated Companies	$ 1,300	$ 45,200
Long-Term Debt - Current Portion	4,286	4,286
Accounts Payable	34,233	29,101
Accounts Payable to Affiliated Companies	8,751	9,728
Accrued Taxes	10,326	12,584
Accrued Interest	7,090	11,754
Reserve for Environmental Remediation	6,300	-
Other Current Liabilities	9,175	9,596
Total Current Liabilities	81,461	122,249
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	187,416	156,035
Accumulated Deferred Investment Tax Credits	3,703	4,080
Regulatory Liabilities	66,945	72,573
Accrued Pension	54,649	48,150
Other Long-Term Liabilities	42,260	45,482
Total Deferred Credits and Other Liabilities	354,973	326,320
Capitalization:		
Long-Term Debt	350,297	304,651
Common Stockholder's Equity:		
Common Stock	-	-
Capital Surplus, Paid In	619,196	594,827
Retained Earnings	48,401	33,261
Accumulated Other Comprehensive Loss	(1,160)	(1,253)
Common Stockholder's Equity	666,437	626,835
Total Capitalization	1,016,734	931,486
Total Liabilities and Capitalization	$ 1,453,168	$ 1,380,055

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, 2010	2009
Operating Revenues	$ 434,277	$ 449,571
Operating Expenses:		
Cost of Natural Gas	206,435	226,143
Other Operating Expenses	92,778	103,375
Maintenance	11,962	11,445
Depreciation	25,770	26,748
Amortization of Regulatory (Liabilities)/Assets, Net	(1,940)	94
Taxes Other Than Income Taxes	28,885	27,530
Total Operating Expenses	363,890	395,335
Operating Income	70,387	54,236
Interest Expense:		
Interest on Long-Term Debt	19,816	19,926
Other Interest (Note 10)	(2,670)	2,284
Interest Expense	17,146	22,210
Other Income, Net	775	363
Income Before Income Tax Expense	54,016	32,389
Income Tax Expense	20,076	11,724
Net Income	$ 33,940	$ 20,665

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2010	2009
Net Income	$ 33,940	$ 20,665
Other Comprehensive Income From Qualified Cash Flow Hedging Instruments, Net of Tax	93	93
Comprehensive Income	$ 34,033	$ 20,758

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 Share Information)	Common Stock Shares	Common Stock Amount	Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance as of January 1, 2009	1,000	$ -	$593,157	$ 31,663	$ (1,346)	$ 623,474
Net Income				20,665		20,665
Dividends on Common Stock				(19,067)		(19,067)
Capital Contributions from NU Parent			2,662			2,662
Merger of NorConn Properties, Inc. into The Rocky River Realty Company			(985)			(985)
Allocation of Benefits - ESOP			(7)			(7)
Other Comprehensive Income					93	93
Balance as of December 31, 2009	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

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, 2010	2009
Operating Activities:		
Net Income	$ 33,940	$ 20,665
Adjustments to Reconcile Net Income to Net Cash		
Flows Provided by Operating Activities:		
Bad Debt Expense	5,256	20,997
Depreciation	25,770	26,748
Deferred Income Taxes	31,612	7,904
Pension and PBOP Expense, Net of PBOP Contributions	4,973	3,434
Amortization of Regulatory (Liabilities)/Assets, Net	(1,940)	94
Regulatory Overrecoveries/(Underrecoveries), Net	1,847	(7,907)
Other	(3,188)	(824)
Changes in Current Assets and Liabilities:		
Receivables and Unbilled Revenues, Net	(16,378)	26,852
Fuel, Materials and Supplies	14,774	36,504
Accounts Payable	(2,474)	(4,490)
Taxes Receivable/Accrued	(14,160)	(337)
Other Current Assets and Liabilities	(5,986)	528
Net Cash Flows Provided by Operating Activities	74,046	130,168
Investing Activities:		
Investments in Property, Plant and Equipment	(82,477)	(54,831)
Decrease in NU Money Pool Lending	-	3,600
Other	10	12
Net Cash Flows Used in Investing Activities	(82,467)	(51,219)
Financing Activities:		
Decrease in Short-Term Debt	-	(52,327)
Issuance of Long-Term Debt	50,000	-
Repayments of Long-Term Debt	(4,286)	(54,286)
(Decrease)/Increase in NU Money Pool Borrowings	(43,900)	45,200
Capital Contributions from NU Parent	24,216	2,662
Cash Dividends on Common Stock	(18,800)	(19,067)
Other	(431)	(29)
Net Cash Flows Provided by/(Used in) Financing Activities	6,799	(77,847)
Net (Decrease)/Increase in Cash	(1,622)	1,102
Cash - Beginning of Year	2,169	1,067
Cash - End of Year	$ 547	$ 2,169

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:

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, 2010 and 2009, 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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 25, 2011

YANKEE GAS SERVICES COMPANY
BALANCE SHEETS

(Thousands of Dollars)	As of December 31, 2010	2009
ASSETS		
Current Assets:		
Cash	$ 309	$ 2,023
Receivables, Net	38,951	34,076
Unbilled Revenues	24,998	21,923
Accounts Receivable from Affiliated Companies	303	625
Taxes Receivable	9,001	52
Fuel, Materials and Supplies	58,704	73,477
Accumulated Deferred Income Taxes	4,309	7,919
Prepayments and Other Current Assets	2,836	2,343
Total Current Assets	139,411	142,438
Property, Plant and Equipment, Net	872,047	804,891
Deferred Debits and Other Assets:		
Regulatory Assets	141,709	132,835
Goodwill	287,591	287,591
Other Long-Term Assets	10,772	9,910
Total Deferred Debits and Other Assets	440,072	430,336
Total Assets	$ 1,451,530	$ 1,377,665

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

YANKEE GAS SERVICES COMPANY
BALANCE SHEETS

(Thousands of Dollars)	As of December 31, 2010	2009
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable to Affiliated Companies	$ 8,900	$ 53,000
Long-Term Debt - Current Portion	4,286	4,286
Accounts Payable	34,233	29,101
Accounts Payable to Affiliated Companies	8,750	9,733
Accrued Taxes	10,309	11,120
Accrued Interest	7,090	11,001
Reserve for Environmental Remediation	6,300	-
Other Current Liabilities	9,175	9,595
Total Current Liabilities	89,043	127,836
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	187,430	155,982
Accumulated Deferred Investment Tax Credits	3,703	4,080
Regulatory Liabilities	66,945	72,573
Accrued Pension	54,649	48,150
Other Long-Term Liabilities	42,115	45,343
Total Deferred Credits and Other Liabilities	354,842	326,128
Capitalization:		
Long-Term Debt	350,297	304,651
Common Stockholder's Equity:		
Common Stock	5	5
Capital Surplus, Paid In	601,212	576,869
Retained Earnings	57,291	43,429
Accumulated Other Comprehensive Loss	(1,160)	(1,253)
Common Stockholder's Equity	657,348	619,050
Total Capitalization	1,007,645	923,701
Commitments and Contingencies (Note 11)		
Total Liabilities and Capitalization	$ 1,451,530	$ 1,377,665

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, 2010	2009
Operating Revenues	$ 434,277	$ 449,571
Operating Expenses:		
Cost of Natural Gas	206,435	226,143
Other Operating Expenses	92,694	102,975
Maintenance	11,962	11,445
Depreciation	25,770	26,697
Amortization of Regulatory (Liabilities)/Assets, Net	(1,940)	94
Taxes Other Than Income Taxes	28,886	27,531
Total Operating Expenses	363,807	394,885
Operating Income	70,470	54,686
Interest Expense:		
Interest on Long-Term Debt	19,816	19,926
Other Interest (Note 10)	(1,919)	2,192
Interest Expense	17,897	22,118
Other Income, Net	760	317
Income Before Income Tax Expense	53,333	32,885
Income Tax Expense	20,671	11,902
Net Income	$ 32,662	$ 20,983

STATEMENTS OF COMPREHENSIVE INCOME

	2010	2009
Net Income	$ 32,662	$ 20,983
Other Comprehensive Income From Qualified Cash Flow Hedging Instruments, Net of Tax	93	93
Comprehensive Income	$ 32,755	$ 21,076

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 Share Information)	Common Stock Shares	Common Stock Amount	Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance as of January 1, 2009	1,000	$ 5	$574,254	$ 41,513	$ (1,346)	$ 614,426
Net Income				20,983		20,983
Dividends on Common Stock				(19,067)		(19,067)
Capital Contributions from NU Parent			2,622			2,622
Allocation of Benefits - ESOP			(7)			(7)
Other Comprehensive Income					93	93
Balance as of December 31, 2009	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

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, 2010	2009
Operating Activities:		
Net Income	$ 32,662	$ 20,983
Adjustments to Reconcile Net Income to Net Cash		
Flows Provided by Operating Activities:		
Bad Debt Expense	5,256	20,997
Depreciation	25,770	26,697
Deferred Income Taxes	30,948	7,969
Pension and PBOP Expense, Net of PBOP Contributions	4,973	3,434
Amortization of Regulatory (Liabilities)/Assets, Net	(1,940)	94
Regulatory Overrecoveries/(Underrecoveries), Net	1,847	(7,907)
Other	(3,196)	(947)
Changes in Current Assets and Liabilities:		
Receivables and Unbilled Revenues, Net	(16,404)	26,622
Fuel, Materials and Supplies	14,774	36,504
Accounts Payable	(2,480)	(4,977)
Taxes Receivable/Accrued	(12,790)	(466)
Other Current Assets and Liabilities	(5,230)	438
Net Cash Flows Provided by Operating Activities	74,190	129,441
Investing Activities:		
Investments in Property, Plant and Equipment	(82,477)	(54,831)
Net Cash Flows Used in Investing Activities	(82,477)	(54,831)
Financing Activities:		
Decrease in Short-Term Debt	-	(52,327)
Issuance of Long-Term Debt	50,000	-
Retirements of Long-Term Debt	(4,286)	(54,286)
(Decrease)/Increase in NU Money Pool Borrowings	(44,100)	50,500
Capital Contributions from NU Parent	24,190	2,622
Cash Dividends on Common Stock	(18,800)	(19,067)
Other	(431)	(29)
Net Cash Flows Provided by/(Used in) Financing Activities	6,573	(72,587)
Net (Decrease)/Increase in Cash	(1,714)	2,023
Cash - Beginning of Year	2,023	-
Cash - End of Year	$ 309	$ 2,023

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, 2010 AND 2009

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 Connecticut's largest natural gas distribution system and provides service to approximately 206,000 customers.

B. 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.

Certain reclassifications of prior period 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, 2010 through the issuance of the financial statements on March 25, 2011 and did not identify any such events that required recognition or disclosure under this guidance.

C. 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.

D. 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)	**2010**	**2009**
Yankee	$ 9.8	$ 16.2
Yankee Gas	8.0	14.5

The DPUC 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, 2010 and 2009, Yankee Gas had uncollectible hardship accounts receivable reserves in the amount of $7.5 million and $8.6 million, respectively, with the corresponding bad debt expense recorded as Regulatory Assets as these amounts are probable of recovery.

E. Fuel, Materials and Supplies
Yankee Gas' Fuel, Materials and Supplies include natural gas and materials purchased primarily for construction or operation and maintenance purposes. As of December 31, 2010 and 2009, $55.4 million and $70.6 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.

F. Fair Value Measurements

Yankee Gas applies fair value measurement guidance to its derivative contracts that are recorded at fair value. Fair value measurement guidance is also applied to non-recurring fair value measurements of non-financial assets and liabilities, such as asset retirement obligations (AROs) and Yankee Gas' goodwill.

Fair Value Hierarchy: In measuring fair value, Yankee Gas uses observable market data when available and minimizes the use of unobservable inputs. Unobservable inputs are needed to value certain derivative contracts due to complexities in the terms of the contracts. 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. Yankee Gas evaluates the classification of assets and liabilities measured at fair value on a quarterly basis, and Yankee 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. Items valued using these valuation techniques are classified according to the lowest level for which there is at least one input that is significant to the valuation. Therefore, an item may be classified in Level 3 even though there may be some significant inputs that are readily observable.

Determination of Fair Value: The valuation techniques and inputs used in Yankee Gas' fair value measurements are described in Note 4, "Derivative Instruments." There were no changes to the valuation methodologies for derivative instruments as of December 31, 2010 and 2009.

G. Other Investments (Yankee)

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, 2010, the balance of loans receivable, net of a provision for uncollectible accounts of $1.8 million, was $0.3 million. As of December 31, 2009, the balance of loans receivable, net of a provision for uncollectible accounts of $1.7 million, was $0.4 million. These amounts are included in Receivables, Net on the accompanying consolidated balance sheets. For further information regarding the provision for uncollectible accounts, see Note 1D, "Summary of Significant Accounting Policies – Provision for Uncollectible Accounts," to the financial statements.

H. Revenues

Yankee Gas' revenues are based on rates approved by the Connecticut Department of Public Utility Control (DPUC). In general, rates can only be changed through formal proceedings with the DPUC. Yankee Gas also utilizes a DPUC-approved tracking mechanism to recover the costs of the procurement of natural gas for its firm and seasonal customers. The tracking mechanism allows Yankee Gas to change its rates periodically. Differences between actual natural gas costs and collections amounts are deferred and then recovered or returned to customers during the following year.

Yankee Gas records monthly and daily natural gas purchases and sales net in accordance with applicable accounting guidance. Revenues and expenses associated with derivative instruments to purchase and sell in the daily markets are recorded on a net basis in either Operating Revenues or Cost of Natural Gas on the accompanying statements of income.

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 Receivables, Net 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 calendar month sales to estimate 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)	**2010**	**2009**
AFUDC:		
Borrowed Funds	$ 0.5	$ 0.4
Equity Funds	0.7	0.1
Totals	$ 1.2	$ 0.5
Average AFUDC Rate	6.1 %	2.8 %

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 CWIP 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, 2010 and 2009, gross receipts taxes, franchise taxes and other excise taxes of $15.8 million and $16.6 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)	**2010**	**2009**	**2010**	**2009**
Cash Paid During the Year For:				
Interest, Net of Amounts Capitalized	$ 19.8	$ 21.4	$ 19.0	$ 21.4
Income Taxes	3.3	2.9	3.1	3.1
Non-Cash Investing Activities:				
Capital Expenditures Incurred But Not Paid	14.5	8.0	14.5	8.0

Regulatory Overrecoveries/(Underrecoveries, Net) on the accompanying statements of cash flows represents the year-over-year change in regulatory assets and regulatory liabilities, net of amortization charged during the year and other adjustments for non-cash items. These deferred amounts are expected to be recovered from or refunded to customers through the rate-making process and are generally short-term in nature.

The majority of short-term borrowings have original maturities of three months or less. Accordingly, borrowings and repayments are shown net on the statement of cash flows. In December 2008, Yankee Gas borrowed $27 million from the NU parent revolving credit agreement that had original maturities in excess of 90 days. These amounts were repaid in March 2009. This activity is included in the net activity seen in the statement of cash flows. In 2010 and 2009, Yankee Gas had no other such borrowings.

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. 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. As of both December 31, 2010 and 2009, these accruals totaled $5.4 million.

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). Through August 2009, NorConn Properties, Inc. (NorConn) was a wholly-owned subsidiary of Yankee that owned real estate which was leased to Yankee Gas. In August 2009, NorConn merged into RRR, with RRR as the surviving company succeeding to ownership of all rights and properties of NorConn.

Included in the balance sheets as of December 31, 2010 and 2009 are Accounts Receivable from Affiliated Companies and Accounts Payable to Affiliated Companies 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 DPUC 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 investments in long-lived assets, including regulatory assets. All material net regulatory assets are earning a return, except for deferred benefit cost assets and income tax regulatory assets, which are not in rate base. Amortization and deferrals of regulatory assets/(liabilities) are included on a net basis in Amortization of Regulatory (Liabilities)/Assets, Net, and the amortization of overrecovered natural gas costs are included in the Cost of Natural Gas on the accompanying statements of income.

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

Yankee Gas	**As of December 31,**	
(Millions of Dollars)	**2010**	**2009**
Deferred Benefit Costs	$ 68.9	$ 68.8
Deferred Environmental Remediation Costs	27.1	23.3
Income Taxes, Net	24.4	20.3
Hardship Customer Receivables	8.4	11.9
Other Regulatory Assets	12.9	8.5
Totals	$ 141.7	$ 132.8

Additionally, Yankee Gas had $8.5 million and $8.1 million of regulatory costs as of December 31, 2010 and 2009, 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 DPUC. Management believes these costs are probable of recovery in future cost-of-service regulated rates.

Deferred Benefit Costs: Yankee Gas participates in NU's Pension Plan, Supplemental Executive Retirement Plan (SERP), and postretirement benefits other than pension (PBOP) Plan, 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 the pension and PBOP 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, 2010 and 2009 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 and are expected to be amortized into expense over a period of up to 12 years.

Deferred Environmental Remediation Costs: Yankee Gas has recorded regulatory assets related to environmental remediation costs. The DPUC approved an allowed level of remediation cost recoveries of approximately $2.2 million annually effective July 1, 2007. The DPUC 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. For further information, see Note 11A, "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 DPUC and accounting guidance for income taxes. Differences in income taxes between the accounting guidance and the rate-making treatment of the DPUC are recorded as Regulatory Assets. For further information regarding income taxes, see Note 10, “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. The DPUC approved an allowed level of recoverable hardship costs of approximately $8.9 million annually effective July 1, 2007. For further information regarding hardship accounts receivable, see Note 1D, "Summary of Significant Accounting Policies - Provision for Uncollectible Accounts," to the financial statements.

Other Regulatory Assets: Included in other regulatory assets are the regulatory assets associated with AROs totaling $2.7 million and $2.3 million as of December 31, 2010 and 2009, respectively. Although these regulatory assets have not been approved for deferred accounting treatment by the DPUC, management believes that recovery of these regulatory assets is probable. As of December 31, 2010 and 2009, other regulatory assets also included $1.1 million and $1.2 million, respectively, related to losses on reacquired debt, $4.9 million and $3.6 million, respectively, relating to the conservation and load management tracker deferral, $2.6 million and zero, respectively, related to the 2010 Patient Protection and Affordable Care Act (2010 Healthcare Act), and $1.6 million and $1.4 million, respectively, of various items that are also probable of recovery.

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

Yankee Gas	**As of December 31,**	
(Millions of Dollars)	**2010**	**2009**
Cost of Removal	$ 49.4	$ 49.8
Pension Liability	12.5	15.0
Overrecovered Natural Gas Costs	4.4	7.1
Other Regulatory Liabilities	0.6	0.7
Totals	$ 66.9	$ 72.6

Cost of Removal: Through its rate settlement with the DPUC, 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. This liability is included in rate base.

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 DPUC. 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 without a return on the liability.

Overrecovered Natural Gas Costs: The Purchased Gas Adjustment (PGA) clause is a DPUC-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 DPUC.

3. PROPERTY, PLANT AND EQUIPMENT AND ACCUMULATED DEPRECIATION

The following table summarizes Yankee Gas' investments in utility plant:

Yankee Gas	**As of December 31,**	
(Millions of Dollars)	**2010**	**2009**
Natural Gas Utility	$ 1,126.2	$ 1,070.7
Other	0.4	0.4
Total Property, Plant and Equipment, Gross	1,126.6	1,071.1
Less: Accumulated Depreciation	304.9	287.3
Property, Plant and Equipment, Net	821.7	783.8
Construction Work in Progress	50.3	21.1
Total Property, Plant and Equipment, Net	$ 872.0	$ 804.9

As of December 31, 2010, the average depreciable life of Yankee Gas' property, plant and equipment was 43.1 years. The provision for depreciation is calculated using the straight-line method based on the estimated remaining useful lives of depreciable plant-in-service, which range primarily from 10 years to 55 years, adjusted for salvage value and removal costs, as approved by the DPUC. 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. The depreciation rates for the several classes of utility plant-in-service are equivalent to a composite rate of 2.4 percent and 2.5 percent in 2010 and 2009, respectively.

During 2009, management discontinued the use of Yankee Gas' four remaining propane plants that were used to supply natural gas during peak periods. Three of the plants were no longer utilized for supply purposes and the fourth (the Kensington propane plant) will no longer be required after the completion of a project to construct 16 miles of natural gas pipeline between Waterbury, Connecticut and Wallingford, Connecticut and an expansion of Yankee Gas' liquefied natural gas (LNG) plant's vaporization output (collectively, the WWL Project), which will increase the peak day supply capability of the Company. On January 6, 2010, the DPUC issued a decision approving Yankee Gas' request to sell the four remaining propane plants. These facts and circumstances triggered an impairment assessment and management recorded an impairment of $4.6 million to Property, Plant and Equipment, Net on the accompanying balance sheet as of December 31, 2009. As of December 31, 2010, the impairment amount totaled $4.6 million. Management believes that the stranded costs resulting from the impairment of its propane plants are probable of recovery from customers in future regulated rates. Accordingly, an offsetting asset was recorded in Other Long-Term Assets on the accompanying balance sheets as of December 31, 2010 and 2009.

4. DERIVATIVE INSTRUMENTS

Certain Yankee Gas contracts for the purchase or sale of natural gas are derivatives. The costs and benefits of derivative contracts that meet the definition of and are designated as “normal purchases or normal sales” (normal) are recognized in Operating Expenses or Operating Revenues on the accompanying statements of income, as applicable, as natural gas is delivered. The accounting treatment for natural gas contracts entered into varies and depends on the intended use of the particular contract and on whether or not the contract is a derivative. Election of the normal exception (and resulting accrual accounting) for derivatives requires 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 over a reasonable period in the normal course of business. Nonderivative contracts are recorded as revenue or expense at the time of delivery.

Derivative contracts that are not recorded as normal under the applicable accounting guidance are recorded at fair value as current or long-term derivative assets or liabilities with offsetting amounts recorded as regulatory liabilities or assets as the contracts are part of providing regulated natural gas service, and the costs associated with supplying natural gas to customers are recoverable in rates as part of the PGA clause. See below for discussion of "Derivatives not designated as hedges."

Yankee Gas mitigates the risks associated with supply availability and volatility of natural gas prices through the use of storage facilities and agreements to purchase natural gas supply for customers. The costs associated with mitigating these risks are recoverable from customers, and, therefore any changes in fair value are recorded as Regulatory Assets and Regulatory Liabilities on the accompanying balance sheets.

Yankee Gas is also exposed to interest rate risk associated with its long-term debt. From time to time, Yankee Gas enters into forward starting interest rate swaps, accounted for as cash flow hedges, to mitigate the risk of changes in interest rates when it expects to issue long-term debt.

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 appropriate current and long-term portions recorded. On the accompanying balance sheets, the current portion of the net derivative asset is shown in Prepayments and Other Current Assets, the current portion of the net derivative liability is shown in Other Current Liabilities and the long-term portion of the net derivative liability is shown in Other Long-Term Liabilities. The following table presents the gross fair values of contracts and the net amounts recorded as current or long-term derivative assets or liabilities, by primary underlying risk exposure:

	As of December 31, 2010					
Yankee Gas *(Millions of Dollars)*	**Gross Asset**	**Gross Liability**	**Net Amount Recorded as Derivative Asset**	**Gross Asset**	**Gross Liability**	**Net Amount Recorded as Derivative Liability**
Derivatives Not Designated As Hedges						
Supply Risk Management:						
Current	$ -	$ -	$ -	$ -	$ (0.4)	$ (0.4)
Long-Term	-	-	-	-	(0.3)	(0.3)

	As of December 31, 2009					
Yankee Gas *(Millions of Dollars)*	**Gross Asset**	**Gross Liability**	**Net Amount Recorded as Derivative Asset**	**Gross Asset**	**Gross Liability**	**Net Amount Recorded as Derivative Liability**
Derivatives Not Designated As Hedges						
Supply Risk Management:						
Current	$ 0.1	$ -	$ 0.1	$ -	$ (0.4)	$ (0.4)
Long-Term	-	-	-	-	(0.3)	(0.3)

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

The following provides additional information about the derivatives included in the tables above, including volumes and cash flow information.

Derivatives not designated as hedges
As of December 31, 2010 and 2009, Yankee Gas had the ability to purchase up to 17 thousand MMBTu of natural gas on up to 20 days per season to manage natural gas supply price risk related to winter load obligations. Demand fees on these contracts are paid annually and are included in Yankee Gas' PGA clause for recovery.

The following table presents the realized and unrealized losses associated with derivative contracts not designated as hedges:

Derivatives Not Designated as Hedges	**Location of Gain or Loss Recognized on Derivative**	**Amount of Loss Recognized on Derivative Instrument For The Years Ended December 31, 2010**	**December 31, 2009**
(Millions of Dollars)			
Supply Risk Management:			
Yankee Gas	Regulatory Assets/Liabilities	$(0.5)	$(2.8)

For Yankee Gas, monthly settlement amounts are recorded as receivables or payables and as Operating Revenues or Cost of Natural Gas on the accompanying financial statements. Regulatory assets/liabilities are established with no impact to Net Income.

Derivatives designated as hedges
There were no cash flow hedges outstanding as of or during the years ended December 31, 2010 and 2009 and no ineffectiveness was recorded during these periods. From time to time, Yankee Gas enters into forward starting interest rate swap agreements on proposed debt issuances that qualify and are designated as cash flow hedges. Cash flow hedges are recorded at fair value, and the changes in the fair value of the effective portion of those contracts are recognized in Accumulated Other Comprehensive Income/(Loss). Cash flow hedges impact Net Income when hedge ineffectiveness is measured and recorded, when the forecasted transaction being hedged is improbable of occurring or when the transaction is settled. When a cash flow hedge is terminated, the settlement amount is recorded in Accumulated Other Comprehensive Income/(Loss) and is amortized into Net Income over the term of the underlying debt instrument.

Pre-tax losses amortized from Accumulated Other Comprehensive Income/(Loss) into Interest Expense on the accompanying statements of income were as follows:

	For the Years Ended	
(Millions of Dollars)	**December 31, 2010**	**December 31, 2009**
Yankee Gas	$ 0.2	$0.2

For further information, see Note 14, "Accumulated Other Comprehensive Loss," to the financial statements.

Items Measured at Fair Value on a Recurring Basis: Yankee Gas' assets and liabilities recorded at fair value on a recurring basis have been categorized based upon the fair value hierarchy. The fair value of the derivative contracts is based on a model that incorporates commodity prices and assumptions regarding the volatility of future commodity prices. As of December 31, 2010 and 2009, Yankee Gas' derivatives were classified as Level 3. This category includes derivative assets and liabilities, which are presented net. Yankee Gas classifies assets and liabilities in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 assets and liabilities typically also rely on a number of inputs that are observable either directly or indirectly. Thus, the gains and losses presented below include changes in fair value that are attributable to both observable and unobservable inputs. There were no transfers into or out of Level 3 assets and liabilities for the years ended December 31, 2010 and 2009. The following table presents changes for the years ended December 31, 2010 and 2009 in the Level 3 category of assets and liabilities measured at fair value on a recurring basis.

(Millions of Dollars)	**For the Years Ended December 31,**	
Derivatives, Net:	**2010**	**2009**
Fair Value as of Beginning of Year	$ (0.6)	$ 1.7
Net Realized/Unrealized Losses Included in Regulatory Assets/Liabilities	(0.5)	(2.8)
Purchases, Issuances and Settlements	0.4	0.5
Fair Value as of End of Year	$ (0.7)	$ (0.6)

5. 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. The guidance provides that settlement dates and future costs should be reasonably estimated when sufficient information becomes available and provides direction on the definition and timing of sufficient information in determining expected cash flows and fair values. 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' ARO was included in Other Regulatory Assets as of December 31, 2010 and 2009. The ARO asset is depreciated, and the ARO liability is accreted over the estimated life of the obligation with corresponding credits recorded as accumulated depreciation and ARO liability, respectively. Both the depreciation and accretion were recorded as increases to Regulatory Assets on the accompanying balance sheets as of December 31, 2010 and 2009.

The following tables present the ARO asset, the related accumulated depreciation, the regulatory asset, and the ARO liability as of December 31, 2010 and 2009:

(Millions of Dollars) **Yankee Gas**	**As of December 31, 2010** **ARO Asset**	**Accumulated Depreciation of ARO Asset**	**Regulatory Asset**	**ARO Liability**	**As of December 31, 2009** **ARO Asset**	**Accumulated Depreciation of ARO Asset**	**Regulatory Asset**	**ARO Liability**
ARO – Cutting and Capping of Natural Gas Mains	$ 0.3	$ (0.2)	$ 2.7	$ (2.8)	$ 0.2	$ (0.2)	$ 2.3	$ (2.3)

A reconciliation of the beginning and ending carrying amounts of the Yankee Gas ARO liability is as follows:

Yankee Gas *(Millions of Dollars)*	**For the Years Ended December 31,** **2010**	**2009**
Balance as of Beginning of Year	$ (2.3)	$ (2.6)
Accretion	(0.2)	(0.2)
Revisions in Estimated Cash Flows	(0.3)	0.5
Balance as of End of Year	$ (2.8)	$ (2.3)

6. GOODWILL

In accordance with GAAP, 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, 2010 and 2009, 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, 2010 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.

7. 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 expires on September 24, 2013. This facility replaced a five-year $400 million credit facility that was scheduled to expire on November 6, 2010. Under this credit facility, Yankee Gas is able to draw up to $200 million, subject to the maximum aggregate borrowing limit of $400 million, 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. 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. In addition, Yankee Gas must comply with certain financial and non-financial covenants, including a debt to total capitalization ratio. Yankee Gas is in compliance with these covenants as of December 31, 2010 and 2009. 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 revolving credit facility.

As of December 31, 2010 and 2009, Yankee Gas had no borrowings outstanding under this facility or the previous facility, respectively.

NU Money Pool: Yankee and Yankee Gas are members of the NU Money Pool (Pool). The Pool provides an efficient use of NU cash resources and reduces outside short-term borrowings. NUSCO participates in the Pool and administers the 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. NU and Yankee may lend to the Pool but may not borrow. Yankee Gas may both lend to and borrow from the Pool. Funds may be withdrawn from or repaid to the 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, bear interest at NU's cost and are payable on demand. As of December 31, 2010 and 2009, Yankee and Yankee Gas had the following borrowings from the Pool with the respective weighted average interest rate on borrowings from the Pool for the years ended December 31, 2010 and 2009:

	As of and for the Years Ended December 31,			
	Yankee*		Yankee Gas	
(Millions of Dollars, except percentage)	**2010**	**2009**	**2010**	**2009**
Borrowings From	$ 1.3	$ 45.2	$ 8.9	$ 53.0
Weighted Average Interest Rate	0.16 %	0.16 %	0.16 %	0.16 %

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

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

8. LONG-TERM DEBT

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

	As of December 31,	
Yankee Gas	**2010**	**2009**
(Millions of Dollars)		
First Mortgage Bonds:		
7.19% Series E due 2012	$ 8.6	$ 12.9
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	-
8.48% Series B due 2022	20.0	20.0
5.35% Series I due 2035	50.0	50.0
Total First Mortgage Bonds	353.6	307.9
Less Amounts Due Within One Year	(4.3)	(4.3)
Unamortized Premium, Net	1.0	1.1
Long-Term Debt	$ 350.3	$ 304.7

Long-term debt maturities and cash sinking fund requirements on debt outstanding as of December 31, 2010 for the years ending December 31, 2011 through 2015 are $4.3 million in 2011 and 2012 for the 7.19 percent Series E bonds and $75 million in 2014 for the 4.80 percent Series G bonds.

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

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.

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. Yankee Gas was in compliance with these covenants as of December 31, 2010.

Yankee Gas has certain long-term debt agreements that contain cross-default provisions. These cross-default provisions apply 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 in 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.

On April 22, 2010, Yankee Gas issued $50 million of Series K First Mortgage Bonds, with a maturity date of April 1, 2020, carrying a coupon rate of 4.87 percent. The proceeds of this issuance were used to repay short-term borrowings incurred in the ordinary course of business and to fund the Company's capital expenditures.

9. 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 the consolidated balance sheets, based on the difference between the projected benefit obligation for the Pension Plan and accumulated postretirement benefit obligation for the PBOP Plan and the fair value of plan assets measured in accordance with fair value measurement accounting guidance. The funded status is recorded with an offset to Accumulated Other Comprehensive Income/(Loss) on the consolidated balance sheets. This amount is remeasured annually, or as circumstances dictate. However, because Yankee Gas is rate-regulated on a cost-of-service basis, regulatory assets were recorded and included as deferred benefit costs, as these benefits expense amounts have been and continue to be recoverable in cost-of-service, regulated rates. For further information see Note 2, "Regulatory Accounting," to the financial statements.

Pension Benefits: NUSCO sponsors a single uniform noncontributory defined benefit retirement plan (Pension Plan), which is subject to the provisions of the Employee Retirement Income Security Act (ERISA). The Pension Plan covers nonbargaining unit employees (and bargaining unit employees, as negotiated) of NU, including those of 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. Pension expense affecting Net Income of Yankee Gas is as follows:

Yankee Gas	**For the Years Ended December 31,**	
(Millions of Dollars)	**2010**	**2009**
Total Pension Expense	$ 7.0	$ 4.7
Expense Capitalized as Utility Plant	(1.8)	(1.2)
Total Pension Expense, Net of Amounts Capitalized	$ 5.2	$ 3.5

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 assumptions and actual or updated information.

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 approximately 10 and 9 years, respectively, which is the average future service period of the employees.

SERP: 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.

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 a PBOP Plan. 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 a December 31st 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, including Yankee Gas, 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.

The following table represents information on NU's plan benefit obligations, fair values of plan assets, and funded status:

	As of December 31,					
NU	**Pension Benefits**		**SERP Benefits**		**PBOP Benefits**	
(Millions of Dollars)	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Change in Benefit Obligation						
Benefit Obligation as of Beginning of Year	$ (2,571.0)	$ (2,297.7)	$ (39.3)	$ (34.2)	$ (475.7)	$ (436.0)
Service Cost	(50.3)	(45.0)	(0.7)	(0.8)	(8.5)	(7.2)
Interest Cost	(150.3)	(153.4)	(2.3)	(2.3)	(26.8)	(29.1)
Actuarial Loss	(139.3)	(203.8)	(1.3)	(4.3)	(17.5)	(44.5)
Federal Subsidy on Benefits Paid	-	-	-	-	(3.7)	(3.5)
Benefits Paid - Excluding Lump Sum Payments	130.2	128.9	2.5	2.3	42.3	44.6
Benefits Paid - Lump Sum Payments	0.9	-	-	-	-	-
Benefit Obligation as of End of Year	$ (2,779.8)	$ (2,571.0)	$ (41.1)	$ (39.3)	$ (489.9)	$ (475.7)
Change in Plan Assets						
Fair Value of Plan Assets as of Beginning of Year	$ 1,789.6	$ 1,556.8	N/A	N/A	$ 240.3	$ 195.6
Actual Return on Plan Assets	274.1	361.7	N/A	N/A	34.9	48.5
Employer Contribution	45.0	-	N/A	N/A	45.6	40.8
Benefits Paid - Excluding Lump Sum Payments	(130.2)	(128.9)	N/A	N/A	(42.3)	(44.6)
Benefits Paid - Lump Sum Payments	(0.9)	-	N/A	N/A	-	-
Fair Value of Plan Assets as of End of Year	$ 1,977.6	$ 1,789.6	N/A	N/A	$ 278.5	$ 240.3
Funded Status as of December 31st	$ (802.2)	$ (781.4)	$ (41.1)	$ (39.3)	$ (211.4)	$ (235.4)

The projected benefit obligation for the Pension Plan, SERP and PBOP Plan as of December 31, 2010 and 2009 for Yankee Gas is as follows:

	As of December 31,					
Yankee Gas	**Pension Benefits**		**SERP Benefits**		**PBOP Benefits**	
(Millions of Dollars)	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Benefit Obligation as of End of Year	$ (140.4)	$ (126.8)	$ (1.5)	$ (1.5)	$ (22.2)	$ (20.2)

The amounts recognized on the accompanying balance sheets for the portion of the funded status above as of December 31, 2010 and 2009 for Yankee Gas are as follows:

	As of December 31,					
Yankee Gas	**Pension Benefits**		**SERP Benefits**		**PBOP Benefits**	
(Millions of Dollars)	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Accrued Pension	$ (54.6)	$ (48.2)	$ -	$ -	$ -	$ -
Other Current Liabilities	-	-	(0.2)	(0.1)	-	-
Other Long-Term Liabilities	-	-	(1.3)	(1.4)	(9.0)	(8.4)

The accumulated benefit obligation for the Pension Plan and SERP as of December 31, 2010 and 2009 is as follows:

	Pension Benefits		**SERP Benefits**	
(Millions of Dollars)	**2010**	**2009**	**2010**	**2009**
NU	$ 2,512.2	$ 2,034.7	$ 38.9	$ 36.9
Yankee Gas	125.6	98.0	1.5	1.4

NU amortizes the prior service cost on an individual subsidiary basis and 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 following is a summary of amounts recorded as Regulatory Assets as of December 31, 2010 and 2009 and the changes in those amounts recorded during the years:

NU	As of December 31,					
	Pension		SERP		PBOP	
(Millions of Dollars)	2010	2009	2010	2009	2010	2009
Net Actuarial Losses as of Beginning of Year	$ 869.4	$ 867.2	$ 7.5	$ 3.2	$ 175.9	$ 170.0
Amounts Reclassified as Net Periodic Benefit Expense	(49.9)	(20.4)	(1.1)	(0.4)	(15.9)	(10.0)
Actuarial Losses Arising During the Year	44.0	22.6	1.3	4.7	4.2	15.9
Actuarial Losses as of End of Year	$ 863.5	$ 869.4	$ 7.7	$ 7.5	$ 164.2	$ 175.9
Prior Service Cost/(Credit) as of Beginning of Year	$ 48.1	$ 57.8	$ 0.2	$ 0.4	$ (3.0)	$ (3.3)
Amounts Reclassified as Net Periodic Benefit (Expense)/Income	(9.5)	(9.5)	-	(0.2)	0.3	0.3
Prior Service Credit Arising During the Year	-	(0.2)	-	-	-	-
Prior Service Cost/(Credit) as of End of Year	$ 38.6	$ 48.1	$ 0.2	$ 0.2	$ (2.7)	$ (3.0)
Transition Obligation as of Beginning of Year	$ -	$ 0.3	$ -	$ -	$ 34.0	$ 45.3
Amounts Reclassified as Net Periodic Benefit Expense	-	(0.3)	-	-	(11.3)	(11.3)
Transition Obligation as of End of Year	$ -	$ -	$ -	$ -	$ 22.7	$ 34.0
Total Deferred Benefit Costs Recorded as Regulatory Assets	$ 902.1	$ 917.5	$ 7.9	$ 7.7	$ 184.2	$ 206.9

Yankee Gas						
(Millions of Dollars)						
Total Deferred Benefit Costs Recorded as Regulatory Assets	$ 61.0	$ 61.6	$ 0.6	$ 0.6	$ 7.3	$ 6.6

The estimates of the above amounts that are expected to be recognized as portions of net periodic benefit expense in 2011 are as follows, a portion of which will be charged to Yankee Gas:

NU	Estimated Expense in 2011		
(Millions of Dollars)	Pension	SERP	PBOP
Net Actuarial Loss	$ 78.3	$ 1.1	$ 17.3
Prior Service Credit	9.5	-	(0.3)
Transition Obligation	-	-	11.3
Total	$ 87.8	$ 1.1	$ 28.3

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

NU	As of December 31,			
	Pension Benefits and SERP		PBOP Benefits	
Balance Sheets	2010	2009	2010	2009
Discount Rate	5.57 %	5.98 %	5.28 %	5.73 %
Compensation/Progression Rate	3.50 %	4.00 %	N/A	N/A
Health Care Cost Trend Rate	N/A	N/A	7.00 %	7.50 %

The components of net periodic benefit expense/(income) are as follows:

NU	For the Years Ended December 31,					
	Pension Benefits		SERP Benefits		PBOP Benefits	
(Millions of Dollars)	2010	2009	2010	2009	2010	2009
Service Cost	$ 50.3	$ 45.0	$ 0.7	$ 0.8	$ 8.5	$ 7.2
Interest Cost	150.3	153.4	2.3	2.3	26.8	29.1
Expected Return on Plan Assets	(182.6)	(189.4)	-	-	(21.7)	(20.9)
Net Transition Obligation Cost	-	0.3	-	-	11.6	11.6
Prior Service Cost/(Credit)	9.8	9.8	0.1	0.1	(0.3)	(0.3)
Actuarial Loss	52.6	20.6	1.0	0.4	16.7	10.5
Total - Net Periodic Expense	$ 80.4	$ 39.7	$ 4.1	$ 3.6	$ 41.6	$ 37.2

Yankee Gas	For the Years Ended December 31,					
	Pension Benefits		SERP Benefits		PBOP Benefits	
(Millions of Dollars)	2010	2009	2010	2009	2010	2009
Service Cost	$ 3.1	$ 2.7	$ -	$ -	$ 0.6	$ 0.5
Interest Cost	7.6	7.5	0.1	0.1	1.2	1.2
Expected Return on Plan Assets	(8.0)	(8.3)	-	-	(1.3)	(1.3)
Prior Service Cost/(Credit)	0.2	0.2	-	-	(0.1)	(0.1)
Actuarial Loss	4.2	2.7	0.1	0.1	0.5	0.1
Total - Net Periodic Expense	$ 7.1	$ 4.8	$ 0.2	$ 0.2	$ 0.9	$ 0.4

Not included in the Pension Plan, PBOP Plan and SERP amounts above for Yankee Gas are related intercompany allocations as follows:

Yankee Gas	**For the Years Ended December 31,**	
(Millions of Dollars)	**2010**	**2009**
Pension Benefits	$ 2.1	$ 1.3
PBOP Benefits	0.8	0.7
SERP Benefits	0.2	0.2

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

	For the Years Ended December 31,			
NU	**Pension Benefits and SERP**		**PBOP Benefits**	
Statements of Income	**2010**	**2009**	**2010**	**2009**
Discount Rate	5.98 %	6.89 %	5.73 %	6.90 %
Expected Long-Term Rate of Return	8.75 %	8.75 %	N/A	N/A
Compensation/Progression Rate	4.00 %	4.00 %	N/A	N/A
Expected Long-Term Rate of Return -				
Health Assets, Taxable	N/A	N/A	6.85 %	6.85 %
Life Assets and Non-Taxable Health Assets	N/A	N/A	8.75 %	8.75 %

For 2011 through 2013, the health care trend cost assumption is 7 percent, subsequently decreasing one half percentage point per year to an ultimate rate of 5 percent in 2017. For the year ended December 31, 2010, the assumed healthcare trend was 7.5 percent, decreasing by 5 percent and reaching the ultimate trend rate of 5 percent in 2015.

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, 2010 would have the following effects:

(Millions of Dollars) **NU**	**One Percentage Point Increase**	**One Percentage Point Decrease**
Effect on Postretirement Benefit Obligation	$ 14.5	$ (12.1)
Effect on Total Service and Interest Cost Components	1.2	(0.9)

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. 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. For 2010, management has assumed long-term rates of return of 8.25 percent on Pension Plan assets and PBOP Plan life and nontaxable health assets and 6.45 percent for PBOP taxable health 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 Life and Non-Taxable Health		**PBOP (Taxable Health)**		**Pension**		**PBOP (Health and Life)**	
	2010		**2010**		**2009**		**2009**	
	Target Asset Allocation	**Assumed Rate of Return**	**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%	55%	9%	24%	9.25%	55%	9.25%
International	13%	9%	15%	9%	13%	9.25%	11%	9.25%
Emerging Markets	3%	10%	-	-	3%	10.25%	2%	10.25%
Private Equity	12%	13%	-	-	12%	14.25%	-	-
Debt Securities:								
Fixed Income	20%	5%	30%	5%	20%	5.7%	27%	5.7%
High Yield Fixed Income	3.5%	7.5%	-	-	3.5%	7.7%	5%	7.7%
Emerging Markets Debt	3.5%	7.5%	-	-	3.5%	7.7%	-	-
Real Estate And Other Assets	8%	7.5%	-	-	8%	7.5%	-	-
Hedge Funds	13%	7%	-	-	13%	8%	-	-

The following table presents, by asset category, the NU 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. The fair value of NU Pension Plan assets allocated to Yankee Gas is 4 percent as of December 31, 2010 and 2009 and the fair value of NU PBOP Plan assets allocated to Yankee Gas is 5 percent as of December 31, 2010 and 2009.

	Pension Plan							
	Fair Value Measurements as of December 31,							
(Millions of Dollars)	2010				2009			
Asset Category:	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity Securities:								
United States [1]	$ 256.3	$ 46.9	$ 266.0	$ 569.2	$ 135.2	$ 150.1	$ 252.1	$ 537.4
International [2]	6.4	250.9	-	257.3	7.1	217.3	-	224.4
Emerging Markets [2]	-	81.1	-	81.1	-	67.1	-	67.1
Private Equity [5]	6.9	-	229.5	236.4	21.9	-	193.8	215.7
Fixed Income [3]	7.6	261.6	247.6	516.8	49.4	251.9	174.0	475.3
Real Estate and Other Assets [6]	-	26.0	43.7	69.7	-	-	38.5	38.5
Hedge Funds	-	-	247.1	247.1	-	-	231.2	231.2
Total	$ 277.2	$ 666.5	$ 1,033.9	$ 1,977.6	$ 213.6	$ 686.4	$ 889.6	$ 1,789.6

	PBOP Plan							
	Fair Value Measurements as of December 31,							
(Millions of Dollars)	2010				2009			
Asset Category:	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and Cash Equivalents	$ 4.4	$ -	$ -	$ 4.4	$ 4.2	$ -	$ -	$ 4.2
Equity Securities:								
United States	132.1	-	10.1	142.2	140.3	-	-	140.3
International	34.8	-	-	34.8	28.0	-	-	28.0
Emerging Markets	7.7	-	-	7.7	-	-	-	-
Debt Securities:								
Fixed Income [4]	-	35.3	23.4	58.7	-	36.9	24.6	61.5
High Yield Fixed Income	-	4.4	-	4.4	6.3	-	-	6.3
Emerging Market Debt	-	4.8	-	4.8	-	-	-	-
Hedge Funds	-	-	16.4	16.4	-	-	-	-
Private Equity	-	-	0.3	0.3	-	-	-	-
Real Estate and Other Assets	-	4.8	-	4.8	-	-	-	-
Total	$ 179.0	$ 49.3	$ 50.2	$ 278.5	$ 178.8	$ 36.9	$ 24.6	$ 240.3

(1) United States Equities classified as Level 2 include investments in commingled funds totaling $34.8 million and $77.1 million and unrealized gains on holdings in equity index swaps totaling $12.1 million and $73 million for the years ended December 31, 2010 and 2009, respectively. Level 3 investments include hedge funds that are overlayed with equity index swaps and futures contracts. Level 1 investments represent primarily equity holdings and also includes unrealized gains and losses on equity index futures contracts.

(2) The International and Emerging Markets Equities categorized as Level 2 represent investments in commingled funds.

(3) Fixed Income securities classified as Level 2 include investments in debt securities, including high yield bond funds, U.S. government issued securities, corporate bonds, asset backed securities and insurance contracts totaling $261.6 million and $201.2 million for the years ended December 31, 2010 and 2009, respectively. In 2009, this amount above included unrealized gains on fixed income swaps of $50.7 million. Level 3 investments include fixed income funds totaling $147.1 million and $80.5 million that invest in senior credit distressed credit funds, and hedge funds totaling $100.5 million and $93.5 million that are overlayed with interest rate swaps and fixed income index swaps for the years ended December 31, 2010 and 2009, respectively. Level 1 investments include exchange traded funds and in 2009 also included unrealized gains on fixed income index futures contracts totaling $29.8 million.

(4) Fixed Income investments classified as Level 2 include U.S. government issued securities, municipal bonds, corporate bonds and other debt securities. The amount classified in Level 3 represents funds that invests in senior credit distressed income securities totaling $7.6 million and $6.4 million and hedge funds totaling $15.8 million and $18.2 million for the years ended December 31, 2010 and 2009, respectively.

(5) Private Equity amounts classified as Level 1 represent unrealized gains on futures contracts.

(6) Level 2 investments relate to other assets not invested in real estate.

NU values assets based on observable inputs when available. Equity securities 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 included in Level 2 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 distressed credit funds are recorded at net asset value based on the values of the underlying assets. The assets in the hedge funds and distressed credit 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 market approaches to the valuation 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:

	Pension Plan					
	As of December 31, 2010					
(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

	Pension Plan					
	As of December 31, 2009					
(Millions of Dollars)	United States Equity	Private Equity	Fixed Income	Real Estate and Other Assets	Hedge Funds	Total
Balance as of January 1, 2009	$ 333.3	$ 175.2	$ 227.5	$ 58.2	$ -	$ 794.2
Actual Return/(Loss) on Plan Assets:						
Relating to Assets Still Held as of Year End	68.8	11.0	49.8	(26.1)	6.2	109.7
Relating to Assets Distributed During the Year	-	(3.9)	-	-	-	(3.9)
Purchases, Sales and Settlements	(15.0)	11.5	(13.3)	6.4	-	(10.4)
Transfer Between Asset Categories	(135.0)	-	(90.0)	-	225.0	-
Balance as of December 31, 2009	$ 252.1	$ 193.8	$ 174.0	$ 38.5	$ 231.2	$ 889.6

	PBOP Plan					
	As of December 31,					
	2010					2009
(Millions of Dollars)	United States Equity	Private Equity	Fixed Income	Hedge Funds	Total	Fixed Income
Balance as of Beginning of Year	$ -	$ -	$ 24.6	$ -	$ 24.6	$ 18.9
Actual Return/(Loss) on Plan Assets:						
Relating to Assets Still Held at Year End	0.5	-	3.2	0.4	4.1	-
Relating to Assets Sold During the Year	-	-	-	-	-	4.5
Purchases, Sales and Settlements	9.6	0.3	(4.4)	16.0	21.5	1.2
Balance as of End of Year	$ 10.1	$ 0.3	$ 23.4	$ 16.4	$ 50.2	$ 24.6

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

NU *(Millions of Dollars)*	Pension Benefits	SERP Benefits	PBOP Benefits	Government Benefits
2011	$ 132.9	$ 2.9	$ 40.8	$ (4.1)
2012	137.8	3.2	41.3	(4.4)
2013	143.4	3.3	41.8	(4.8)
2014	149.7	3.4	42.3	(5.1)
2015	155.7	3.4	42.7	(5.5)
2016-2020	886.8	18.6	216.4	(31.8)

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: Currently, 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 and the Internal Revenue Code. Due to the underfunded balance as of January 1, 2009, PSNH made a contribution of $45 million to the plan in the third quarter of 2010. Due to the underfunded balance as of January 1, 2010, NU is required to make an additional contribution to the Pension Plan of approximately $145 million in 2011, which will be made in quarterly installments, to meet current minimum funding requirements.

For the PBOP Plan, it is currently NU's policy to annually fund an amount equal to the PBOP Plan's postretirement benefit cost, excluding curtailment and termination benefits. NU contributed $41.8 million for the year ended December 31, 2010 to fund the PBOP Plan and expects to make $42.8 million in contributions to the PBOP Plan in 2011. NU makes an additional contribution to the PBOP Plan for the amounts received from the federal Medicare subsidy. This amount was $3.8 million in 2010 and is estimated to be $4.1 million in 2011.

10. INCOME TAXES

The tax effect of temporary differences is accounted for in accordance with the rate-making treatment of the applicable regulatory commissions 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)	2010	2009	2010	2009
Current Income Taxes:				
Federal	$ (12.3)	$ 1.2	$ (12.4)	$ 1.2
State	1.2	3.0	2.5	3.1
Total Current	(11.1)	4.2	(9.9)	4.3
Deferred Income Taxes, Net:				
Federal	32.8	10.1	32.2	10.2
State	(1.2)	(2.2)	(1.3)	(2.2)
Total Deferred	31.6	7.9	30.9	8.0
Investment Tax Credits, Net	(0.4)	(0.4)	(0.3)	(0.4)
Income Tax Expense	$ 20.1	$ 11.7	$ 20.7	$ 11.9

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)	2010	2009	2010	2009
Income Before Income Tax Expense	$ 54.0	$ 32.4	$ 53.3	$ 32.9
Statutory Federal Income Tax Expense at 35%	18.9	11.3	18.7	11.5
Tax Effect of Differences:				
Depreciation	(0.4)	-	(0.4)	-
Investment Tax Credit Amortization	(0.4)	(0.4)	(0.4)	(0.4)
State Income Taxes, Net of Federal Impact	(0.6)	0.1	(0.6)	0.2
Adjustments For Prior Years Taxes/Reserves	0.7	0.5	1.6	0.4
Medicare Subsidy	1.4	(0.2)	1.4	(0.2)
Other, Net	0.5	0.4	0.4	0.4
Income Tax Expense	$ 20.1	$ 11.7	$ 20.7	$ 11.9
Effective Tax Rate	37.2 %	36.2 %	38.8 %	36.2 %

Yankee and Yankee Gas file a consolidated federal income tax return with its corporate parent and unitary, combined and separate state income tax returns. These entities are also parties to a tax allocation agreement 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 DPUC requires the tax effect of certain plant 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 both amounts for income tax expense currently included in customers' rates and 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 a Company's rate reconciliation. 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 current and long-term net accumulated deferred tax obligations are as follows:

	As of December 31,			
	Yankee		Yankee Gas	
(Millions of Dollars)	2010	2009	2010	2009
Deferred Tax Liabilities - Current:				
Property Tax Accruals	$ 6.2	$ 5.6	$ 6.2	$ 5.6
Other	0.5	0.5	0.5	0.5
Total Deferred Tax Liabilities - Current	6.7	6.1	6.7	6.1
Deferred Tax Assets - Current:				
Hardship and Uncollectible Accounts	6.4	10.2	6.4	9.5
Other	5.3	5.3	4.6	4.5
Total Deferred Tax Assets - Current	11.7	15.5	11.0	14.0
Net Deferred Tax Assets - Current	5.0	9.4	4.3	7.9
Deferred Tax Liabilities - Long-Term:				
Accelerated Depreciation and Other Plant-Related Differences	200.3	170.9	200.3	170.9
Regulatory Deferrals	46.6	27.6	46.6	27.6
Tax Effect - Tax Regulatory Assets	10.8	9.6	10.8	9.6
Other	(7.4)	12.0	(7.4)	12.0
Total Deferred Tax Liabilities - Long-Term	250.3	220.1	250.3	220.1
Deferred Tax Assets - Long-Term:				
Regulatory Deferrals	26.9	21.4	26.9	21.4
Tax Effect - Tax Regulatory Assets	1.1	1.5	1.1	1.5
Employee Benefits	28.8	33.8	28.8	33.8
Other	6.1	7.4	6.1	7.4
Total Deferred Tax Assets - Long-Term	62.9	64.1	62.9	64.1
Net Deferred Tax Liabilities - Long-Term	187.4	156.0	187.4	156.0
Net Deferred Tax Liabilities	$ 182.4	$ 146.6	$ 183.1	$ 148.1
Total Deferred Tax Assets	$ 74.6	$ 79.6	$ 73.9	$ 78.1
Total Deferred Tax Liabilities	$ 257.0	$ 226.2	$ 257.0	$ 226.2

Unrecognized Tax Benefits: As of December 31, 2010, Yankee and Yankee Gas had unrecognized tax benefits totaling $8.9 million and $8.9 million, respectively, all of which would impact the effective tax rate if recognized. As of December 31, 2009, Yankee and Yankee Gas had unrecognized tax benefits totaling $14.1 million and $12.8 million, respectively, all of which would impact the effective tax rate if recognized.

A reconciliation of the activity in unrecognized tax benefits from January 1, 2009 to December 31, 2010 is as follows:

(Millions of Dollars)	Yankee	Yankee Gas
Balance as of January 1, 2009	$ 13.9	$ 12.6
Gross increases - current year	1.6	1.6
Settlement	(1.4)	(1.4)
Balance as of December 31, 2009	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

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. The components of interest on uncertain tax positions by company in 2010 and 2009 are as follows:

	For the Years Ended December 31,	
Other Interest Expense/(Income)	**2010**	**2009**
(Millions of Dollars)		
Yankee	$ (5.6)	$ 0.2
Yankee Gas	(4.8)	0.2

	For the Years Ended December 31,	
Accrued Interest Expense	**2010**	**2009**
(Millions of Dollars)		
Yankee	$ 0.6	$ 6.2
Yankee Gas	0.6	5.4

Tax Positions: During 2010, Yankee and another affiliated company settled various tax matters including state obligations, which resulted in the recognition during the year of an after-tax gain for Yankee and Yankee Gas of approximately $3.5 million and $2.1 million, respectively. This gain is recorded as a reduction to both interest expense and income tax expense (including Yankee and Yankee Gas tax expense reduction of approximately $0.4 million and $0.9 million, respectively). Yankee and Yankee Gas are currently working to resolve the treatments of certain timing and other costs in the remaining open periods.

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, 2010:

Description	**Tax Years**
Federal (NU consolidated)	2009-2010
Connecticut	2005-2010

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 Yankee and Yankee Gas 2011 earnings of zero to $3 million and zero to $3 million, respectively.

11. 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 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)	**2010**	**2009**
Balance as of Beginning of Year	$ 16.6	$ 16.8
Additions and Adjustments	6.0	0.4
Payments and Adjustments	(0.6)	(0.6)
Balance as of End of Year	$ 22.0	$ 16.6

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.

The status of environmental sites as of December 31, 2010 and related reserves as of December 31, 2010 and 2009 are as follows:

	Number of Sites as of December 31, 2010	Environmental Reserves For the Years Ended December 31, 2010	2009
Yankee Gas		(Millions of Dollars)	
Remediation or long-term monitoring phase	6	17.1	$ 11.2
Some site assessment completed	8	4.8	5.3
Preliminary site assessment stage	1	0.1	0.1
Total environmental sites	15	22.0	$ 16.6

All sites in the environmental reserve relate to manufactured gas plant (MGP) 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, 2010, for 3 environmental sites that are included in the Company's reserve for environmental costs, the information known and nature of the remediation options at those sites allow for the Company to estimate the range of losses for environmental costs. As of December 31, 2010, $6.2 million had been accrued as a liability for these sites, which represent management's best estimates of the liabilities for environmental costs. These amounts are the best estimates within estimated ranges of losses from $3.9 million to $6.8 million. For the 12 remaining sites that comprise the remaining $15.8 million of the environmental reserve, determining an estimated range of loss is not possible at this time.

As of December 31, 2010, 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 DPUC approved an allowed level of remediation cost recoveries of approximately $2.2 million annually effective on July 1, 2007. The DPUC 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, 2010 and 2009, $27.1 million and $23.3 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, 2010 are as follows:

Yankee Gas *(Millions of Dollars)*	2011	2012	2013	2014	2015	Thereafter	Total
Natural Gas Procurement Contracts	$ 61.4	$ 55.5	$ 31.3	$ 29.3	$ 25.3	$ 90.6	$ 293.4

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 $209.5 million in 2010 and $236.3 million in 2009.

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.

12. 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 2011 through 2015 and thereafter. The provisions of these lease agreements generally contain renewal options. Certain lease agreements contain contingent lease payments. The contingent lease payments are based on various factors, such as the commercial paper rate plus a credit spread or the consumer price index.

For the years ended December 31, 2010 and 2009, 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**
2010	$ 2.0	$ 2.0	$ 0.6	$ 0.6
2009	2.1	2.2	0.8	0.7

Future minimum rental payments to third parties, NUSCO and RRR, excluding executory costs such as property taxes, state use taxes, insurance, and maintenance, under long-term noncancelable operating leases, as of December 31, 2010 are as follows:

(Millions of Dollars)	**Yankee and Yankee Gas Third Parties**	**Yankee and Yankee Gas NUSCO/RRR**	**Total**
2011	$ 0.3	$ 0.8	$ 1.1
2012	0.3	0.7	1.0
2013	0.3	0.7	1.0
2014	0.3	0.7	1.0
2015	0.3	0.7	1.0
Thereafter	0.1	2.0	2.1
Future Minimum Lease Payments	$ 1.6	$ 5.6	$ 7.2

Through August 2009, NorConn was a wholly-owned subsidiary of Yankee that owned real estate which was leased to Yankee Gas. The transactions related to NorConn leases were eliminated in the Yankee consolidated financial statements. In August 2009, NorConn merged into RRR, with RRR as the surviving company succeeding to ownership of all rights and properties of NorConn.

13. 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.

The carrying amounts of Yankee Gas' long-term debt, including the current portion, are $353.6 million and $307.9 million as of December 31, 2010 and 2009, respectively, excluding any unamortized premiums or discounts. The estimated fair values of these financial instruments are $387.6 million and $327.5 million as of December 31, 2010 and 2009, respectively. For further information regarding long-term debt, see Note 8, "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.

14. ACCUMULATED OTHER COMPREHENSIVE LOSS

The Yankee Gas accumulated balance for other comprehensive loss, net of tax, is as follows:

Yankee Gas *(Millions of Dollars)*	**December 31, 2008**	**2009 Change**	**December 31, 2009**	**2010 Change**	**December 31, 2010**
Qualified Cash Flow Hedging Instruments	$(1.4)	$0.1	$(1.3)	$0.1	$(1.2)

For both years ended December 31, 2010 and 2009, the changes above are reported net of $0.1 million in income tax effects.

Fair value adjustments included in Accumulated Other Comprehensive Loss for Yankee Gas' qualified cash flow hedging instruments are as follows:

Yankee Gas	**As of December 31,**	
(Millions of Dollars, Net of Tax)	**2010**	**2009**
Balance as of Beginning of Year	$ (1.3)	$ (1.4)
Hedged Transactions Impacting Net Income	0.1	0.1
Change in Fair Value of Interest Rate Swap Agreements	-	-
Cash Flow Transactions Entered Into for the Period	-	-
Net Change Associated with Hedging Transactions	0.1	0.1
Total Fair Value Adjustments Included in Accumulated Other Comprehensive Loss	$ (1.2)	$ (1.3)

Qualified Cash Flow Hedging Instruments in the table above represent amounts that were reclassified from Accumulated Other Comprehensive Loss into Net Income in connection with the amortization of existing interest rate hedges.

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.

15. 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, 2010 and 2009:

		Stock		
		Authorized	**Issued**	**Outstanding**
	Par Value	**2010 and 2009**	**2010 and 2009**	**2010 and 2009**
Yankee	$ -	20,000	1,000	1,000
Yankee Gas	$ 5	1,000	1,000	1,000

Yankee Gas Services Company

First Mortgage Bonds

The Bank of New York Mellon Trust Company, N.A.
Corporate Finance
525 William Penn Place, 38th Floor
Pittsburgh, PA 15259

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Data contained in this Annual Report is submitted for the sole purpose of providing information to present security holders about the company.

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