

# Yankee Gas Services Company

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

# Yankee Gas Services Company

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## INDEPENDENT AUDITORS' REPORT

To Yankee Gas Services Company  
Hartford, CT

We have audited the accompanying financial statements of Yankee Gas Services Company (the "Company"), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of income, comprehensive income, common stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

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

*Deloitte & Touche LLP*

March 26, 2014

YANKEE GAS SERVICES COMPANY  
BALANCE SHEETS

(Thousands of Dollars)	As of December 31,	
	2013	2012
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 1,038	\$ 2,710
Receivables, Net	51,506	38,076
Unbilled Revenues	21,200	18,220
Fuel, Materials and Supplies	47,588	50,898
Regulatory Assets	12,650	11,461
Prepayments and Other Current Assets	7,338	3,193
Total Current Assets	<u>141,320</u>	<u>124,558</u>
Property, Plant and Equipment, Net	<u>1,080,592</u>	<u>1,014,500</u>
Deferred Debits and Other Assets:		
Regulatory Assets	110,837	149,616
Goodwill	287,591	287,591
Other Long-Term Assets	5,454	5,203
Total Deferred Debits and Other Assets	<u>403,882</u>	<u>442,410</u>
Total Assets	<u>\$ 1,625,794</u>	<u>\$ 1,581,468</u>

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

YANKEE GAS SERVICES COMPANY  
BALANCE SHEETS

(Thousands of Dollars)	As of December 31,	
	2013	2012
<b><u>LIABILITIES AND CAPITALIZATION</u></b>		
Current Liabilities:		
Notes Payable to Affiliated Companies	\$ 139,700	\$ 70,600
Accounts Payable	32,773	34,611
Accounts Payable to Affiliated Companies	9,418	6,158
Accrued Taxes	6,678	11,632
Regulatory Liabilities	4,182	10,143
Other Current Liabilities	22,122	24,240
Total Current Liabilities	<u>214,873</u>	<u>157,384</u>
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	236,069	209,749
Regulatory Liabilities	47,169	52,026
Accrued Pension, SERP and PBOP	77,678	105,068
Other Long-Term Liabilities	42,494	37,885
Total Deferred Credits and Other Liabilities	<u>403,410</u>	<u>404,728</u>
Capitalization:		
Long-Term Debt	<u>345,682</u>	<u>345,805</u>
Common Stockholder's Equity:		
Common Stock	5	5
Capital Surplus, Paid In	616,547	616,239
Retained Earnings	46,491	58,788
Accumulated Other Comprehensive Loss	(1,214)	(1,481)
Common Stockholder's Equity	<u>661,829</u>	<u>673,551</u>
Total Capitalization	<u>1,007,511</u>	<u>1,019,356</u>
Total Liabilities and Capitalization	<u>\$ 1,625,794</u>	<u>\$ 1,581,468</u>

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

YANKEE GAS SERVICES COMPANY  
STATEMENTS OF INCOME

For the Years Ended December 31,  
2013 2012

(Thousands of Dollars)

Operating Revenues	\$ 423,730	\$ 385,009
Operating Expenses:		
Cost of Natural Gas	163,926	145,861
Operations and Maintenance	104,100	103,006
Depreciation	30,026	29,303
Amortization of Regulatory Assets, Net	1,497	1,531
Energy Efficiency Programs	6,490	12,569
Taxes Other Than Income Taxes	34,964	31,054
Total Operating Expenses	<u>341,003</u>	<u>323,324</u>
Operating Income	82,727	61,685
Interest Expense:		
Interest on Long-Term Debt	20,192	19,926
Other Interest (Income)/Expense	(194)	1,616
Interest Expense	<u>19,998</u>	<u>21,542</u>
Other Income, Net	96	109
Income Before Income Tax Expense	62,825	40,252
Income Tax Expense	23,122	13,988
Net Income	<u>\$ 39,703</u>	<u>\$ 26,264</u>
STATEMENTS OF COMPREHENSIVE INCOME		
Net Income	\$ 39,703	\$ 26,264
Other Comprehensive Income/(Loss), Net of Tax:		
Changes in Funded Status of SERP Benefit Plan	174	(189)
Other	93	93
Other Comprehensive Income/(Loss), Net of Tax	<u>267</u>	<u>(96)</u>
Comprehensive Income	<u>\$ 39,970</u>	<u>\$ 26,168</u>

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

YANKEE GAS SERVICES COMPANY  
STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

<i>(Thousands of Dollars, except share information)</i>	Common Stock		Capital Surplus Paid In	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Stock	Amount				
Balance as of January 1, 2012	1,000	\$ 5	\$ 615,961	\$ 50,803	\$ (1,385)	\$ 665,384
Net Income				26,264		26,264
Dividends on Common Stock				(18,279)		(18,279)
Allocation of Benefits – ESOP			278			278
Other Comprehensive Loss					(96)	(96)
Balance as of December 31, 2012	1,000	5	616,239	58,788	(1,481)	673,551
Net Income				39,703		39,703
Dividends on Common Stock				(52,000)		(52,000)
Allocation of Benefits – ESOP			308			308
Other Comprehensive Income					267	267
Balance as of December 31, 2013	1,000	\$ 5	\$ 616,547	\$ 46,491	\$ (1,214)	\$ 661,829

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

YANKEE GAS SERVICES COMPANY  
STATEMENTS OF CASH FLOWS

For the Years Ended December 31,  
2013 2012

(Thousands of Dollars)

	2013	2012
Operating Activities:		
Net Income	\$ 39,703	\$ 26,264
Adjustments to Reconcile Net Income to Net Cash Flows		
Provided by Operating Activities:		
Depreciation	30,026	29,303
Deferred Income Taxes	23,026	14,478
Pension, PBOP, and SERP Expense, Net of Pension and PBOP Contributions	9,562	4,338
Amortization of Regulatory Assets, Net	1,497	1,531
Regulatory (Under)/Over Recoveries, Net	(7,472)	11,259
Bad Debt Expense	4,208	3,182
Other	(529)	(10,960)
Changes in Current Assets and Liabilities:		
Receivables and Unbilled Revenues, Net	(26,136)	(12,257)
Fuel, Materials and Supplies	3,310	7,731
Taxes Receivable/Accrued, Net	(1,619)	6,014
Accounts Payable	4,206	5,303
Other Current Assets and Liabilities, Net	(6,109)	2,430
Net Cash Flows Provided by Operating Activities	<u>73,673</u>	<u>88,616</u>
Investing Activities:		
Investments in Property, Plant and Equipment	(92,295)	(91,354)
Other Investing Activities	(70)	-
Net Cash Flows Used in Investing Activities	<u>(92,365)</u>	<u>(91,354)</u>
Financing Activities:		
Cash Dividends on Common Stock	(52,000)	(18,279)
Retirement of Long-Term Debt	-	(4,286)
Increase in Notes Payable to Affiliated Companies	69,100	58,100
Decrease in Short-Term Debt	-	(30,000)
Other Financing Activities	(80)	(87)
Net Cash Flows Provided by Financing Activities	<u>17,020</u>	<u>5,448</u>
Net (Decrease)/Increase in Cash	<u>(1,672)</u>	<u>2,710</u>
Cash - Beginning of Year	2,710	-
Cash - End of Year	<u>\$ 1,038</u>	<u>\$ 2,710</u>

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



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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. About Yankee Gas Services Company**

Yankee Gas Services Company (Yankee Gas or the Company) owns and operates the largest natural gas distribution system in Connecticut and provides service to approximately 218,000 customers. Yankee Gas is a regulated public utility company and is subject to regulation of rates, accounting and other matters by the Connecticut Public Utility Regulatory Authority (PURA). Yankee Gas is a subsidiary of Yankee Energy System, Inc. (Yankee), a holding company that is a wholly-owned subsidiary of Northeast Utilities (NU).

**B. Basis of Presentation**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires Yankee Gas to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the date of the 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 year data were made in the accompanying balance sheets to conform to current year presentation.

Yankee Gas evaluates events and transactions that occur after the balance sheet date but before financial statements are issued and recognizes 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 discloses, but does 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 Gas evaluated events subsequent to December 31, 2013 through the issuance of the financial statements on March 26, 2014. See Note 7, "Long-Term Debt," for further information.

**C. Recently Adopted Accounting Standards**

*Recently Adopted Accounting Standards:* In the first quarter of 2013, Yankee Gas adopted the Financial Accounting Standards Board's (FASB) final Accounting Standards Update (ASU) "*Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (AOCI)*," which resulted in additional disclosure requirements. The ASU does not change existing guidance on which items should be reclassified out of AOCI but requires additional disclosures about the components of AOCI and the amount of reclassification adjustments to be presented in one location in the footnotes. The ASU was effective beginning in the first quarter of 2013 and was applied prospectively. For further information, see Note 13, "Accumulated Other Comprehensive Income," to the financial statements. The ASU did not affect the calculation of net income or comprehensive income and did not have an impact on financial position, results of operations or cash flows.

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

**D. Cash**

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

**E. Provision for Uncollectible Accounts**

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

The PURA allows Yankee Gas to accelerate the recovery of accounts 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, 2013 and 2012, Yankee Gas had uncollectible hardship accounts receivable reserves in the amount of \$8.4 million and \$6.4 million, respectively, with the corresponding under recovery of bad debt expense recorded as Regulatory Assets or Other Long-Term Assets as these amounts are probable of recovery. These amounts are reflected in the total provision for uncollectible accounts.

The provision for uncollectible accounts, which is included in Receivables, Net on the balance sheets, was \$14 million and \$11.1 million as of December 31, 2013 and 2012, respectively.

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

Fuel, Materials and Supplies include natural gas purchased for delivery to customers and materials purchased primarily for construction or operation and maintenance purposes. As of December 31, 2013 and 2012, there was \$44.7 million and \$47.4 million, respectively, of natural gas inventory, which is recorded at the weighted average cost, included in Fuels, Materials and Supplies. The remaining balance relates to materials and supplies that are valued at the lower of average cost or market.

## **G. Fair Value Measurements**

Fair value measurement guidance is applied to investment valuations used to calculate the funded status of pension and PBOP plans and nonrecurring fair value measurements of nonfinancial assets such as goodwill and asset retirement obligations (ARO).

*Fair Value Hierarchy:* In measuring fair value, Yankee Gas uses observable market data when available and minimizes the use of unobservable inputs. Inputs used in fair value measurements are categorized into three fair value hierarchy levels for disclosure purposes. The entire fair value measurement is categorized based on the lowest level of input that is significant to the fair value measurement. 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.

*Determination of Fair Value:* The valuation techniques and inputs used in Yankee Gas' fair value measurements are described in Note 4, "Asset Retirement Obligations," Note 8, "Pension Benefits and Postretirement Benefits other than Pensions," and Note 12, "Fair Value of Financial Instruments," to the financial statements.

## **H. Revenues**

Yankee Gas' revenues are based on rates approved by the PURA. In general, rates can only be changed through formal proceedings with the PURA. The rates are designed to recover the costs to provide service to its customers, including a return on investment. Yankee Gas also utilizes PURA-approved tracking mechanisms to recover certain costs on a fully-reconciling basis. These tracking mechanisms require rates to be changed periodically, with overcollections refunded to customers or undercollections collected from customers in future periods.

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

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

## **I. Allowance for Funds Used During Construction**

Allowance for funds used during construction (AFUDC) represents the cost of borrowed funds used to finance construction and is included in the cost of Yankee Gas' plant. The portion of AFUDC attributable to borrowed funds is recorded as a reduction of Other Interest Expense on the accompanying statements of income. AFUDC costs are recovered from customers over the service life of the related plant in the form of increased revenue collected as a result of higher depreciation expense. Average AFUDC debt rates for the years ended December 31, 2013 and 2012 were 0.7 percent and 2.8 percent, respectively.

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

## J. Other Taxes

Certain excise taxes levied by Connecticut 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, 2013 and 2012, gross receipts taxes, franchise taxes and other excise taxes of \$15.9 million and \$14.3 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 Connecticut and are recorded on a net basis with no impact on the accompanying statements of income.

## K. Supplemental Cash Flow Information

<i>(Millions of Dollars)</i>	As of and For the Years Ended December 31,	
	2013	2012
Cash Paid/(Received) During the Year For:		
Interest, Net of Amounts Capitalized	\$ 21.3	\$ 21.2
Income Taxes	1.2	(5.3)
Non-Cash Investing Activities:		
Plant Additions Included in Accounts Payable (As of)	8.7	11.5

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

## L. Related Parties

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

Included in the balance sheets as of December 31, 2013 and 2012 are Accounts Receivable from Affiliated Companies of \$0.7 million and \$0.4 million, respectively, included in Prepayments and Other Current Assets, and Accounts Payable to Affiliated Companies of \$9.4 million and \$6.2 million, respectively, relating to transactions between Yankee Gas and other subsidiaries that are wholly-owned by NU, primarily NUSCO.

## 2. REGULATORY ACCOUNTING

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

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

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

<i>(Millions of Dollars)</i>	As of December 31,	
	2013	2012
Benefit Costs	\$ 48.9	\$ 90.1
Income Taxes, Net	36.0	30.3
Environmental Remediation Costs	25.1	26.7
Hardship Customer Receivables	5.4	4.7
Asset Retirement Obligations	4.9	4.4
Other Regulatory Assets	3.1	4.9
Total Regulatory Assets	\$ 123.4	\$ 161.1
Less: Current Portion	\$ 12.6	\$ 11.5
Total Long-Term Regulatory Assets	\$ 110.8	\$ 149.6

*Regulatory Costs Not Yet Approved:* Additionally, Yankee Gas had \$3.8 million and \$3.5 million of regulatory costs as of December 31, 2013 and 2012, respectively, which were included in Other Long-Term Assets on the accompanying balance sheets. These amounts represent incurred costs that have not yet been approved for recovery by the PURA. Yankee Gas believes these costs are probable of recovery in future cost-of-service regulated rates.

*Benefit Costs:* Yankee Gas participates in NU's Pension Plan and postretirement benefits other than pension (PBOP) Plans, which are accounted for in accordance with accounting guidance on defined benefit pension and other postretirement plans. Because Yankee Gas recovers the retiree benefit costs from customers through rates, regulatory assets are recorded in lieu of a charge to Accumulated

Other Comprehensive Income/(Loss) to reflect the liability that is recognized for the funded status of the pension and other postretirement plans and is remeasured annually. The deferred benefit costs are not in rate base. Pension and PBOP costs are amortized into expense over the average future employee service period. As part of Yankee Gas' rate case decision, effective July 19, 2011, changes in the Supplemental Executive Retirement Plan (SERP) funded status are recorded to Accumulated Other Comprehensive Loss.

*Income Taxes, Net:* The tax effect of temporary book-tax differences (differences between the periods in which transactions affect income in the financial statements and the periods in which they affect the determination of taxable income, including those differences relating to uncertain tax positions) is accounted for in accordance with the rate-making treatment of the PURA and accounting guidance for income taxes. Differences in income taxes between the accounting guidance and the rate-making treatment of the PURA are recorded as regulatory assets. As these assets are offset by deferred income tax liabilities, no carrying charge is collected, and these assets are excluded from rate base. For further information regarding income taxes, see Note 9, "Income Taxes," to the financial statements.

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

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

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

*Other Regulatory Assets:* As of December 31, 2013 and 2012, other regulatory assets included \$0.7 million and \$0.8 million, respectively, of regulatory assets related to losses on reacquired debt, zero and \$3 million, respectively, related to the 2010 Patient Protection and Affordable Care Act, and \$2.4 million and \$1.1 million, respectively, of various items that are also probable of recovery.

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

	<u>As of December 31,</u>	
	<u>2013</u>	<u>2012</u>
<i>(Millions of Dollars)</i>		
Cost of Removal	\$ 44.0	\$ 46.5
Pension Liability	5.0	7.5
Purchased Gas Adjustment	1.6	6.7
Other Regulatory Liabilities	0.8	1.4
Total Regulatory Liabilities	<u>\$ 51.4</u>	<u>\$ 62.1</u>
Less: Current Portion	<u>\$ 4.2</u>	<u>\$ 10.1</u>
Total Long-Term Regulatory Liabilities	<u>\$ 47.2</u>	<u>\$ 52.0</u>

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

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

*Purchased Gas Adjustment:* The Purchased Gas Adjustment clause is a PURA-approved tracking mechanism that allows Yankee Gas to recover the costs of the procurement of natural gas for its firm and seasonal customers. Differences between actual natural gas costs and collection amounts are deferred and then recovered or returned to customers in future periods. Carrying charges on

outstanding balances are calculated using Yankee Gas' weighted average cost of capital in accordance with the directives of the PURA.

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

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

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

	As of December 31,	
	2013	2012
<i>(Millions of Dollars)</i>		
Property, Plant and Equipment, Gross	\$ 1,421.4	\$ 1,335.6
Less: Accumulated Depreciation	(359.8)	(341.0)
Property, Plant and Equipment, Net	1,061.6	994.6
Construction Work in Progress	19.0	19.9
Total Property, Plant and Equipment, Net	\$ 1,080.6	\$ 1,014.5

Depreciation of assets is calculated on a straight-line basis using composite rates based on the estimated remaining useful lives of the various classes of property. The composite rates are subject to approval by the PURA. The composite rates include a cost of removal component, which is collected from customers over the lives of the plant assets and is recognized as a regulatory liability. Depreciation rates are applied to property from the time it is placed in service. Upon retirement from service, the cost of the asset is charged to the accumulated provision for depreciation. The actual incurred removal costs are applied against the related regulatory liability. The depreciation rates for the various classes of property, plant and equipment aggregate to a composite rate of 2.3 percent in both 2013 and 2012. As of December 31, 2013, the average depreciable life of Yankee Gas' property, plant and equipment was 44.7 years.

### 4. ASSET RETIREMENT OBLIGATIONS

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

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

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

	For the Years Ended December 31,	
	2013	2012
<i>(Millions of Dollars)</i>		
Balance as of Beginning of Year	\$ (4.6)	\$ (3.0)
Liabilities Incurred During the Year	(0.1)	(1.2)
Accretion	(0.3)	(0.2)
Revisions in Estimated Cash Flows	(0.3)	(0.2)
Balance as of End of Year	\$ (5.3)	\$ (4.6)

## 5. GOODWILL

Goodwill and intangible assets deemed to have indefinite useful lives are reviewed for impairment at least annually by applying a fair value-based test, which requires the use of estimates and judgments. Yankee Gas uses October 1<sup>st</sup> 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 carrying 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's assets and liabilities is less than the carrying amount of the goodwill. If goodwill were deemed to be impaired, it would be written down in the current period to the extent of the impairment.

As of December 31, 2013 and 2012, Yankee Gas maintained \$287.6 million of goodwill that is not being recovered from its customers. Yankee Gas completed its annual impairment test of the goodwill balance as of October 1, 2013 and determined that no impairment exists. There were no events subsequent to October 1, 2013 that indicated impairment of goodwill.

## 6. SHORT-TERM DEBT

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

As of December 31, 2013 and 2012, there were intercompany loans from NU of \$139.7 million and \$70.6 million, respectively, included in Notes Payable to Affiliated Companies and classified in current liabilities on the accompanying balance sheets as all borrowings are outstanding for no more than 364 days at one time. The weighted-average interest rate on these borrowings as of December 31, 2013 and 2012 was 0.24 percent and 0.46 percent, respectively, which is generally based on money market rates.

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

*Working Capital:* Yankee Gas uses its available capital resources to fund its construction expenditures, meet debt requirements, pay operating costs, pay dividends and fund other corporate obligations, such as pension contributions. Yankee Gas recovers its natural gas distribution construction expenditures as the related project costs are depreciated over the life of the assets. This impacts the timing of the revenue stream designed to fully recover the total investment plus a return on the equity portion of the cost and related financing costs. These factors have resulted in current liabilities exceeding current assets by \$73.6 million as of December 31, 2013.

Yankee Gas will reduce its short-term borrowings with cash received from operating cash flows or with the issuance of new long-term debt, as deemed appropriate given capital requirements and maintenance of its credit rating and profile. Yankee Gas expects its future operating cash flows, along with the access to financial markets, will be sufficient to meet any future operating requirements and capital investment forecasted opportunities.

## 7. LONG-TERM DEBT

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

(Millions of Dollars)	As of December 31,	
	2013	2012
8.48% Series B due 2022	\$ 20.0	\$ 20.0
4.80% Series G due 2014 <sup>(1)</sup>	75.0	75.0
5.26% Series H due 2019	50.0	50.0
5.35% Series I due 2035	50.0	50.0
6.90% Series J due 2018	100.0	100.0
4.87% Series K due 2020	50.0	50.0
Total First Mortgage Bonds	345.0	345.0
Unamortized Premium	0.7	0.8
Total Long-Term Debt	\$ 345.7	\$ 345.8

(1) On January 2, 2014, Yankee Gas issued \$100 million of 4.82 percent Series L First Mortgage Bonds due in 2044. The proceeds, net of issuance costs, were used to repay the \$75 million of 4.80 percent Series G First Mortgage Bonds that matured on January 1, 2014. The remaining proceeds were used to pay intercompany loans to NU.

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

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

Yankee Gas' long-term debt agreements provide that it must comply with certain covenants as are customarily included in such agreements. Yankee Gas was in compliance with these covenants as of December 31, 2013 and 2012.

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

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

NUSCO sponsors a defined benefit retirement plan that covers most employees, including Yankee Gas employees, hired before 2006 (or as negotiated, for bargaining unit employees), referred to as the NUSCO Pension Plan. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006. NUSCO also maintains a SERP, which provides benefits in excess of Internal Revenue Code limitations to eligible current and retired participants.

NUSCO also sponsors defined benefit postretirement plans that provide certain retiree health care benefits, primarily medical and dental, and life insurance benefits to retiring employees that meet certain age and service eligibility requirements (NUSCO PBOP Plans). Under certain circumstances, eligible retirees are required to contribute to the costs of postretirement benefits. The benefits provided under the NUSCO PBOP Plans are not vested and the Company has the right to modify any benefit provision subject to applicable laws at that time.

The funded status of the Pension, SERP and PBOP Plans is calculated based on the difference between the benefit obligation and the fair value of plan assets and is recorded on the balance sheets as a liability. Because Yankee Gas recovers the retiree benefit costs of the pension and PBOP plans from customers through rates, regulatory assets are recorded in lieu of an adjustment to Accumulated Other Comprehensive Income/(Loss). SERP costs for Yankee Gas are recorded on an after-tax basis to Accumulated Other Comprehensive Loss. For further information, see Note 2, "Regulatory Accounting," and Note 13, "Accumulated Other Comprehensive Loss," to the financial statements. The SERP Plan does not have plan assets.

For the NUSCO Pension and PBOP Plans, 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 years in which they occur. Investment gains or losses for this purpose are the difference between the calculated expected return and the actual return. As investment gains and losses are reflected in the average plan asset fair values, they are subject to amortization with other unrecognized actuarial gains or losses. Unrecognized actuarial gains or losses are amortized as a component of Pension and PBOP expense over the estimated average future employee service period.

The NUSCO Pension, SERP and PBOP Plans are accounted for under the multiple-employer approach. Accordingly, the funded status of each of the NUSCO Pension, SERP and PBOP Plans is allocated to NU's subsidiaries, including Yankee Gas.

*Pension and SERP Plans:* The following tables provide information on the benefit obligations, fair values of plan assets, and funded status of the NUSCO Pension and SERP Plans and the portions attributable to Yankee Gas:

	<b>Pension and SERP</b>			
	<b>As of December 31, 2013</b>		<b>As of December 31, 2012</b>	
	<b>NUSCO Plans</b>	<b>Yankee Gas</b>	<b>NUSCO Plans</b>	<b>Yankee Gas</b>
<i>(Millions of Dollars)</i>				
<b>Change in Benefit Obligation</b>				
Benefit Obligation as of Beginning of Year	\$ (3,536.1)	\$ (182.7)	\$ (3,098.9)	\$ (158.4)
Service Cost	(67.8)	(4.6)	(60.7)	(3.9)
Interest Cost	(146.4)	(7.5)	(152.3)	(7.8)
Actuarial Gain/(Loss)	339.4	22.2	(364.2)	(19.6)
Benefits Paid - Pension	145.4	6.9	138.8	6.9
Benefits Paid - SERP	3.2	0.1	3.0	0.1
SERP Curtailment	-	-	(1.8)	-
<b>Benefit Obligation as of End of Year</b>	<b>\$ (3,262.3)</b>	<b>\$ (165.6)</b>	<b>\$ (3,536.1)</b>	<b>\$ (182.7)</b>
<b>Change in Pension Plan Assets</b>				
Fair Value of Plan Assets as of Beginning of Year	\$ 2,342.3	\$ 88.8	\$ 2,005.9	\$ 80.5
Employer Contributions	202.7	-	197.4	4.7
Actual Return on Plan Assets	351.0	12.9	277.8	10.5
Benefits Paid	(145.4)	(6.9)	(138.8)	(6.9)
<b>Fair Value of Plan Assets as of End of Year</b>	<b>\$ 2,750.6</b>	<b>\$ 94.8</b>	<b>\$ 2,342.3</b>	<b>\$ 88.8</b>
Funded Status as of December 31 <sup>st</sup>	\$ (511.7)	\$ (70.8)	\$ (1,193.8)	\$ (93.9)

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

The accumulated benefit obligation for the Pension and SERP Plans is as follows:

	<b>Pension and SERP</b>	
	<b>As of December 31,</b>	
	<b>2013</b>	<b>2012</b>
<i>(Millions of Dollars)</i>		
NUSCO Plans	\$ 3,207.0	\$ 3,218.5
Yankee Gas	163.4	162.1

The following actuarial assumptions were used in calculating the Pension and SERP Plans' year end funded status:

	<b>Pension and SERP</b>	
	<b>As of December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>NUSCO Pension and SERP Plans</b>		
Discount Rate	5.03 %	4.24 %
Compensation/Progression Rate	3.50 %	3.50 %



*Pension and SERP Expense:* For the NUSCO Plans, 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 for each subsidiary. The actual investment return in the trust each year is allocated to each of the subsidiaries annually in proportion to the investment return expected to be earned during the year. The components of net periodic benefit expense, for which the total expense less capitalized amounts is included in Operations and Maintenance on the statements of income, the portion of pension amounts capitalized related to employees working on capital projects, which is included in Property, Plant and Equipment, Net on the balance sheets, and intercompany allocations not included in the net periodic benefit expense amounts for the Pension and SERP Plans are as follows:

	<b>Pension and SERP</b>			
	<b>NUSCO Plans</b>		<b>Yankee Gas</b>	
	<b>For the Years Ended December 31,</b>			
<i>(Millions of Dollars)</i>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Service Cost	\$ 67.8	\$ 60.7	\$ 4.6	\$ 3.9
Interest Cost	146.4	152.3	7.5	7.8
Expected Return on Plan Assets	(193.7)	(171.7)	(6.9)	(6.7)
Actuarial Loss	152.4	125.0	8.7	7.5
Prior Service Cost	4.3	8.3	0.2	0.2
Total Net Periodic Benefit Expense	<u>\$ 177.2</u>	<u>\$ 174.6</u>	<u>\$ 14.1</u>	<u>\$ 12.7</u>
Curtailments	\$ -	\$ 1.9	\$ -	\$ -
Related Intercompany Allocations	N/A	N/A	\$ 4.1	\$ 4.4
Capitalized Pension Expense	<u>\$ 44.3</u>	<u>\$ 43.3</u>	<u>\$ 3.8</u>	<u>\$ 3.4</u>

The following actuarial assumptions were used to calculate Pension and SERP expense amounts:

	<b>Pension and SERP</b>	
	<b>For the Years</b>	
	<b>Ended December 31,</b>	
<b>NUSCO Pension and SERP Plans</b>	<b>2013</b>	<b>2012</b>
Discount Rate	4.24 %	5.03 %
Expected Long-Term Rate of Return	8.25 %	8.25 %
Compensation/Progression Rate	3.50 %	3.50 %

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

	<b>Amounts Reclassified To/From</b>			
	<b>Regulatory Assets</b>		<b>OCI</b>	
	<b>For the Years Ended December 31,</b>			
<i>(Millions of Dollars)</i>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>NUSCO Pension and SERP Plans</b>				
Actuarial (Gains)/Losses Arising During the Year	\$ (463.7)	\$ 241.1	\$ (33.0)	\$ 17.0
Actuarial Losses Reclassified as Net Periodic Benefit Expense	(143.1)	(117.5)	(9.2)	(7.4)
Prior Service Cost Reclassified as Net Periodic Benefit Expense	(4.1)	(8.1)	(0.2)	(0.3)

The following is a summary of the remaining Regulatory Assets and Accumulated Other Comprehensive Loss amounts that have not been recognized as components of net periodic benefit expense as of December 31, 2013 and 2012, and the amounts that are expected to be recognized as components in 2014:

	<b>Regulatory Assets</b>		<b>Expected</b>	<b>AOCI as of</b>		<b>Expected</b>
	<b>as of December 31,</b>		<b>2014</b>	<b>December 31,</b>		<b>2014</b>
	<b>2013</b>	<b>2012</b>	<b>Expense</b>	<b>2013</b>	<b>2012</b>	<b>Expense</b>
<i>(Millions of Dollars)</i>						
<b>NUSCO Pension and SERP Plans</b>						
Actuarial Loss	\$ 642.9	\$ 1,249.7	\$ 33.4	\$ 38.0	\$ 80.2	\$ 5.5
Prior Service Cost	17.1	21.2	4.1	1.0	1.2	0.2

*PBOP Plans:* Yankee Gas annually funds postretirement costs through tax deductible contributions to external trusts.

The following tables provide information on the benefit obligations, fair values of plan assets, and funded status of the NUSCO PBOP Plans and the portions attributable to Yankee Gas:

	PBOP			
	As of December 31, 2013		As of December 31, 2012	
	NUSCO Plans	Yankee Gas	NUSCO Plans	Yankee Gas
<i>(Millions of Dollars)</i>				
<b>Change in Benefit Obligation</b>				
Benefit Obligation as of Beginning of Year	\$ (522.8)	\$ (25.5)	\$ (520.9)	\$ (24.3)
Service Cost	(10.6)	(0.8)	(9.3)	(0.6)
Interest Cost	(21.2)	(1.0)	(24.0)	(1.1)
Actuarial Gain/(Loss)	33.8	1.9	(2.4)	(1.0)
Federal Subsidy on Benefits Paid	-	-	(3.9)	(0.2)
Benefits Paid	34.8	1.4	37.7	1.7
<b>Benefit Obligation as of End of Year</b>	<b>\$ (486.0)</b>	<b>\$ (24.0)</b>	<b>\$ (522.8)</b>	<b>\$ (25.5)</b>
<b>Change in Plan Assets</b>				
Fair Value of Plan Assets as of Beginning of Year	\$ 335.0	\$ 14.3	\$ 285.4	\$ 12.5
Actual Return on Plan Assets	63.2	2.6	37.3	1.8
Employer Contributions	27.7	1.5	50.0	1.7
Benefits Paid	(34.8)	(1.4)	(37.7)	(1.7)
<b>Fair Value of Plan Assets as of End of Year</b>	<b>\$ 391.1</b>	<b>\$ 17.0</b>	<b>\$ 335.0</b>	<b>\$ 14.3</b>
Funded Status as of December 31 <sup>st</sup>	\$ (94.9)	\$ (7.0)	\$ (187.8)	\$ (11.2)

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

	PBOP	
	As of December 31,	
	2013	2012
<b>NUSCO PBOP Plans</b>		
Discount Rate	4.78 %	4.04 %
Health Care Cost Trend Rate	7.00 %	7.00 %

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

The components of net periodic benefit expense, for which the total expense less capitalized amounts is included in Operations and Maintenance on the statements of income, the portion of PBOP amounts capitalized related to employees working on capital projects, which is included in Property, Plant and Equipment, Net on the balance sheets, and intercompany allocations not included in the net periodic benefit expense amounts for the PBOP Plans are as follows:

	PBOP			
	For the Years Ended December 31,			
	2013		2012	
	NUSCO Plans	Yankee Gas	NUSCO Plans	Yankee Gas
<i>(Millions of Dollars)</i>				
Service Cost	\$ 10.6	\$ 0.8	\$ 9.3	\$ 0.6
Interest Cost	21.2	1.0	24.0	1.1
Expected Return Plan Assets	(25.4)	(1.3)	(22.6)	(1.2)
Actuarial Loss	21.2	1.1	20.5	1.0
Prior Service Credit	(0.3)	(0.1)	(0.3)	(0.1)
Transition Obligation <sup>(1)</sup>	-	-	11.6	-
<b>Total Net Periodic Benefit Expense</b>	<b>\$ 27.3</b>	<b>\$ 1.5</b>	<b>\$ 42.5</b>	<b>\$ 1.4</b>
Related Intercompany Allocations	N/A	\$ 0.6	N/A	\$ 0.9
Capitalized Expense	\$ 6.2	\$ 0.4	\$ 12.4	\$ 0.4

<sup>(1)</sup> The PBOP Plans' transition obligation costs were fully amortized in 2013.

The following actuarial assumptions were used to calculate PBOP expense amounts:

NUSCO PBOP Plans	PBOP	
	For the Years	
	Ended December 31,	
	2013	2012
Discount Rate	4.04 %	4.84 %
Expected Long-Term Rate of Return	8.25 %	8.25 %

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

(Millions of Dollars) NUSCO PBOP Plans	Amounts Reclassified To/From			
	Regulatory Assets		OCI	
	For the Years Ended December 31,			
	2013	2012	2013	2012
Actuarial Gains Arising During the Year	\$ (68.7)	\$ (10.9)	\$ (2.6)	\$ (1.1)
Actuarial Losses Reclassified as Net Periodic Benefit Expense	(20.1)	(19.5)	(1.1)	(1.1)
Prior Service Credit Reclassified as Net Periodic Benefit Income	0.3	0.3	-	-
Transition Obligation Reclassified as Net Periodic Benefit Expense	-	(11.3)	-	(0.2)

The following is a summary of the remaining Regulatory Assets and Accumulated Other Comprehensive Loss amounts that have not been recognized as components of net periodic benefit expense as of December 31, 2013 and 2012, and the amounts that are expected to be recognized as components in 2014:

(Millions of Dollars) NUSCO PBOP Plans	Regulatory Assets as of		Expected	AOCI as of		Expected
	December 31,			December 31,		
	2013	2012	Expense	2013	2012	Expense
Actuarial Loss	\$ 77.2	\$ 166.0	\$ 12.1	\$ 6.2	\$ 9.9	\$ 0.7
Prior Service Credit	(1.8)	(2.1)	(0.3)	-	-	-

The health care cost trend rate assumption used to calculate the 2013 PBOP expense amounts was 7 percent for the NUSCO PBOP Plan, subsequently decreasing by 50 basis points per year to an ultimate rate of 5 percent in 2017. As of December 31, 2013, the health care cost trend rate assumption used to determine the NUSCO PBOP Plans' year end funded status is 7 percent, subsequently decreasing to an ultimate rate of 4.5 percent in 2024.

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, 2013 would have the following effects:

(Millions of Dollars) NUSCO PBOP Plans	One Percentage Point Increase	One Percentage Point Decrease
Effect on Postretirement Benefit Obligation	\$ 9.6	\$ (8.4)
Effect on Total Service and Interest Cost Components	1.4	(1.0)

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

(Millions of Dollars)	Pension and SERP	PBOP
2014	\$ 168.3	\$ 34.1
2015	176.9	34.7
2016	185.7	35.1
2017	194.3	35.3
2018	202.8	35.5
2019-2023	1,137.8	177.6

*Contributions:* NU's policy is to annually fund the NUSCO Pension Plan in an amount at least equal to an amount that will satisfy federal requirements. NU contributed \$202.7 million to the NUSCO Pension Plan in 2013. Based on the current status of the NUSCO Pension Plan, NU expects to make a contribution of \$68.6 million in 2014, of which \$13.4 million will be contributed by Yankee Gas.

For the PBOP Plans, it is NU's policy to annually fund the NUSCO PBOP Plans in an amount equal to the PBOP Plans' postretirement benefit cost, excluding curtailment and termination benefits. NU contributed \$27.7 million to the NUSCO PBOP Plans in 2013, \$1.5

million of which was contributed by Yankee Gas. NU expects to make \$14.7 million in contributions to the NUSCO PBOP Plans in 2014, of which \$0.8 million will be contributed by Yankee Gas.

*Fair Value of Pension and PBOP Plan 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 strategies and fund managers and establishes target asset allocations that are routinely reviewed and periodically rebalanced. In 2013 and 2012, PBOP assets were comprised of specific assets within the defined benefit pension plan trust (401(h) assets) as well as assets held in the PBOP Plans. The investment policy and strategy of the 401(h) assets is consistent with those of the defined benefit pension plans, which are detailed below. NU's expected long-term rates of return on Pension and PBOP Plan assets are based on these target asset allocation assumptions and related expected long-term rates of return. In developing its expected long-term rate of return assumptions for the Pension and PBOP Plans, NU evaluated input from consultants, as well as long-term inflation assumptions and historical returns. For the year ended December 31, 2013, management has assumed a long-term rate of return of 8.25 percent for the Pension and PBOP Plan assets. This long-term rate of return is based on the assumed rate of return for the target asset allocations as follows:

	As of December 31,			
	2013		2012	
	NUSCO Pension and Tax-Exempt PBOP Plans <sup>(1)</sup>		NUSCO Pension and PBOP Plans	
Target Asset Allocation	Assumed Rate of Return	Target Asset Allocation	Assumed Rate of Return	
Equity Securities:				
United States	24%	9%	24%	9%
International	10%	9%	13%	9%
Emerging Markets	6%	10%	3%	10%
Private Equity	10%	13%	12%	13%
Debt Securities:				
Fixed Income	15%	5%	20%	5%
High Yield Fixed Income	9%	7.5%	3.5%	7.5%
Emerging Markets Debt	6%	7.5%	3.5%	7.5%
Real Estate and Other Assets	9%	7.5%	8%	7.5%
Hedge Funds	11%	7%	13%	7%

<sup>(1)</sup> The Taxable PBOP Plans have a target asset allocation of 70 percent equity securities and 30 percent fixed income securities.

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

	NUSCO Pension Plan							
	Fair Value Measurements as of December 31,							
	2013				2012			
Asset Category:	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity Securities:								
United States <sup>(1)</sup>	\$ 200.6	\$ 407.1	\$ 132.0	\$ 739.7	\$ 239.9	\$ 56.4	\$ 270.6	\$ 566.9
International <sup>(1)</sup>	21.9	247.0	41.9	310.8	42.0	264.3	-	306.3
Emerging Markets <sup>(1)</sup>	-	144.3	-	144.3	-	79.4	-	79.4
Private Equity	65.6	-	204.5	270.1	26.7	-	267.9	294.6
Fixed Income <sup>(2)</sup>	7.9	412.0	401.5	821.4	-	336.7	315.1	651.8
Real Estate and Other Assets	-	60.2	196.4	256.6	-	78.9	108.2	187.1
Hedge Funds	-	-	283.9	283.9	-	-	296.2	296.2
Total Master Trust Assets	\$ 296.0	\$ 1,270.6	\$ 1,260.2	\$ 2,826.8	\$ 308.6	\$ 815.7	\$ 1,258.0	\$ 2,382.3
Less: 401(h) PBOP Assets <sup>(3)</sup>				(76.2)				(40.0)
Total Pension Assets				\$ 2,750.6				\$ 2,342.3

**NUSCO PBOP Plans**

**Fair Value Measurements as of December 31,**

(Millions of Dollars)	2013				2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Asset Category:</b>								
Cash and Cash Equivalents	\$ 7.2	\$ -	\$ -	\$ 7.2	\$ 6.3	\$ -	\$ -	\$ 6.3
Equity Securities:								
United States <sup>(1)</sup>	67.0	44.5	25.5	137.0	116.3	-	12.4	128.7
International <sup>(1)</sup>	10.4	25.4	-	35.8	35.2	-	-	35.2
Emerging Markets <sup>(1)</sup>	5.6	5.0	-	10.6	7.7	-	-	7.7
Private Equity	-	-	6.6	6.6	-	-	11.3	11.3
Fixed Income <sup>(2)</sup>	-	60.0	19.0	79.0	-	46.8	32.1	78.9
Hedge Funds	-	-	21.0	21.0	-	-	16.9	16.9
Real Estate and Other Assets	-	5.2	12.5	17.7	-	4.7	5.3	10.0
<b>Total</b>	<b>\$ 90.2</b>	<b>\$ 140.1</b>	<b>\$ 84.6</b>	<b>\$ 314.9</b>	<b>\$ 165.5</b>	<b>\$ 51.5</b>	<b>\$ 78.0</b>	<b>\$ 295.0</b>
Add: 401(h) PBOP Assets <sup>(3)</sup>				76.2				40.0
<b>Total PBOP Assets</b>				<b>\$ 391.1</b>				<b>\$ 335.0</b>

- (1) United States, International and Emerging Markets equity securities classified as Level 2 include investments in commingled funds. Level 3 investments include hedge funds that are overlayed with equity index swaps and futures contracts and funds invested in equities that have redemption restrictions.
- (2) Fixed Income investments classified as Level 3 investments include fixed income funds that invest in a variety of opportunistic fixed income strategies, and hedge funds that are overlayed with fixed income futures.
- (3) The assets of the Pension Plan include a 401(h) account that has been allocated to provide health and welfare postretirement benefits under the PBOP Plans.

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

*Fair Value Measurements Using Significant Unobservable Inputs (Level 3):* The following tables present changes in the Level 3 category of Pension and PBOP Plan assets for the years ended December 31, 2013 and 2012.

(Millions of Dollars)	NUSCO Pension Plan						
	United States Equity	Inter-national	Private Equity	Fixed Income	Real Estate and Other Assets	Hedge Funds	Total
Balance as of January 1, 2012	\$ 259.4	\$ -	\$ 255.1	\$ 276.2	\$ 71.8	\$ 240.0	\$ 1,102.5
Actual Return on Plan Assets:							
Relating to Assets Still Held as of Year End	11.2	-	17.0	42.1	3.3	16.2	89.8
Relating to Assets Distributed During the Year	-	-	15.0	0.7	0.1	-	15.8
Purchases, Sales and Settlements	-	-	(19.2)	(3.9)	33.0	40.0	49.9
Balance as of December 31, 2012	<u>\$ 270.6</u>	<u>\$ -</u>	<u>\$ 267.9</u>	<u>\$ 315.1</u>	<u>\$ 108.2</u>	<u>\$ 296.2</u>	<u>\$ 1,258.0</u>
Transfer of Assets	(86.3)	35.5	(85.5)	(100.5)	52.1	(10.9)	(195.6)
Transfer Between Categories	-	-	-	22.1	-	(22.1)	-
Actual Return/(Loss) on Plan Assets:							
Relating to Assets Still Held as of Year End	7.5	6.4	10.6	37.7	8.7	22.7	93.6
Relating to Assets Distributed During the Year	8.3	-	9.3	(0.7)	4.2	-	21.1
Purchases, Sales and Settlements	(68.1)	-	2.2	127.8	23.2	(2.0)	83.1
Balance as of December 31, 2013	<u>\$ 132.0</u>	<u>\$ 41.9</u>	<u>\$ 204.5</u>	<u>\$ 401.5</u>	<u>\$ 196.4</u>	<u>\$ 283.9</u>	<u>\$ 1,260.2</u>

**NUSCO PBOP Plans**

(Millions of Dollars)

	United States Equity	Private Equity	Fixed Income	Real Estate and Other Assets	Hedge Funds	Total
Balance as of January 1, 2012	\$ 10.7	\$ 5.1	\$ 26.0	\$ 2.5	\$ 16.1	\$ 60.4
Actual Return on Plan Assets:						
Relating to Assets Still Held as of Year End	1.7	1.6	4.0	-	0.8	8.1
Purchases, Sales and Settlements	-	4.6	2.1	2.8	-	9.5
Balance as of December 31, 2012	<u>\$ 12.4</u>	<u>\$ 11.3</u>	<u>\$ 32.1</u>	<u>\$ 5.3</u>	<u>\$ 16.9</u>	<u>\$ 78.0</u>
Transfer of Assets	1.0	(7.1)	(20.3)	4.6	(2.3)	(24.1)
Actual Return on Plan Assets:						
Relating to Assets Still Held as of Year End	7.7	0.5	1.6	1.3	2.0	13.1
Relating to Assets Distributed During the Year	-	0.1	-	-	-	0.1
Purchases, Sales and Settlements	4.4	1.8	5.6	1.3	4.4	17.5
Balance as of December 31, 2013	<u>\$ 25.5</u>	<u>\$ 6.6</u>	<u>\$ 19.0</u>	<u>\$ 12.5</u>	<u>\$ 21.0</u>	<u>\$ 84.6</u>

## 9. INCOME TAXES

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

	<b>For the Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
(Millions of Dollars)		
Current Income Taxes:		
Federal	\$ 0.9	\$ (3.3)
State	(0.4)	3.2
Total Current	<u>0.5</u>	<u>(0.1)</u>
Deferred Income Taxes, Net:		
Federal	20.0	17.1
State	3.0	(2.6)
Total Deferred	<u>23.0</u>	<u>14.5</u>
Investment Tax Credits, Net	(0.4)	(0.4)
Income Tax Expense	<u>\$ 23.1</u>	<u>\$ 14.0</u>

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

	<b>For the Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
(Millions of Dollars, except percentages)		
Income Before Income Tax Expense	\$ 62.8	\$ 40.3
Statutory Federal Income Tax Expense at 35%	22.0	14.1
Tax Effect of Differences:		
Depreciation	(0.3)	(0.1)
Investment Tax Credit Amortization	(0.4)	(0.4)
State Income Taxes, Net of Federal Impact	(0.6)	(1.8)
Adjustments For Prior Years Taxes/Reserves	2.2	2.2
Other, Net	0.2	-
Income Tax Expense	<u>\$ 23.1</u>	<u>\$ 14.0</u>
Effective Tax Rate	<u>36.8 %</u>	<u>34.7 %</u>

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

The PURA requires that the tax effect of certain property, plant and equipment related temporary differences that directly impact Yankee Gas' customers receive "flow-through" treatment. Using flow-through treatment, the deferred tax expense is included in determining customers' rates. Flow-through treatment can result in effective income tax rates that are different than statutory income tax rates and therefore are part of the income tax rate reconciliation for Yankee Gas. Recording deferred taxes on flow-through items is required by relevant accounting guidance and the offset to the deferred tax amounts is a regulatory asset or liability.

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

	<b>As of December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Deferred Tax Assets:</b>		
Allowance for Uncollectible Accounts	\$ 5.8	\$ 4.6
Regulatory Deferrals	21.2	23.3
Employee Benefits	34.7	45.8
Tax Effect - Tax Regulatory Assets	0.8	0.9
Federal Net Operating Loss Carryforwards	12.4	16.6
Other	12.0	16.1
<b>Total Deferred Tax Assets</b>	<b>\$ 86.9</b>	<b>\$ 107.3</b>
<b>Deferred Tax Liabilities:</b>		
Accelerated Depreciation and Other Plant-Related Differences	\$ 276.1	\$ 254.1
Property Tax Accruals	6.1	8.5
Regulatory Deferrals	34.9	50.6
Tax Effect - Tax Regulatory Assets	14.5	13.0
Other	(5.0)	(5.7)
<b>Total Deferred Tax Liabilities</b>	<b>\$ 326.6</b>	<b>\$ 320.5</b>

As of December 31, 2013, Yankee Gas had a \$35.4 million federal net operating loss carryforward that begins expiring in 2031 and state tax credits of \$6.1 million that begin expiring in 2014. As of December 31, 2012, Yankee Gas had a \$47.4 million federal net operating loss carryforward that begins expiring in 2031 and state tax credits of \$10.5 million that begin expiring in 2014.

*Unrecognized Tax Benefits:* A reconciliation of the activity in unrecognized tax benefits from January 1, 2012 to December 31, 2013, all of which would impact the effective tax rate, if recognized, is as follows:

<i>(Millions of Dollars)</i>	<b>Yankee Gas</b>
Balance as of January 1, 2012	\$ 12.1
Gross Increases - Current Year	3.5
Gross Decrease - Prior Year	(0.8)
Balance as of December 31, 2012	14.8
Gross Increases - Current Year	3.3
Gross Decreases - Prior Year	(4.5)
Balance as of December 31, 2013	\$ 13.6

*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 Gas receiving interest income, any related interest benefit is recorded in Other Income, Net on the accompanying statements of income. No penalties have been recorded. If penalties are recorded in the future, then the estimated penalties would be classified as a component of Other Income, Net on the accompanying statements of income. The amount of interest expense/(income) on uncertain tax positions recognized and the related accrued interest payable are as follows:

<b>Other Interest (Income)/Expense</b>	<b>For the Years</b>		<b>Accrued Interest Expense</b>	<b>As of December 31,</b>	
	<b>2013</b>	<b>2012</b>		<b>2013</b>	<b>2012</b>
<i>(Millions of Dollars)</i>			<i>(Millions of Dollars)</i>		
Yankee Gas	\$ (1.3)	\$ 0.4	Yankee Gas	\$ 0.1	\$ 1.4

*Tax Positions:* Yankee Gas is currently working to resolve the treatment of certain costs in the remaining open periods in the state of Connecticut.

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

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

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. Yankee Gas does not currently estimate potential resolutions of differences of a non-timing nature.

In March 2013, Yankee Gas and other affiliated companies received a determination from the Connecticut Department of Revenue Services Appellate Division that closed Connecticut tax years 2005 through 2008 and resulted in a non-cash adjustment to Yankee Gas' tax credit carryforwards of \$4.5 million and the recording of an after-tax benefit of \$0.7 million.

*2013 Federal Legislation:* On January 2, 2013, the "American Taxpayer Relief Act of 2012" became law, which extended the accelerated deduction of depreciation to businesses through 2013. This extended stimulus provided Yankee Gas with cash flow benefits of approximately \$18 million.

## 10. COMMITMENTS AND CONTINGENCIES

### A. Environmental Matters

*General:* Yankee Gas is subject to environmental laws and regulations intended to mitigate or remove the effect of past operations and improve or maintain the quality of the environment. These laws and regulations require the removal or the remedy of the effect on the environment of the disposal or release of certain specified hazardous substances at current and former operating sites. Yankee Gas has an active environmental auditing and training program and believes that it is substantially in compliance with all enacted laws and regulations. The environmental sites are comprised of 14 former manufactured gas plant (MGP) sites that were operated several decades ago and manufactured gas from coal and other processes, which resulted in certain by-products in the environment that may pose a potential risk to human health and the environment.

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

These estimates are subjective in nature as they take into consideration several different remediation options at each specific site. The reliability and precision of these estimates can be affected by several factors, including new information concerning either the level of contamination at the site, the extent of 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. 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, Yankee Gas will continue to assess the potential exposure and adjust the reserves accordingly.

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

	<b>For the Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
<i>(Millions of Dollars)</i>		
Balance as of Beginning of Year	\$ 16.0	\$ 19.1
Additions	2.0	1.7
Payments	(2.7)	(4.8)
Balance as of End of Year	<u>\$ 15.3</u>	<u>\$ 16.0</u>

As of December 31, 2013, for two of the 14 MGP 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, 2013, \$0.6 million had been accrued as a liability for these sites, which represents Yankee Gas' best estimate of the liability for environmental costs. This amount is the best estimate with estimated ranges of additional losses from zero to \$0.8 million.

As of December 31, 2013, for the remaining 12 MGP sites included in the Company's reserve for environmental costs, Yankee Gas cannot reasonably estimate the exposure to loss in excess of the reserve, or range of loss, as these sites are under investigation and/or there is significant uncertainty as to what remedial actions, if any, the Company may be required to undertake. As of December 31, 2013, \$14.7 million had been accrued as a liability for these sites.

*Environmental Rate Recovery:* Yankee Gas has a rate recovery mechanism for MGP related environmental costs and has recorded regulatory assets related to environmental remediation costs. For further information, see Note 2, "Regulatory Accounting," to the financial statements.



## 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, 2013 are as follows:

<i>(Millions of Dollars)</i>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Thereafter</u>	<u>Total</u>
Natural Gas Procurement Contracts	\$ 77.9	\$ 64.4	\$ 42.2	\$ 26.9	\$ 16.0	\$ 36.4	\$ 263.8

*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 \$169.3 million in 2013 and \$149.4 million in 2012.

## C. Other Litigation and Legal Proceedings

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

## 11. LEASES

Yankee Gas has entered into operating lease agreements for the use of office equipment, vehicles and office space. In addition, Yankee Gas incurs 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 2014 through 2018 and thereafter. The provisions of these lease agreements generally contain renewal options. Certain lease agreements contain payments impacted by the commercial paper rate plus a credit spread or the consumer price index.

For the years ended December 31, 2013 and 2012, \$1.1 million and \$1.2 million, respectively, of operating lease rental payments were charged to expense.

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

<i>(Millions of Dollars)</i>	<u>Yankee Gas to Third Parties</u>	<u>Yankee Gas to RRR</u>	<u>Total</u>
2014	\$ 0.6	\$ 0.1	\$ 0.7
2015	0.5	0.1	0.6
2016	0.4	0.1	0.5
2017	0.3	0.1	0.4
2018	0.2	0.1	0.3
Thereafter	0.6	-	0.6
Future Minimum Lease Payments	<u>\$ 2.6</u>	<u>\$ 0.5</u>	<u>\$ 3.1</u>

## 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

*Long-Term Debt:* The fair value of Yankee Gas' fixed-rate long-term debt securities is based upon pricing models that incorporate quoted market prices for those issues or similar issues adjusted for market conditions, credit ratings and treasury benchmark yields. The carrying amounts of Yankee Gas' long-term debt, including the current portion, are \$345.7 million and \$345.8 million as of December 31, 2013 and 2012, respectively. The estimated fair values of these financial instruments are \$370.9 million and \$398.5 million as of December 31, 2013 and 2012, respectively. These fair values are classified as Level 2 in the fair value hierarchy. For further information regarding long-term debt, see Note 7, "Long-Term Debt," to the financial statements.

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

### 13. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in accumulated other comprehensive income/(loss) by component, net of tax effect, is as follows:

	For the Year Ended December 31, 2013		
	Qualified Cash Flow Hedging Instruments	SERP Benefit Plan	Total
(Millions of Dollars) AOCI as of January 1, 2013	\$ (1.0)	\$ (0.5)	\$ (1.5)
Other Comprehensive Income Before Reclassifications	-	0.1	0.1
Amounts Reclassified from AOCI	0.1	0.1	0.2
Net Other Comprehensive Income	0.1	0.2	0.3
AOCI as of December 31, 2013	\$ (0.9)	\$ (0.3)	\$ (1.2)

Qualified cash flow hedging instruments represent interest rate swap agreements on debt issuances that were settled in prior years. The settlement amount was recorded in AOCI and is being amortized from AOCI into Interest Expense over the term of the associated long-term debt, which is not material to Yankee Gas' financial statements.

The costs of the SERP Plan are being amortized from AOCI into Operations and Maintenance over the average future employee service period. For the year ended December 31, 2012, Yankee Gas amortized a pre-tax benefit cost of \$0.2 million associated with actuarial losses in the SERP Plan, which had \$0.1 million in income tax effects. In addition, Yankee Gas recorded a pre-tax actuarial gain of \$0.2 million, which had \$0.1 million in income tax effects, in AOCI related to the SERP Plan.

It is estimated that a charge of \$0.1 million will be reclassified from AOCI as a decrease to Net Income over the next 12 months related to the amortization of interest rate swap agreements, and a charge of \$0.1 million will be reclassified from AOCI as a decrease to Net Income over the next 12 months related to the amortization of SERP costs.

### 14. COMMON STOCK

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

	Per Share Par Value	Shares of Common Stock		
		Authorized 2013 and 2012	Issued 2013 and 2012	Outstanding 2013 and 2012
Yankee Gas	\$ 5	1,000	1,000	1,000