Yankee Gas Services Company

Financial Statements as of and for the
Years Ended December 31, 2014 and 2013,
Together With Independent Auditors' Report

Yankee Gas Services Company

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INDEPENDENT AUDITORS' REPORT

Yankee Gas Services Company
The Board of Directors of Yankee Gas Services Company
Berlin, CT

We have audited the accompanying financial statements of Yankee Gas Services Company (the "Company"), which comprise the balance sheets as of December 31, 2014 and 2013, 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, 2014 and 2013, 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 27, 2015

YANKEE GAS SERVICES COMPANY
BALANCE SHEETS

(Thousands of Dollars)	As of December 31, 2014	2013
ASSETS		
Current Assets:		
Cash	$ 1,007	$ 1,038
Receivables, Net	57,778	51,506
Unbilled Revenues	12,123	21,200
Taxes Receivable	11,820	9
Fuel, Materials and Supplies	49,450	47,588
Regulatory Assets	13,495	12,650
Prepayments and Other Current Assets	8,161	7,329
Total Current Assets	153,834	141,320
Property, Plant and Equipment, Net	1,148,302	1,080,592
Deferred Debits and Other Assets:		
Regulatory Assets	132,271	110,837
Goodwill	287,591	287,591
Other Long-Term Assets	6,267	5,454
Total Deferred Debits and Other Assets	426,129	403,882
Total Assets	$ 1,728,265	$ 1,625,794
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable to NU Parent	$ 108,200	$ 139,700
Accounts Payable	37,127	32,773
Accounts Payable to Affiliated Companies	12,263	9,418
Other Current Liabilities	29,320	32,982
Total Current Liabilities	186,910	214,873
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	266,619	236,069
Regulatory Liabilities	48,746	47,169
Accrued Pension, SERP and PBOP	97,855	77,678
Other Long-Term Liabilities	44,136	42,494
Total Deferred Credits and Other Liabilities	457,356	403,410
Capitalization:		
Long-Term Debt	370,570	345,682
Common Stockholder's Equity:		
Common Stock	5	5
Capital Surplus, Paid In	647,030	616,547
Retained Earnings	67,474	46,491
Accumulated Other Comprehensive Loss	(1,080)	(1,214)
Common Stockholder's Equity	713,429	661,829
Total Capitalization	1,083,999	1,007,511
Total Liabilities and Capitalization	$ 1,728,265	$ 1,625,794

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, 2014	2013
Operating Revenues	$ 522,812	$ 423,730
Operating Expenses:		
Cost of Natural Gas	223,244	163,926
Operations and Maintenance	105,984	104,100
Depreciation	31,522	30,026
Amortization of Regulatory Assets, Net	196	1,497
Energy Efficiency Programs	19,798	6,490
Taxes Other Than Income Taxes	44,768	34,964
Total Operating Expenses	425,512	341,003
Operating Income	97,300	82,727
Interest Expense:		
Interest on Long-Term Debt	21,406	20,192
Other Interest Expense/(Income)	414	(194)
Interest Expense	21,820	19,998
Other Income/(Loss), Net	(120)	96
Income Before Income Tax Expense	75,360	62,825
Income Tax Expense	29,177	23,122
Net Income	$ 46,183	$ 39,703

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

STATEMENTS OF COMPREHENSIVE INCOME

Net Income	$ 46,183	$ 39,703
Other Comprehensive Income, Net of Tax:		
Qualified Cash Flow Hedging Instruments	93	93
Changes in Funded Status of SERP Benefit Plan	41	174
Other Comprehensive Income, Net of Tax	134	267
Comprehensive Income	$ 46,317	$ 39,970

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** Stock	**Common Stock** Amount	**Capital Surplus, Paid In**	**Retained Earnings**	**Accumulated Other Comprehensive Income/(Loss)**	**Total**
Balance as of January 1, 2013	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
Net Income				46,183		46,183
Dividends on Common Stock				(25,200)		(25,200)
Capital Contributions from Parent			30,000			30,000
Allocation of Benefits – ESOP			483			483
Other Comprehensive Income					134	134
Balance as of December 31, 2014	1,000	$ 5	$ 647,030	$ 67,474	$ (1,080)	$ 713,429

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, 2014	2013
Operating Activities:		
Net Income	$ 46,183	$ 39,703
Adjustments to Reconcile Net Income to Net Cash Flows		
Provided by Operating Activities:		
Depreciation	31,522	30,026
Deferred Income Taxes	30,551	23,026
Pension, PBOP and SERP Expense, Net	7,624	11,058
Pension and PBOP Contributions	(14,249)	(1,496)
Amortization of Regulatory Assets, Net	196	1,497
Regulatory Over/(Under) Recoveries, Net	4,476	(7,472)
Bad Debt Expense	6,053	4,208
Other	(515)	(529)
Changes in Current Assets and Liabilities:		
Receivables and Unbilled Revenues, Net	(9,831)	(26,136)
Fuel, Materials and Supplies	(1,862)	3,310
Taxes Receivable/Accrued, Net	(9,954)	(1,619)
Accounts Payable	4,463	4,206
Other Current Assets and Liabilities, Net	(1,348)	(6,109)
Net Cash Flows Provided by Operating Activities	93,309	73,673
Investing Activities:		
Investments in Property, Plant and Equipment	(90,996)	(92,295)
Other Investing Activities	-	(70)
Net Cash Flows Used in Investing Activities	(90,996)	(92,365)
Financing Activities:		
Cash Dividends on Common Stock	(25,200)	(52,000)
Capital Contributions from Parent	30,000	-
Issuance of Long-Term Debt	100,000	-
Retirement of Long-Term Debt	(75,000)	-
(Decrease)/Increase in Notes Payable to NU Parent	(31,500)	69,100
Other Financing Activities	(644)	(80)
Net Cash Flows (Used in)/Provided by Financing Activities	(2,344)	17,020
Net Decrease in Cash	(31)	(1,672)
Cash - Beginning of Year	1,038	2,710
Cash - End of Year	$ 1,007	$ 1,038

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, 2014 AND 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. About Yankee Gas Services Company

Yankee Gas Services Company (Yankee Gas or the Company) is a regulated public utility company engaged in the distribution and sale of natural gas to customers within Connecticut. Yankee Gas distributes natural gas to approximately 222,000 customers in 71 cities and towns in Connecticut covering 2,187 square miles. The Company is subject to regulation of the rates it charges its customers, and other matters, by the Connecticut Public Utility Regulatory Authority (PURA). Yankee Gas is a wholly-owned subsidiary of Yankee Energy System, Inc., a holding company that is a wholly-owned subsidiary of Northeast Utilities (NU). On February 2, 2015, Yankee Gas commenced doing business as Eversource Energy.

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 is subject to rate-regulation that is based on cost recovery and meets the criteria for application of accounting guidance for entities with rate-regulated operations, which considers the effect of regulation on the differences in the timing of the recognition of certain revenues and expenses from those of other businesses and industries. See Note 2, "Regulatory Accounting," for further information.

As of December 31, 2014 and 2013, Yankee Gas' carrying amount of goodwill was $287.6 million. Yankee Gas tests goodwill for impairment at least annually. Yankee Gas completed its annual goodwill impairment test as of October 1, 2014 and determined that no impairment exists. See Note 5, "Goodwill," for further information.

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, 2014 through the issuance of the financial statements on March 27, 2015 and did not identify any such events that required recognition or disclosure under this guidance.

C. Accounting Standards

Recently Adopted Accounting Standards: On January 1, 2014, as required, Yankee Gas prospectively adopted the Financial Accounting Standards Board's (FASB) final Accounting Standards Updates (ASU) that required presentation of certain unrecognized tax benefits as reductions to deferred tax assets. Implementation of this guidance had 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 accompanying balance sheets.

E. Provision for Uncollectible Accounts

Yankee Gas presents its receivables at estimated net realizable value by maintaining a provision for uncollectible accounts. This provision is determined based upon a variety of judgments and factors, including the application of an estimated uncollectible percentage to each receivable aging category. The estimate is based upon historical collection and write-off experience and management's assessment of collectability from customers. Management continuously assesses the collectability of receivables and adjusts collectability estimates based on actual experience. 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, 2014 and 2013, Yankee Gas had uncollectible hardship accounts receivable reserves of $11.3 million and $8.4 million, respectively. Uncollectible customer account balances, which are expected to be recovered in rates, are included in Regulatory Assets as these amounts are probable of recovery. These amounts are reflected in the total provision for uncollectible accounts.

The total provision for uncollectible accounts, which is included in Receivables, Net on the balance sheets, was $17.3 million and $14 million as of December 31, 2014 and 2013, 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, 2014 and 2013, there was $46.5 million and $44.7 million, respectively, of natural gas inventory, which is recorded at the weighted average cost, and $3 million and $2.9 million, respectively, of materials and supplies, which are valued at the lower of average cost or recoverable amount, included in Fuel, Materials and Supplies on the balance sheets.

G. Fair Value Measurements
Fair value measurement guidance is applied to valuations of the investments used to calculate the funded status of pension and postretirement benefits other than pension (PBOP) plans and nonrecurring fair value measurements of nonfinancial assets such as goodwill and asset retirement obligations (ARO), and is also used to estimate the fair value of long-term debt.

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 to ensure recovery of actual costs incurred.

A significant portion of Yankee Gas' revenues relate to the recovery of costs incurred for the sale of natural gas purchased on behalf of customers. These natural gas supply costs are recovered from customers in rates through a cost tracking mechanism. Natural gas purchases are recorded in Cost of Natural Gas, and the sale of natural gas associated with these purchases is recorded in Operating Revenues.

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 unbilled sales monthly using the daily load cycle method. The daily load cycle method allocates billed sales to the current calendar month based on the daily load for each billing cycle. The billed sales are subtracted from total month load, net of delivery losses, to estimate unbilled sales. Unbilled revenues are estimated by first allocating 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.

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. Average AFUDC debt rates for the years ended December 31, 2014 and 2013 were 0.5 percent and 0.7 percent, respectively.

J. Other Taxes

Gross receipts taxes levied by the state of Connecticut are collected by Yankee Gas from its customers. These gross receipts taxes are shown on a gross basis with collections in Operating Revenues and payments in Taxes Other Than Income Taxes on the accompanying statements of income. For the years ended December 31, 2014 and 2013, gross receipts taxes were $20.3 million and $15.9 million, respectively. Certain sales taxes are collected by Yankee Gas from its customers as an agent for the 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

(Millions of Dollars)	As of and For the Years Ended December 31, 2014	2013
Cash Paid During the Year For:		
Interest, Net of Amounts Capitalized	$ 22.4	$ 21.3
Income Taxes	9.5	1.2
Non-Cash Investing Activities:		
Plant Additions Included in Accounts Payable	11.4	8.7

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

L. Related Parties

Northeast Utilities Service Company (NUSCO), NU's service company, provides centralized 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, 2014 and 2013 were Accounts Receivable from Affiliated Companies of $1.1 million and $0.7 million, respectively, included in Prepayments and Other Current Assets, and Accounts Payable to Affiliated Companies of $12.3 million and $9.4 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 follow the application of accounting guidance for entities with rate-regulated operations and reflect the effects of the rate-making process.

Management believes it is probable that it will recover its investment in long-lived assets, including regulatory assets. If management 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 were as follows:

(Millions of Dollars)	As of December 31, 2014	2013
Benefit Costs	$ 73.2	$ 48.9
Income Taxes, Net	24.8	36.0
Environmental Remediation Costs	30.6	25.1
Hardship Customer Receivables	8.3	5.4
Asset Retirement Obligations	5.2	4.9
Other Regulatory Assets	3.7	3.1
Total Regulatory Assets	$ 145.8	$ 123.4
Less: Current Portion	$ 13.5	$ 12.6
Total Long-Term Regulatory Assets	$ 132.3	$ 110.8

Regulatory Costs in Other Long-Term Assets: Yankee Gas had $2.9 million and $3.8 million of additional regulatory costs as of December 31, 2014 and 2013, respectively, that were included in Other Long-Term Assets on the accompanying balance sheets. These amounts represent incurred costs for which recovery has not yet been specifically approved by the PURA. However, based on regulatory policies or past precedent on similar costs, management believes it is probable that these costs will ultimately be approved and recovered from customers in rates.

Benefit Costs: Yankee Gas participates in NU's Pension and PBOP Plans, which are accounted for in accordance with accounting guidance on defined benefit pension and other postretirement plans. The liability recorded by Yankee Gas to recognize the funded status of the retiree benefit plans is offset by a regulatory asset in lieu of a charge to Accumulated Other Comprehensive Income/(Loss), reflecting ultimate recovery from customers through rates. All amounts are remeasured annually. As these regulatory assets do not represent a cash outlay for Yankee Gas, no carrying charge is recovered from customers.

The increase in the funded status liability of the retiree benefit plans and the corresponding regulatory assets was primarily driven by a change in mortality assumptions, which increased the estimate of benefits to be provided to plan participants, and a decrease in the discount rate assumption. For further information on the funded status liability and related regulatory assets of the Pension and PBOP plans, see Note 8, "Pension Benefits and Postretirement Benefits Other Than Pensions."

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 impact of such items and the rate-making treatment of such items, as determined by the PURA, are recorded as regulatory assets. As these assets are offset by deferred income tax liabilities, no carrying charge is collected. For further information regarding income taxes, see Note 9, "Income Taxes," to the financial statements.

Environmental Remediation Costs: Prudently incurred costs associated with the remediation of environmental sites are recorded as regulatory assets in accordance with PURA regulation. 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.

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

	As of December 31,	
(Millions of Dollars)	**2014**	**2013**
Cost of Removal	$ 42.4	$ 44.0
Regulatory Tracker Mechanisms	6.8	1.6
Pension Liability	2.5	5.0
Other Regulatory Liabilities	0.6	0.8
Total Regulatory Liabilities	$ 52.3	$ 51.4
Less: Current Portion	$ 3.6	$ 4.2
Total Long-Term Regulatory Liabilities	$ 48.7	$ 47.2

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 utility 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.

Regulatory Tracker Mechanisms: Yankee Gas' approved rates are designed to recover its incurred costs to provide service to customers. Yankee Gas recovers certain of its costs on a fully-reconciling basis through PURA-approved tracking mechanisms. The difference between the costs incurred (or the rate recovery allowed) and the actual revenues is recorded as regulatory assets (for undercollections) or regulatory liabilities (for overcollections) to be included in future customer rates each year. Carrying charges are recorded on all material regulatory tracker mechanisms. Yankee Gas recovers the costs associated with the procurement of natural gas for its firm and seasonal customers, system expansion costs and conservation costs, on a fully reconciling basis through rate reconciling mechanisms.

Pension Liability: Yankee Gas adjusted its pension liability to fair value with the difference recorded as a regulatory liability, as approved by the PURA, in 2000. The pension liability was approved for amortization over an approximate 13-year period beginning in 2002.

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 is charged to Operations and Maintenance as incurred.

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

	As of December 31,	
(Millions of Dollars)	**2014**	**2013**
Property, Plant and Equipment, Gross	$ 1,518.7	$ 1,421.4
Less: Accumulated Depreciation	(383.3)	(359.8)
Property, Plant and Equipment, Net	1,135.4	1,061.6
Construction Work in Progress	12.9	19.0
Total Property, Plant and Equipment, Net	$ 1,148.3	$ 1,080.6

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 2014 and 2013. As of December 31, 2014, the average depreciable life of Yankee Gas' property, plant and equipment was 44.8 years.

4. ASSET RETIREMENT OBLIGATIONS

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 an 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. 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. As Yankee Gas is rate-regulated on a cost-of-service basis, it applies regulatory accounting guidance and both the depreciation and accretion costs associated with Yankee Gas' AROs are recorded as increases to Regulatory Assets on the accompanying balance sheets.

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

	As of December 31,	
(Millions of Dollars)	2014	2013
Balance as of Beginning of Year	$ (5.3)	$ (4.6)
Liabilities Incurred During the Year	(0.1)	(0.1)
Accretion	(0.2)	(0.3)
Revisions in Estimated Cash Flows	1.4	(0.3)
Balance as of End of Year	$ (4.2)	$ (5.3)

5. GOODWILL

Goodwill is not subject to amortization, in accordance with accounting standards that cover the treatment of goodwill. However, goodwill is subject to fair value-based rules for measuring impairment, which requires the use of estimates and judgments, and resulting write-downs, if any, are charged to Operating Expenses. These accounting standards require that goodwill be reviewed at least annually for impairment and whenever facts or circumstances indicate that an impairment may have occurred. 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 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, 2014 and 2013, 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, 2014 and determined that no impairment exists. There were no events subsequent to October 1, 2014 that indicated impairment of goodwill.

6. SHORT-TERM DEBT

Credit Agreement and Notes Payable: NU parent and certain of its subsidiaries, including Yankee Gas, are parties to a five-year $1.45 billion revolving credit facility. The revolving credit facility is to be used primarily to backstop NU parent's $1.45 billion commercial paper program. The commercial paper program allows NU parent to issue commercial paper as a form of short-term debt, with intercompany loans to certain subsidiaries, including Yankee Gas. Effective July 23, 2014, NU parent and certain of its subsidiaries, including Yankee Gas, extended the expiration date of their joint revolving credit facility for one additional year to September 6, 2019. Yankee Gas has a borrowing sublimit of $200 million.

As of December 31, 2014 and 2013, there were intercompany loans from NU parent of $108.2 million and $139.7 million, respectively, included in Notes Payable to NU Parent 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, 2014 and 2013 was 0.43 percent and 0.24 percent, respectively, which is generally based on NU parent's commercial paper credit ratings.

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, 2014 and 2013, 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 Yankee Gas to be repaid and additional borrowings would not be permitted under the credit facility.

7. LONG-TERM DEBT

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

(Millions of Dollars)	As of December 31, 2014	As of December 31, 2013
8.48% Series B due 2022	$ 20.0	$ 20.0
4.80% Series G due 2014 (1)	-	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
4.82% Series L due 2044 (1)	100.0	-
Total First Mortgage Bonds	370.0	345.0
Unamortized Premium	0.6	0.7
Total Long-Term Debt	$ 370.6	$ 345.7

(1) On January 2, 2014, Yankee Gas issued $100 million of 4.82 percent Series L First Mortgage Bonds, due to mature in 2044. The proceeds, net of issuance costs, were used to repay the $75 million 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 parent. As the $100 million Series L debt issuance refinanced the $75 million Series G debt issuance, the $75 million Series G debt issuance was classified as Long-Term Debt as of December 31, 2013.

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, 2014 and 2013.

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.

On November 26, 2014, PURA approved Yankee Gas' request to extend the authorization period for issuance of up to $200 million in long-term debt from December 31, 2014 to December 31, 2015.

8. PENSION BENEFITS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

As of December 31, 2014, NUSCO sponsored two defined benefit retirement plans that covered eligible employees, including employees of Yankee Gas (NUSCO Pension Plan and NSTAR Pension Plan). Effective January 1, 2015, the two plans were merged into one plan, sponsored by NUSCO. The NUSCO and NSTAR Pension Plans are subject to the provisions of ERISA, as amended by the Pension Protection Act of 2006. NU's policy is to annually fund the Pension Plans in an amount at least equal to an amount that will satisfy all federal funding requirements. In addition, NU maintains non-qualified defined benefit retirement plans sponsored by NUSCO (herein collectively referred to as the SERP Plans), which provide benefits in excess of Internal Revenue Code limitations to eligible current and retired participants.

As of December 31, 2014, NUSCO also sponsored defined benefit postretirement plans that provide certain retiree benefits, primarily medical, dental and life insurance, to retiring employees that meet certain age and service eligibility requirements, including employees of Yankee Gas (NUSCO PBOP Plans and NSTAR PBOP Plan). Effective January 1, 2015, the plans were merged into one plan, sponsored by NUSCO. Under certain circumstances, eligible retirees are required to contribute to the costs of postretirement benefits. The benefits provided under the PBOP Plans are not vested and NU has the right to modify any benefit provision subject to applicable laws at that time.

Because Yankee Gas recovers the pension and PBOP benefit costs from customers through rates, regulatory assets are recorded in lieu of an adjustment to Accumulated Other Comprehensive Income/(Loss) to record the funded status of the Pension and PBOP Plans. The SERP funded status is recorded on an after-tax basis to Accumulated Other Comprehensive Income/(Loss). For further information, see Note 2, "Regulatory Accounting," and Note 13, "Accumulated Other Comprehensive Loss," to the financial statements. The SERP Plans do not have plan assets.

For the years ended December 31, 2014 and 2013, the expected return on plan assets for the NUSCO Pension and PBOP Plans was calculated by applying the assumed rate of return to a four-year rolling average of plan asset fair values. This calculation recognized investment gains or losses over a four-year period from the years in which they occurred. 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. For the NSTAR Pension and PBOP Plans, the entire difference between the actual return and calculated expected return on plan assets is reflected as a component of unrecognized actuarial gain or loss. Unrecognized actuarial gains or losses are amortized as a component of Pension and PBOP expense over the estimated average future employee service period.

Pension and SERP Plans: Yankee Gas accounts for the Pension and SERP Plans under the multiple-employer approach, with its share of the funded status of the plans reflected on its balance sheet. The following table provides information on the NU Pension and SERP Plan benefit obligations, fair values of Pension Plan assets, and funded status, and the portions attributable to Yankee Gas:

	Pension and SERP			
	As of December 31, 2014		As of December 31, 2013	
(Millions of Dollars)	NU	Yankee Gas	NU	Yankee Gas
Change in Benefit Obligation				
Benefit Obligation as of Beginning of Year	$ (4,676.5)	$ (165.6)	$ (5,022.8)	$ (182.7)
Decrease Due to Transfer of Employees	-	5.7	-	-
Service Cost	(79.9)	(3.7)	(102.3)	(4.6)
Interest Cost	(225.7)	(7.8)	(206.7)	(7.5)
Actuarial Gain/(Loss)	(739.6)	(27.9)	433.6	22.2
Benefits Paid - Pension	230.3	7.2	216.6	6.9
Benefits Paid - SERP	5.2	0.1	5.1	0.1
Benefit Obligation as of End of Year	$ (5,486.2)	$ (192.0)	$ (4,676.5)	$ (165.6)
Change in Pension Plan Assets				
Fair Value of Plan Assets as of Beginning of Year	$ 3,985.9	$ 94.8	$ 3,411.3	$ 88.8
Decrease Due to Transfer of Employees	-	(5.7)	-	-
Employer Contributions	171.6	13.4	284.7	-
Actual Return on Plan Assets	199.3	5.1	506.5	12.9
Benefits Paid	(230.3)	(7.2)	(216.6)	(6.9)
Fair Value of Plan Assets as of End of Year	$ 4,126.5	$ 100.4	$ 3,985.9	$ 94.8
Funded Status as of December 31st	$ (1,359.7)	$ (91.6)	$ (690.6)	$ (70.8)

During 2014, the Society of Actuaries released a series of updated mortality tables resulting from recent studies that measured mortality rates for various groups of individuals. The updated mortality tables released in 2014 increased life expectancy of plan participants by 3 to 5 years and have the effect of increasing the estimate of benefits to be provided to plan participants. The impact of this adoption on NU's funded status liability for the year ended December 31, 2014 was an increase of approximately $340 million. In addition, the decreases in the discount rates resulted in an increase on NU's funded status liability of approximately $530 million. Partially offsetting these increases are the impact of other actuarial assumptions.

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:

	Pension and SERP	
	As of December 31,	
(Millions of Dollars)	2014	2013
NU	$ 5,000.1	$ 4,538.8
Yankee Gas	168.2	163.4

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

	Pension and SERP	
	As of December 31,	
	2014	2013
Discount Rate	4.20 %	4.85 % - 5.03 %
Compensation/Progression Rate	3.50 %	3.50 % - 4.00 %

Pension and SERP Expense: NU charges 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 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 the Pension and SERP Plans are shown below. The net periodic benefit expense and the intercompany allocations less the capitalized portion of pension is included in Operations and Maintenance on the statements of income. Capitalized pension amounts relate to employees working on capital projects and are included in Property, Plant and Equipment, Net. Intercompany allocations are not included in the Yankee Gas net periodic benefit expense amounts. Pension and SERP expense reflected in the statements of cash flows for Yankee Gas does not include the intercompany allocations and the corresponding capitalized portion, as these amounts are cash settled on a short-term basis.

	Pension and SERP			
	NU		Yankee Gas	
	For the Years Ended December 31,		For the Years Ended December 31,	
(Millions of Dollars)	2014	2013	2014	2013
Service Cost	$ 79.9	$ 102.3	$ 3.7	$ 4.6
Interest Cost	225.7	206.7	7.8	7.5
Expected Return on Plan Assets	(310.8)	(278.1)	(7.5)	(6.9)
Actuarial Loss	128.4	210.5	5.4	8.7
Prior Service Cost	4.4	4.0	0.1	0.2
Total Net Periodic Benefit Expense	$ 127.6	$ 245.4	$ 9.5	$ 14.1
Intercompany Allocations	N/A	N/A	$ 2.9	$ 4.1
Capitalized Pension Expense	$ 35.2	$ 73.2	$ 2.6	$ 3.8

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

	Pension and SERP	
	For the Years Ended December 31,	
	2014	2013
Discount Rate	4.85 % - 5.03 %	4.13 % - 4.24 %
Expected Long-Term Rate of Return	8.25 %	8.25 %
Compensation/Progression Rate	3.50 % - 4.00 %	3.50 % - 4.00 %

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

	Amounts Reclassified To/From			
	Regulatory Assets		OCI	
NU	For the Years Ended December 31,			
(Millions of Dollars)	2014	2013	2014	2013
Actuarial (Gains)/Losses Arising During the Year	$ 797.3	$ (635.2)	$ 55.9	$ (28.9)
Actuarial Losses Reclassified as Net Periodic Benefit Expense	(122.8)	(201.2)	(5.6)	(9.4)
Prior Service Cost Reclassified as Net Periodic Benefit Expense	(4.2)	(3.8)	(0.2)	(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, 2014 and 2013, and the amounts that are expected to be recognized as components in 2015:

NU	Regulatory Assets as of December 31,		Expected 2015	AOCI as of December 31,		Expected 2015
(Millions of Dollars)	2014	2013	Expense	2014	2013	Expense
Actuarial Loss	$ 1,811.9	$ 1,137.4	$ 149.1	$ 93.5	$ 43.2	$ 6.4
Prior Service Cost	13.2	17.4	3.5	0.8	1.0	0.2

PBOP Plans: Yankee Gas accounts for the PBOP Plans under the multiple-employer approach, with its share of the funded status of the plans reflected on its balance sheet. Yankee Gas annually funds postretirement costs through tax deductible contributions to external trusts.

The following table provides information on the NU PBOP Plan benefit obligations, fair values of plan assets, and funded status, and the portions attributable to Yankee Gas:

	PBOP			
	As of December 31, 2014		As of December 31, 2013	
(Millions of Dollars)	NU	Yankee Gas	NU	Yankee Gas
Change in Benefit Obligation				
Benefit Obligation as of Beginning of Year	$ (1,038.0)	$ (24.0)	$ (1,233.3)	$ (25.5)
Decrease Due to Transfer of Employees	-	0.6	-	-
Service Cost	(12.5)	(0.5)	(16.9)	(0.8)
Interest Cost	(49.5)	(1.1)	(47.2)	(1.0)
Actuarial Gain/(Loss)	(95.5)	0.4	200.9	1.9
Benefits Paid	47.6	0.9	58.5	1.4
Benefit Obligation as of End of Year	$ (1,147.9)	$ (23.7)	$ (1,038.0)	$ (24.0)
Change in Plan Assets				
Fair Value of Plan Assets as of Beginning of Year	$ 826.5	$ 17.0	$ 709.1	$ 14.3
Actual Return on Plan Assets	43.7	0.5	118.3	2.6
Employer Contributions	40.0	0.8	57.6	1.5
Benefits Paid	(47.6)	(0.9)	(58.5)	(1.4)
Fair Value of Plan Assets as of End of Year	$ 862.6	$ 17.4	$ 826.5	$ 17.0
Funded Status as of December 31st	$ (285.3)	$ (6.3)	$ (211.5)	$ (7.0)

During 2014, the Society of Actuaries released a series of updated mortality tables resulting from recent studies that measured mortality rates for various groups of individuals. The updated mortality tables released in 2014 increased life expectancy of plan participants by 3 to 5 years and have the effect of increasing the estimate of benefits to be provided to plan participants. The impact of this adoption on NU's funded status liability for the year ended December 31, 2014 was an increase of approximately $82 million. In addition, the decreases in the discount rates resulted in an increase on NU's funded status liability of approximately $110 million. Partially offsetting these increases are the impact of other actuarial assumptions.

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

	PBOP	
	As of December 31,	
	2014	2013
Discount Rate	4.22 %	4.78 % - 5.10%
Health Care Cost Trend Rate	6.50 %	7.00 %

PBOP Expense: NU charges 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 the PBOP Plans are shown below. The net periodic benefit expense and the intercompany allocations less the capitalized portion of PBOP is included in Operations and Maintenance on the statements of income. Capitalized PBOP amounts relate to employees working on capital projects and are included in Property, Plant and Equipment, Net. Intercompany allocations are not included in the Yankee Gas net periodic benefit expense amounts. PBOP expense reflected in the statements of cash flows for Yankee Gas does not include the intercompany allocations and the corresponding capitalized portion, as these amounts are cash settled on a short-term basis.

	PBOP			
	For the Years Ended December 31,			
	2014		2013	
(Millions of Dollars)	NU	Yankee Gas	NU	Yankee Gas
Service Cost	$ 12.5	$ 0.5	$ 16.9	$ 0.8
Interest Cost	49.5	1.1	47.2	1.0
Expected Return on Plan Assets	(63.3)	(1.4)	(55.4)	(1.3)
Actuarial Loss	12.2	0.6	26.0	1.1
Prior Service Credit	(2.8)	(0.1)	(2.1)	(0.1)
Total Net Periodic Benefit Expense	$ 8.1	$ 0.7	$ 32.6	$ 1.5
Intercompany Allocations	N/A	$ 0.4	N/A	$ 0.6
Capitalized PBOP Expense	$ 1.4	$ 0.2	$ 8.8	$ 0.4

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

	PBOP	
	For the Years Ended December 31,	
	2014	2013
Discount Rate	4.78 % - 5.10 %	4.04 % - 4.35 %
Expected Long-Term Rate of Return	8.25 %	8.25 %

As of December 31, 2014 and 2013, the health care cost trend rate assumption used to determine the PBOP Plans' funded status was 6.5 percent and 7 percent, respectively, subsequently decreasing to an ultimate rate of 4.5 percent in 2023. The health care cost trend rate assumption used to calculate the PBOP expense amounts was 7 percent for the year ended December 31, 2014.

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, 2014 would have the following effects:

NU *(Millions of Dollars)*	One Percentage Point Increase	One Percentage Point Decrease
Effect on PBOP Obligation	$ 111.2	$ (88.4)
Effect on Total Service and Interest Cost Components	5.3	(4.4)

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:

	Amounts Reclassified To/From			
	Regulatory Assets		OCI	
NU	For the Years Ended December 31,			
(Millions of Dollars)	2014	2013	2014	2013
Actuarial Losses/(Gains) Arising During the Year	$ 115.1	$ (262.0)	$ 0.4	$ (1.9)
Actuarial Losses Reclassified as Net Periodic Benefit Expense	(11.6)	(24.9)	(0.6)	(1.1)
Prior Service Credit Reclassified as Net Periodic Benefit Income	2.8	2.1	-	-

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, 2014 and 2013, and the amounts that are expected to be recognized as components in 2015:

NU	Regulatory Assets as of December 31,		Expected 2015	AOCI as of December 31,		Expected 2015
(Millions of Dollars)	2014	2013	Expense	2014	2013	Expense
Actuarial Loss	$ 192.7	$ 89.2	$ 6.9	$ 6.0	$ 6.2	$ 0.3
Prior Service Credit	(1.8)	(4.6)	(0.5)	-	-	-

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

NU *(Millions of Dollars)*	2015	2016	2017	2018	2019	2020-2024
Pension and SERP	$ 244.5	$ 253.6	$ 268.9	$ 273.4	$ 285.4	$ 1,591.1
PBOP	58.7	59.7	60.6	61.3	62.0	318.8

Contributions: NU contributed $171.6 million to the Pension Plans in 2014, of which $13.4 million was contributed by Yankee Gas. Based on the current status of the Pension Plans, NU expects to make contributions of approximately $155 million in 2015, of which $24.6 million will be contributed by Yankee Gas.

NU contributed $40 million to the PBOP Plans in 2014 and expects to make approximately $27 million in contributions in 2015. This amount will be funded into the 401(h) account and VEBAs up to the maximum tax-deductible level permitted.

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. PBOP assets are comprised of assets held in the PBOP Plans as well as specific assets within the defined benefit pension plan trust (401(h) assets). The investment policy and strategy of the 401(h) assets is consistent with those of the defined benefit pension plans. NU's expected long-term rates of return on Pension and PBOP Plan assets are based on 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, 2014, management has assumed long-term rates of return of 8.25 percent for the Pension and PBOP Plan assets. These long-term rates of return are based on the assumed rates of return for the target asset allocations as follows:

	As of December 31, 2014 and 2013	
	Pension and Tax-Exempt PBOP Plans	
	Target Asset Allocation	Assumed Rate of Return
Equity Securities:		
United States	24%	9%
International	10%	9%
Emerging Markets	6%	10%
Private Equity	10%	13%
Debt Securities:		
Fixed Income	15%	5%
High Yield Fixed Income	9%	7.5%
Emerging Markets Debt	6%	7.5%
Real Estate and Other Assets	9%	7.5%
Hedge Funds	11%	7%

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 recorded at fair value on a recurring basis by the level in which they are classified within the fair value hierarchy:

	NU Pension Plans							
	Fair Value Measurements as of December 31,							
(Millions of Dollars)	2014				2013			
Asset Category:	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity Securities [1]	$ 414.7	$ 1,035.0	$ 292.2	$ 1,741.9	$ 326.8	$ 1,172.1	$ 255.5	$ 1,754.4
Private Equity	18.8	-	367.9	386.7	96.4	-	300.3	396.7
Fixed Income [2]	10.2	561.4	722.0	1,293.6	11.6	605.1	589.5	1,206.2
Real Estate and Other Assets	-	132.0	265.8	397.8	-	88.2	288.5	376.7
Hedge Funds	-	20.0	475.0	495.0	-	-	416.9	416.9
Total Master Trust Assets	$ 443.7	$ 1,748.4	$ 2,122.9	$ 4,315.0	$ 434.8	$ 1,865.4	$ 1,850.7	$ 4,150.9
Less: 401(h) PBOP Assets [3]				(188.5)				(165.0)
Total Pension Assets				$ 4,126.5				$ 3,985.9

	NU PBOP Plans							
	Fair Value Measurements as of December 31,							
(Millions of Dollars)	2014				2013			
Asset Category:	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	$ -	$ -	$ -	$ -	$ 11.1	$ -	$ -	$ 11.1
Equity Securities [1]	104.1	172.8	75.1	352.0	110.3	176.8	69.1	356.2
Private Equity	-	-	24.9	24.9	-	-	17.9	17.9
Fixed Income [2]	16.1	110.0	78.3	204.4	-	119.7	51.5	171.2
Real Estate and Other Assets	-	19.4	15.0	34.4	-	14.2	33.9	48.1
Hedge Funds	-	-	58.4	58.4	-	-	57.0	57.0
Total	$ 120.2	$ 302.2	$ 251.7	$ 674.1	$ 121.4	$ 310.7	$ 229.4	$ 661.5
Add: 401(h) PBOP Assets [3]				188.5				165.0
Total PBOP Assets				$ 862.6				$ 826.5

(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 Plans include a 401(h) account that has been allocated to provide health and welfare postretirement benefits under the PBOP Plans.

Effective January 1, 2013, the NSTAR Pension Plan assets were transferred into the NUSCO Pension Plan master trust. The NUSCO Pension Plan is entitled to approximately 66 percent of each asset category in the master trust, the NSTAR Pension Plan is entitled to approximately 30 percent of each asset category in the master trust and the 401(h) plans are entitled to approximately four percent of each asset category in the master trust. For the years ended December 31, 2014 and 2013 the NUSCO Pension Plan was entitled to $2,803.6 million and $2,750.4 million, respectively. Also effective January 1, 2013, the NSTAR PBOP Plan assets were transferred into a master trust with the NUSCO PBOP Plan assets and assets were allocated to each plan. For the years ended December 31, 2014 and 2013, the NUSCO PBOP Plan was entitled to $399 million and $391 million, respectively. Yankee Gas is entitled to a portion of the NUSCO Pension and PBOP Plan assets.

NU 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, 2014 and 2013:

	NU Pension Plans					
(Millions of Dollars)	Equity Securities	Private Equity	Fixed Income	Real Estate and Other Assets	Hedge Funds	Total
Balance as of January 1, 2013	$ 322.7	$ 267.9	$ 315.1	$ 235.4	$ 418.9	$ 1,560.0
Transfer Between Categories	-	-	32.5	-	(32.5)	-
Actual Return/(Loss) on Plan Assets:						
Relating to Assets Still Held as of Year End	20.6	15.4	55.3	12.9	33.4	137.6
Relating to Assets Distributed During the Year	12.2	13.7	(1.0)	6.2	-	31.1
Purchases, Sales and Settlements	(100.0)	3.3	187.6	34.0	(2.9)	122.0
Balance as of December 31, 2013	$ 255.5	$ 300.3	$ 589.5	$ 288.5	$ 416.9	$ 1,850.7
Actual Return/(Loss) on Plan Assets:						
Relating to Assets Still Held as of Year End	(2.3)	14.0	45.2	(3.6)	23.5	76.8
Relating to Assets Distributed During the Year	-	13.9	(6.2)	28.3	(15.2)	20.8
Purchases, Sales and Settlements	39.0	39.7	93.5	(47.4)	49.8	174.6
Balance as of December 31, 2014	$ 292.2	$ 367.9	$ 722.0	$ 265.8	$ 475.0	$ 2,122.9

	NU PBOP Plans					
(Millions of Dollars)	Equity Securities	Private Equity	Fixed Income	Real Estate and Other Assets	Hedge Funds	Total
Balance as of January 1, 2013	$ 36.3	$ 11.3	$ 32.1	$ 26.7	$ 39.6	$ 146.0
Actual Return/(Loss) on Plan Assets:						
Relating to Assets Still Held as of Year End	20.8	1.5	4.1	3.9	5.4	35.7
Relating to Assets Distributed During the Year	-	0.2	-	(0.1)	-	0.1
Purchases, Sales and Settlements	12.0	4.9	15.3	3.4	12.0	47.6
Balance as of December 31, 2013	$ 69.1	$ 17.9	$ 51.5	$ 33.9	$ 57.0	$ 229.4
Actual Return/(Loss) on Plan Assets:						
Relating to Assets Still Held as of Year End	6.0	1.3	1.9	(2.8)	1.4	7.8
Relating to Assets Distributed During the Year	-	0.1	-	(2.2)	-	(2.1)
Purchases, Sales and Settlements	-	5.6	24.9	(13.9)	-	16.6
Balance as of December 31, 2014	$ 75.1	$ 24.9	$ 78.3	$ 15.0	$ 58.4	$ 251.7

9. INCOME TAXES

The components of income tax expense were as follows:

	For the Years Ended December 31,	
(Millions of Dollars)	2014	2013
Current Income Taxes:		
Federal	$ (6.1)	$ 0.9
State	5.1	(0.4)
Total Current	(1.0)	0.5
Deferred Income Taxes, Net:		
Federal	31.9	20.0
State	(1.3)	3.0
Total Deferred	30.6	23.0
Investment Tax Credits, Net	(0.4)	(0.4)
Income Tax Expense	$ 29.2	$ 23.1

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

(Millions of Dollars, except percentages)	For the Years Ended December 31, 2014	2013
Income Before Income Tax Expense	$ 75.4	$ 62.8
Statutory Federal Income Tax Expense at 35%	26.4	22.0
Tax Effect of Differences:		
Depreciation	0.4	(0.3)
Investment Tax Credit Amortization	(0.4)	(0.4)
State Income Taxes, Net of Federal Impact	2.4	(0.6)
Tax Asset Valuation Allowance/Reserve Adjustments	0.4	2.2
Other, Net	-	0.2
Income Tax Expense	$ 29.2	$ 23.1
Effective Tax Rate	38.7 %	36.8 %

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.

Deferred tax assets and liabilities are recognized for the future tax effects of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The tax effect of temporary differences is accounted for in accordance with the rate-making treatment of the PURA and relevant accounting authoritative literature. The tax effects of temporary differences that give rise to the net accumulated deferred income tax obligations were as follows:

(Millions of Dollars)	As of December 31, 2014	2013
Deferred Tax Assets:		
Allowance for Uncollectible Accounts	$ 7.2	$ 5.8
Regulatory Deferrals - Liabilities	19.4	21.2
Employee Benefits	39.7	34.7
Tax Effect - Tax Regulatory Liabilities	0.6	0.8
Federal Net Operating Loss Carryforwards	5.9	12.4
Other	5.7	12.0
Total Deferred Tax Assets	$ 78.5	$ 86.9
Deferred Tax Liabilities:		
Accelerated Depreciation and Other Plant-Related Differences	$ 293.2	$ 276.1
Property Tax Accruals	5.7	6.1
Regulatory Amounts:		
Regulatory Deferrals - Assets	44.9	34.9
Tax Effect - Tax Regulatory Assets	9.7	14.5
Other	(4.6)	(5.0)
Total Deferred Tax Liabilities	$ 348.9	$ 326.6

As of December 31, 2014, Yankee Gas had a $17 million federal net operating loss carryforward with expiration dates ranging from 2031 to 2032, a $17.2 million state net operating loss carryforward with expiration in 2034, and state tax credits of $10.1 million with expiration dates ranging from 2014 to 2019. As of December 31, 2013, Yankee Gas had a $35.4 million federal net operating loss carryforward with expiration dates ranging from 2031 to 2032 and state tax credits of $6.1 million with expiration dates ranging from 2014 to 2018.

Unrecognized Tax Benefits: A reconciliation of the activity in unrecognized tax benefits from January 1, 2013 to December 31, 2014, all of which would impact the effective tax rate, if recognized, is as follows:

(Millions of Dollars)	
Balance as of January 1, 2013	$ 14.8
Gross Increases - Current Year	3.3
Gross Decrease - Prior Year	(4.5)
Balance as of December 31, 2013	13.6
Gross Increases - Current Year	3.6
Balance as of December 31, 2014	$ 17.2

Interest and Penalties: Interest on uncertain tax positions is recorded and generally classified as a component of Other Interest Expense on the accompanying statements of income. 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. The amount of interest expense/(income) on uncertain tax positions recognized and the related accrued interest payable are as follows:

	For the Years Ended December 31,			As of December 31,	
(Millions of Dollars)	2014	2013	*(Millions of Dollars)*	2014	2013
Other Interest Income	$ -	$ (1.3)	Accrued Interest Expense	$ 0.1	$ 0.1

Tax Positions: During 2014, Yankee Gas did not resolve any of its uncertain tax positions.

Open Tax Years: The following table summarizes Yankee Gas' tax years that remain subject to examination by major tax jurisdictions as of December 31, 2014:

Description	Tax Years
Federal (NU consolidated)	2014
Connecticut	2011 - 2014

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 Final determination from the Connecticut Department of Revenue Services (DRS) that concluded its audit of Connecticut income 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.

2014 Federal Legislation: On December 19, 2014, the "Tax Increase Prevention Act of 2014" became law, which extended the accelerated deduction of depreciation to businesses through 2014. This extended stimulus provides Yankee Gas with cash flow benefits of approximately $12 million in 2015.

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.

On September 13, 2013, the Internal Revenue Service issued final Tangible Property regulations that are meant to simplify, clarify and make more administrable previously issued guidance. Yankee Gas is in compliance with the new regulations, but continues to evaluate several new potential elections.

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 management believes that Yankee Gas is substantially in compliance with all enacted laws and regulations. The environmental sites are primarily comprised of former manufactured gas plant (MGP) sites that were operated several decades ago, which resulted in certain by-products remaining in the environment that may pose a risk to human health and the environment.

Environmental reserves are accrued when assessments indicate it is probable that a liability has been incurred and an amount can be reasonably estimated. The approach used estimates the liability based on the most likely action plan from a variety of available remediation options, including no action required or several different remedies ranging from establishing institutional controls to full site remediation and monitoring. 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, and take into consideration site assessment, remediation and long-term monitoring costs. 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. A reconciliation of the activity in the environmental reserves is as follows:

	As of December 31,	
(Millions of Dollars)	**2014**	**2013**
Balance as of Beginning of Year	$ 15.3	$ 16.0
Additions	10.6	2.0
Payments/Reductions	(1.4)	(2.7)
Balance as of End of Year	$ 24.5	$ 15.3

The Company had 14 environmental sites as of December 31, 2014. For three of the 14 environmental sites that were included in the Company's reserve for environmental costs, the $0.7 million accrual represents management's best estimate of the liability and no additional loss is anticipated. For three of the 14 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, 2014, $12 million had been accrued as a liability for these sites, which represents management's best estimate of the liability for environmental costs. This amount is the best estimate with estimated ranges of additional losses from zero to $11.3 million.

As of December 31, 2014, for the remaining eight environmental sites included in the Company's reserve for environmental costs, management 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, 2014, $11.8 million had been accrued as a liability for these sites.

The increase in the reserve balance for the MGP sites was due to the completion of the site assessment at three sites. The assessments provided new information related to the extent and nature of the contamination and the costs of required remediation.

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

The estimated future annual costs of Yankee Gas' significant long-term contractual arrangements as of December 31, 2014 are as follows:

(Millions of Dollars)	**2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**	**Total**
Natural Gas Procurement	$ 76.6	$ 67.1	$ 34.6	$ 21.8	$ 18.0	$ 26.6	$ 244.7

Yankee Gas has long-term contracts for the purchase, transportation and storage of natural gas in the normal course of business as part of its portfolio of supplies. These contracts extend through 2022. The total cost incurred under these agreements was $219.8 million in 2014 and $169.3 million in 2013.

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 involve management's assessment to determine the probability of whether a loss will occur and, if probable, its best estimate of probable loss. The Company records and discloses losses when these losses are probable and reasonably estimable, and discloses matters when losses are probable but not estimable or when losses are reasonably possible. Legal costs related to the defense of loss contingencies are expensed 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, which are included below in operating lease payments rental expense and future minimum rental payments. 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.

Operating lease rental payments charged to expense were $0.6 million and $1.1 million for the years ended December 31, 2014 and 2013, respectively.

Future minimum rental payments, excluding executory costs, such as property taxes, state use taxes, insurance, and maintenance, under long-term noncancelable operating leases, as of December 31, 2014 are as follows:

(Millions of Dollars)	
2015	$ 0.6
2016	0.5
2017	0.4
2018	0.2
2019	0.1
Thereafter	0.5
Future Minimum Lease Payments	$ 2.3

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' 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 were $370.6 million and $345.7 million as of December 31, 2014 and 2013, respectively. The estimated fair values of these financial instruments were $427.2 million and $370.9 million as of December 31, 2014 and 2013, respectively. These fair values were classified as Level 2 in the fair value hierarchy. For further information regarding long-term debt, see Note 7, "Long-Term Debt," to the 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:

	As of December 31, 2014			As of December 31, 2013		
(Millions of Dollars)	Qualified Cash Flow Hedging Instruments	SERP Plan	Total	Qualified Cash Flow Hedging Instruments	SERP Plan	Total
Balance as of Beginning of Year	$ (0.9)	$ (0.3)	$ (1.2)	$ (1.0)	$ (0.5)	$ (1.5)
OCI Before Reclassifications	-	-	-	-	0.1	0.1
Amounts Reclassified from AOCI	0.1	-	0.1	0.1	0.1	0.2
Net OCI	0.1	-	0.1	0.1	0.2	0.3
Balance as of End of Year	$ (0.8)	$ (0.3)	$ (1.1)	$ (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 into Interest Expense over the term of the underlying debt instrument. The related tax effect is not material to Yankee Gas’ financial statements.

Actuarial gains and losses arising during the year on the SERP Plan are recorded on an after-tax basis to AOCI and are reflected in OCI amounts before reclassifications. The amortization expense of actuarial gains and losses on the SERP Plan are amortized from AOCI into Operations and Maintenance over the average future employee service period, and are reflected in amounts reclassified from AOCI.

As of December 31, 2014, it is estimated that a pre-tax amount of $0.2 million will be reclassified from AOCI as a decrease to Net Income over the next 12 months as a result of the amortization of interest rate swap agreements and a pre-tax amount of $0.1 million will be reclassified from AOCI as a decrease to Net Income over the next 12 months as a result of the amortization of SERP costs.

14. COMMON STOCK

Yankee Gas had 1,000 shares of common stock authorized, issued and outstanding at a $5 per share par value as of December 31, 2014 and 2013.