Eversource Gas Company of Massachusetts

Financial Statements as of December 31, 2021 and 2020, and
for the Year Ended December 31, 2021 and
for the Period from October 9, 2020 to December 31, 2020,
Together With Independent Auditor's Report

Eversource Gas Company of Massachusetts

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INDEPENDENT AUDITOR'S REPORT

Eversource Gas Company of Massachusetts
The Board of Directors of Eversource Gas Company of Massachusetts
Berlin, CT

Opinion

We have audited the financial statements of Eversource Gas Company of Massachusetts (the "Company"), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income, comprehensive income, common stockholder's equity, and cash flows for the year ended December 31, 2021 and the period from October 9, 2020 to December 31, 2020, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the year ended December 31, 2021 and the period from October 9, 2020 to December 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Deloitte & Touche LLP

March 30, 2022

EVERSOURCE GAS COMPANY OF MASSACHUSETTS
BALANCE SHEETS

(Thousands of Dollars)	As of December 31, 2021	2020
ASSETS		
Current Assets:		
Cash	$ 37	$ 1,247
Receivables, Net (net of allowance for uncollectible accounts of $22,263 and $5,055 as of December 31, 2021 and 2020, respectively)	67,287	68,184
Accounts Receivable from Affiliated Companies	21,951	8,843
Unbilled Revenues	20,083	19,511
Fuel, Materials and Supplies	19,226	14,648
Regulatory Assets	156,539	93,633
Prepayments and Other Current Assets	23,895	1,580
Total Current Assets	309,018	207,646
Property, Plant and Equipment, Net	1,405,527	1,176,928
Deferred Debits and Other Assets:		
Regulatory Assets	45,966	73,943
Goodwill	51,932	51,932
Accumulated Deferred Income Taxes	—	18,723
Prepaid Pension	33,462	8,235
Restricted Cash	35,913	41,502
Other Long-Term Assets	44,747	33,667
Total Deferred Debits and Other Assets	212,020	228,002
Total Assets	$ 1,926,565	$ 1,612,576
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable to Eversource Parent	$ 136,400	$ 11,200
Accounts Payable	93,633	71,890
Accounts Payable to Affiliated Companies	55,568	34,622
Regulatory Liabilities	12,672	7,712
Other Current Liabilities	27,046	21,716
Total Current Liabilities	325,319	147,140
Deferred Credits and Other Liabilities:		
Regulatory Liabilities	136,979	126,214
Accumulated Deferred Income Taxes	45,585	—
Accrued PBOP	14,340	22,034
Finance Lease Obligations	48,359	51,070
Other Long-Term Liabilities	88,896	99,176
Total Deferred Credits and Other Liabilities	334,159	298,494
Notes Payable to Eversource Parent - Long-Term	—	309,400
Long-Term Debt	548,354	—
Common Stockholder's Equity:		
Common Stock	—	—
Capital Surplus, Paid In	667,382	843,682
Retained Earnings	51,351	13,860
Common Stockholder's Equity	718,733	857,542
Total Liabilities and Capitalization	$ 1,926,565	$ 1,612,576

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

EVERSOURCE GAS COMPANY OF MASSACHUSETTS
STATEMENTS OF INCOME

(Thousands of Dollars)	For the Year Ended December 31, 2021	From October 9, 2020 to December 31, 2020
Operating Revenues	$ 586,296	$ 154,842
Operating Expenses:		
Cost of Natural Gas	203,818	58,836
Operations and Maintenance	163,192	41,914
Depreciation	47,699	10,926
Amortization of Regulatory Liabilities, Net	(5,675)	(805)
Energy Efficiency Programs	62,396	14,411
Taxes Other Than Income Taxes	33,150	9,671
Total Operating Expenses	504,580	134,953
Operating Income	81,716	19,889
Interest Expense	15,427	3,696
Other Income, Net	12,468	2,688
Income Before Income Tax Expense	78,757	18,881
Income Tax Expense	20,566	5,021
Net Income	$ 58,191	$ 13,860

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

EVERSOURCE GAS COMPANY OF MASSACHUSETTS
STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

	Common Stock		Capital Surplus,	Retained	
(Thousands of Dollars, Except Stock Information)	Stock	Amount	Paid In	Earnings	Total
Balance as of October 9, 2020	100	$ —	$ 10	$ —	$ 10
Net Income				13,860	13,860
Capital Contributions from Parent			843,672		843,672
Balance as of December 31, 2020	100	—	843,682	13,860	857,542
Net Income				58,191	58,191
Dividends on Common Stock				(20,700)	(20,700)
Return of Capital Contributions from Parent			(176,300)		(176,300)
Balance as of December 31, 2021	100	$ —	$ 667,382	$ 51,351	$ 718,733

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

EVERSOURCE GAS COMPANY OF MASSACHUSETTS
STATEMENTS OF CASH FLOWS

(Thousands of Dollars)	For the Year Ended December 31, 2021	From October 9, 2020 to December 31, 2020
Operating Activities:		
Net Income	$ 58,191	$ 13,860
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:		
Depreciation	47,699	10,926
Deferred Income Taxes	63,199	(165)
Pension and PBOP (Income)/Expense, Net	(4,610)	21
Amortization of Regulatory Liabilities, Net	(5,675)	(805)
Regulatory Overrecoveries, Net	(46,702)	(22,178)
Uncollectible Expense	5,172	3,323
Cost of Removal Expenditures	(4,678)	—
Other	(2,162)	7,539
Changes in Current Assets and Liabilities:		
Receivables and Unbilled Revenues, Net	(26,763)	(47,882)
Fuel, Materials and Supplies	(4,578)	144
Taxes Receivable/Accrued, Net	(17,841)	5,556
Accounts Payable	22,104	48,135
Other Current Assets and Liabilities, Net	(176)	(11,348)
Net Cash Flows Provided by Operating Activities	83,180	7,126
Investing Activities:		
Investments in Property, Plant and Equipment	(248,935)	(30,906)
Restricted Cash Acquired from Columbia Gas of Massachusetts	—	56,000
Net Cash Flows Provided by Investing Activities	(248,935)	25,094
Financing Activities:		
Cash Dividends on Common Stock	(20,700)	—
Return of Capital Contributions from Parent	(176,300)	—
Issuance of Long-Term Debt	550,000	—
Increase in Notes Payable to Eversource Parent	125,200	11,200
Decrease in Notes Payable to Eversource Parent - Long-Term	(309,400)	—
Other Financing Activities	(4,244)	(671)
Net Cash Flows Provided by Financing Activities	164,556	10,529
Net (Decrease)/Increase in Cash and Restricted Cash	(1,199)	42,749
Cash and Restricted Cash - Beginning of Period	42,749	—
Cash and Restricted Cash - End of Period	$ 41,550	$ 42,749

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

EVERSOURCE GAS COMPANY OF MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2021 AND DECEMBER 31, 2020 AND FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM OCTOBER 9, 2020 TO DECEMBER 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. About Eversource Gas Company of Massachusetts

General

Eversource Gas Company of Massachusetts (EGMA or the Company) is a regulated public utility company engaged in the distribution and sale of natural gas to customers throughout Massachusetts. EGMA distributes natural gas to approximately 335,000 customers in 65 communities throughout Massachusetts covering 1,206 square miles. The Company is subject to regulation of the rates it charges its customers, accounting and other matters by the Massachusetts Department of Public Utilities (DPU). EGMA is a wholly-owned subsidiary of Yankee Energy System, Inc., a holding company that is a wholly-owned subsidiary of Eversource Energy (Eversource). EGMA is doing business as Eversource Energy.

EGMA's natural gas business provides non-interruptible (firm) natural gas sales and transportation service to eligible retail customers who require a continuous natural gas supply throughout the year, and to customers who choose to purchase natural gas from EGMA. EGMA offers firm transportation service to all customers who purchase natural gas from sources other than EGMA. In addition, EGMA has the ability to offer interruptible transportation and interruptible natural gas sales service to high volume commercial and industrial customers. EGMA can interrupt service to these customers during peak demand periods or at any other time to maintain distribution system integrity.

A portion of the storage of natural gas supply for EGMA during the winter heating season is provided by Hopkinton LNG Corp. (Hopkinton), another wholly-owned subsidiary of Yankee Energy System, Inc. EGMA has access to Hopkinton's storage facilities, including liquefaction and vaporization plants, propane peak shaving plants, and above ground storage tanks in Massachusetts.

Eversource Acquisition of Columbia Gas of Massachusetts and Rate Settlement Agreement

On October 9, 2020, Eversource acquired certain assets and liabilities that comprised the NiSource Inc. (NiSource) natural gas distribution business in Massachusetts, which was previously doing business as Columbia Gas of Massachusetts (CMA), pursuant to an asset purchase agreement (the Agreement) entered into on February 26, 2020 between Eversource and NiSource. The natural gas distribution assets acquired from CMA were assigned to EGMA. The liquified natural gas (LNG) and liquified petroleum gas (LPG) assets acquired from CMA were assigned to Hopkinton.

The liabilities assumed by Eversource under the Agreement specifically excluded any liabilities (past or future) arising out of, or related to, the fires and explosions that occurred on September 13, 2018 in Lawrence, Andover and North Andover, Massachusetts related to the delivery of natural gas by CMA, including certain subsequent events, all as described and in the DPU's Order on Scope dated December 23, 2019 (D.P.U. 19-141) (the Greater Lawrence Incident or GLI). The liabilities assumed also excluded any further emergency events prior to the closing of the acquisition related to the restoration and reconstruction with respect to the GLI, including any losses arising out of, or related to, any litigation, demand, cause of action, claim, suit, investigation, proceeding, indemnification agreements or rights. Eversource did not assume any of CMA's or NiSource's third party debt obligations or notes payable.

Rate Settlement Agreement: On October 7, 2020, the DPU approved a rate settlement agreement with Eversource, EGMA, NiSource, Bay State, the Massachusetts Attorney General's Office, the DOER and the Low-Income Weatherization and Fuel Assistance Program Network, which requested approval of the February 26, 2020 Agreement, as well as a rate stabilization plan, among other items. The settlement agreement included an authorized regulatory ROE of 9.70 percent as of January 1, 2021, a 53.25 percent equity component of its capital structure, and established rate base equal to $995 million as of the closing on October 9, 2020 for EGMA.

The approved rate stabilization plan includes base distribution rate increases for EGMA of $13 million on November 1, 2021 and $10 million on November 1, 2022. The settlement agreement includes two rate base resets during an eight-year rate plan, occurring on November 1, 2024 and November 1, 2027. The two rate base resets adjust distribution rates to account for capital additions (including the roll-in of GSEP capital additions), depreciation expense, property taxes, and return on rate base for capital additions placed into service through December 31, 2023, for the first rate base reset occurring on November 1, 2024, and through December 31, 2026, for the second rate base reset occurring on November 1, 2027. Notwithstanding the two distribution rate increases, the two rate base reset provisions, and potential adjustments for qualifying exogenous events, EGMA agreed not to file for an increase or redesign of distribution base rates effective prior to November 1, 2028.

The settlement agreement also permits EGMA to seek recovery of both transaction and integration costs as a result of the asset acquisition after December 31, 2026, subject to DPU review and approval, and subject to certain conditions, such as demonstrating savings resulting from the acquisition.

Under the terms of the settlement agreement, a portion of the proceeds of the sale due to NiSource was withheld and used to establish an Energy Relief Fund comprised of two components, an Arrearage Forgiveness Fund and a fund which is restricted for energy efficiency and clean energy measures in the Merrimack Valley. As a result, EGMA acquired restricted cash accounts and established a liability totaling $56.0 million on October 9, 2020. Investing cash outflows on the statement of cash flows for the period October 9, 2020 to December 31, 2020 reflects the restricted cash funds acquired from NiSource. As of both December 31, 2021 and 2020, restricted cash and the corresponding liability on the balance sheets totaled $41.5 million.

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 management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

EGMA 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.

Effective October 9, 2020, EGMA has a DPU-approved gas service agreement with Hopkinton for firm underground storage and storage capacity entitlements. NSTAR Gas and EGMA are Hopkinton's only two customers and bear the risk of financial losses to which Hopkinton could be exposed. Operating costs and commodity costs are incurred by Hopkinton on an aggregated basis for NSTAR Gas and EGMA and allocated to each customer on a volumetric basis; 3.5 BcF facilities serve NSTAR Gas and 1.9 BcF facilities serve EGMA. Collectively, NSTAR Gas and EGMA are entitled to 100 percent of the aggregate capacity of the Hopkinton facilities, and are charged for the costs associated with planned capital expenditures at the Hopkinton facilities. As a related party group, NSTAR Gas and EGMA together meet the characteristics of a primary beneficiary, as the power to direct the activities of Hopkinton that most significantly impact its economic performance is shared. In accordance with the consolidation accounting guidance, the party within a related party group that is most closely associated with the VIE is the primary beneficiary. As NSTAR Gas incurs more of the costs of Hopkinton's facilities and receives more of the facilities' output, its activities with Hopkinton are more significant and therefore NSTAR Gas is the primary beneficiary and not EGMA. EGMA recorded these affiliate costs related to its contract with Hopkinton of $7.9 million and $0.2 million for the year ended December 31, 2021 and for the period from October 9, 2020 to December 31, 2020, respectively. These costs are classified as Cost of Natural Gas on the statements of income.

COVID-19 has adversely affected customers, workers and the U.S. economy. We provide a critical service to our customers and have taken extensive measures to maintain its safety and reliability. We continue to address the impacts of the COVID-19 pandemic and how the related developments affect EGMA. We have not experienced significant impacts directly related to the pandemic that have materially affected our current operations, our workforce, or results of operations. The extent of the impact to us in the future will vary and depend on the duration, scope and severity of the pandemic and the resulting impact on economic, health care and capital market conditions. The future impact will also depend on the outcome of future proceedings before our state regulatory commission to recover our incremental costs associated with COVID-19, which include uncollectible customer receivable expenses. See Note 1E, "Summary of Significant Accounting Policies - Allowance for Uncollectible Accounts," for an evaluation of the allowance for doubtful accounts as of December 31, 2021 in light of the COVID-19 pandemic.

EGMA evaluates events and transactions that occur after the balance sheet date but before financial statements are available to be issued and recognizes in the financial statements the effects of all subsequent events that provide additional information about conditions that existed as of the balance sheet date. EGMA discloses, but does not recognize, in the financial statements subsequent events that provide information about the conditions that arose after the balance sheet date but before the financial statements are available to be issued. In preparing the financial statements, EGMA has evaluated events subsequent to December 31, 2021 through the date the financial statements were available to be issued, March 30, 2022. These financial statements include all necessary adjustments and disclosures resulting from this evaluation.

C. Accounting Standards
Accounting Standards Recently Adopted: On January 1, 2021, the Company adopted Accounting Standards Update (ASU) 2019-12, *Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes*, which eliminates certain exceptions to the general principles of current income tax guidance in ASC 740 and simplifies and improves consistency in application of that income tax guidance through clarifications of and amendments to ASC 740. The ASU did not have a material impact on the financial statements.

D. Cash
Cash includes cash on hand. At the end of each reporting period, any overdraft amounts are reclassified from Cash to Accounts Payable on the balance sheets.

E. Allowance for Uncollectible Accounts
Receivables, Net on the balance sheets primarily includes trade receivables from retail customers, wholesale market sales, and other miscellaneous receivables. There is no material concentration of receivables. Receivables are recorded at amortized cost, net of a credit loss provision (or allowance for uncollectible accounts).

Receivables are presented net of expected credit losses at estimated net realizable value by maintaining an allowance for uncollectible accounts. The current expected credit loss (CECL) model is applied to receivables for purposes of calculating the allowance for uncollectible accounts. This model is based on expected losses and results in the recognition of estimated expected credit losses, including uncollectible amounts for both billed and unbilled revenues, over the life of the receivable at the time a receivable is recorded.

The allowance for uncollectible accounts is determined based upon a variety of judgments and factors, including the application of an estimated uncollectible percentage to each receivable aging category. Factors in determining credit loss include historical collection, write-off experience, and management's assessment of collectability from customers, including current conditions, reasonable forecasts, and expectations of future collectability and collection efforts. Management continuously assesses the collectability of receivables and adjusts estimates based on actual experience and future expectations based on economic indicators, collection efforts and other factors. Management also monitors the aging analysis of receivables to determine if there are changes in the collections of accounts receivable. Receivable balances are written off against the allowance for uncollectible accounts when the customer accounts are no longer in service and these balances are deemed to be uncollectible.

As of December 31, 2021, management evaluated the adequacy of the allowance for uncollectible accounts in light of the evolving COVID-19 pandemic. This evaluation included an analysis of collection and customer payment trends, economic conditions, delinquency statistics, aging-based quantitative assessments, the impact on residential customer bills because of energy usage and change in rates, flexible payment plans and financial hardship arrearage management programs being offered to customers, and COVID-19 developments, including any potential federal governmental pandemic relief programs and the expansion of unemployment benefit initiatives, which help to mitigate the potential for increasing customer account delinquencies. Additionally, management considered past economic declines and corresponding uncollectible reserves as part of the current assessment.

This evaluation has shown that EGMA has experienced an increase in aged receivables and lower cash collections from customers because of the length of the moratorium on disconnections and the economic slowdown resulting from the COVID-19 pandemic. The moratorium on disconnections of commercial customers and residential customers ended in September 2020 and July 2021, respectively. Disconnection activities have largely resumed after these moratoria have expired, which has resulted in recent improved collection experience, more customers applying for, and receiving, hardship status, and higher write-offs of aged receivable amounts. As of December 31, 2021 and 2020, the total amounts incurred as a result of COVID-19 included in the allowance for uncollectible accounts was $12.8 million and $6.1 million, respectively. The COVID-19 related uncollectible amounts were deferred either as incremental regulatory costs or deferred through an existing regulatory tracking mechanism that recovers uncollectible natural gas supply costs, as management believes it is probable that these costs will ultimately be recovered from customers in rates.

Management concluded that the reserve balance adequately reflected the collection risk and net realizable value for EGMA's receivables. Management will continue to evaluate the adequacy of the uncollectible allowance in future reporting periods based on an ongoing assessment of accounts receivable collections, delinquency statistics, and analysis of aging-based quantitative assessments.

The DPU allows EGMA to recover in rates amounts associated with certain uncollectible hardship accounts receivable. These uncollectible hardship customer account balances are included in Regulatory Assets or Other Long-Term Assets on the balance sheets. Hardship customers are protected from shut-off in certain circumstances, and historical collection experience has reflected a higher default risk as compared to the rest of the receivable population. Management uses a higher credit risk profile for this pool of trade receivables as compared to non-hardship receivables. The allowance for uncollectible hardship accounts is included in the total uncollectible allowance balance.

The total allowance for uncollectible accounts is included in Receivables, Net on the balance sheets. The activity in the allowance for uncollectible accounts by portfolio segment for the year ended December 31, 2021 and for the period from October 9, 2020 to December 31, 2020 is as follows:

	For the Year Ended December 31, 2021			From October 9, 2020 to December 31, 2020		
(Millions of Dollars)	Hardship Accounts	Retail (Non-Hardship), Wholesale, and Other	Total Allowance	Hardship Accounts	Retail (Non-Hardship), Wholesale, and Other	Total Allowance
Beginning Balance	$ —	$ 5.1	$ 5.1	$ —	$ —	$ —
Uncollectible Expense	—	5.2	5.2	—	3.3	3.3
Uncollectible Costs Deferred (1)	2.0	10.0	12.0	—	1.8	1.8
Ending Balance	$ 2.0	$ 20.3	$ 22.3	$ —	$ 5.1	$ 5.1

(1) These expected credit losses are deferred as regulatory costs on the balance sheets, as these amounts are ultimately recovered in rates. Amounts include uncollectible costs for hardship accounts and other customer receivables, including uncollectible amounts related to COVID-19 and uncollectible natural gas supply costs.

F. Fuel, Materials and Supplies

Fuel, Materials and Supplies include natural gas purchased for delivery to customers and materials and supplies purchased primarily for construction or operation and maintenance purposes. Included in Fuel, Materials and Supplies on the balance sheets as of December 31, 2021 and 2020 were $18.3 million and $13.7 million, respectively, of natural gas inventory, and $0.9 million of materials and supplies for each year. Inventory is valued at the lower of cost or net realizable value.

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, the nonrecurring fair value measurements of nonfinancial assets such as asset retirement obligations (AROs), and the estimated fair value of long-term debt.

Fair Value Hierarchy: In measuring fair value, the Company uses observable market data when available in order to minimize 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. The Company evaluates the classification of assets and liabilities measured at fair value on a quarterly basis. The 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.

Uncategorized - Investments that are measured at net asset value are not categorized within the fair value hierarchy.

Determination of Fair Value: The valuation techniques and inputs used in the Company's fair value measurements are described in Note 4, "Asset Retirement Obligations," and Note 11, "Fair Value of Financial Instruments," to the financial statements.

H. Allowance for Funds Used During Construction

Allowance for funds used during construction (AFUDC) represents the cost of borrowed and equity funds used to finance construction and is included in the cost of plant on the balance sheets. The portion of AFUDC attributable to borrowed funds is recorded as a reduction of Interest Expense, and the AFUDC related to equity funds is recorded as Other Income, Net on the 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. For the year ended December 31, 2021, AFUDC costs included borrowed funds of $0.5 million and equity funds of $3.0 million. For the period from October 9, 2020 to December 31, 2020, AFUDC costs included equity funds of $1.0 million.

EGMA's average AFUDC rate is based on a Federal Energy Regulatory Commission prescribed formula using the cost of a company's short-term financings and capitalization (long-term debt and common equity), as appropriate. The average rate is applied to average eligible construction work in progress amounts to calculate AFUDC. The average AFUDC rates for the year ended December 31, 2021 and for the period from October 9, 2020 to December 31, 2020 were 6.0 percent and 6.5 percent, respectively.

I. Other Income, Net

Items included within Other Income, Net on the statements of income primarily consist of the non-service related components of pension, SERP and PBOP benefit plan costs, AFUDC related to equity funds and interest income. For further information on AFUDC related to equity funds, see Note 1H, "Summary of Significant Accounting Policies - Allowance for Funds Used During Construction," to the financial statements.

J. Supplemental Cash Flow Information

(Millions of Dollars)	As of and For the Year Ended December 31, 2021	As of and For the Period from October 9, 2020 to December 31, 2020
Cash Paid/(Received) During the Year For:		
Interest, Net of Amounts Capitalized	$ 12.0	$ 3.6
Income Taxes	(24.6)	—
Non-Cash Investing Activities:		
Plant Additions Included in Accounts Payable (As of)	28.0	10.6

The following table reconciles cash as reported on the balance sheets to the cash and restricted cash balance as reported on the statements of cash flows:

	As of December 31,	
(Millions of Dollars)	2021	2020
Cash as reported on the Balance Sheets	$ —	$ 1.2
Restricted Cash	41.5	41.5
Cash and Restricted Cash as reported on the Statements of Cash Flows	$ 41.5	$ 42.7

Restricted cash includes $41.5 million related to an Energy Relief Fund for energy efficiency and clean energy measures in the Merrimack Valley, and an additional energy efficiency program established under the terms of the EGMA 2020 settlement agreement. As of December 31, 2021, $5.6 million of the restricted cash is recorded in Prepayments and Other Current Assets and $35.9 million is recorded as long-term. EGMA has established a liability for the funding of the $41.5 million obligation, of which the $35.9 million long-term portion is recorded in Other Long-Term Liabilities on the balance sheets.

K. Related Parties

Eversource Energy Service Company (Eversource Service), a service company subsidiary of Eversource, provides centralized accounting, administrative, engineering, financial, information technology, legal, operational, planning, purchasing, tax, and other services to EGMA. In addition, EGMA incurs costs associated with leases entered into by affiliated Eversource subsidiaries, including Eversource Service, The Rocky River Realty Company and NSTAR Electric Company, for the use of office space, service centers, vehicles, information technology and office equipment. All of the aforementioned costs incurred by EGMA are in the ordinary course of business.

Also in the ordinary course of business, EGMA purchases natural gas transmission services from the Enbridge, Inc. natural gas pipeline project, in which Eversource parent holds an equity ownership interest. These affiliate transaction costs were $15.0 million and $3.4 million for the year ended December 31, 2021 and for the period from October 9, 2020 to December 31, 2020, respectively, and are classified as Cost of Natural Gas on the statements of income.

Included in the balance sheets as of December 31, 2021 and 2020 were Accounts Receivable from Affiliated Companies and Accounts Payable to Affiliated Companies related to transactions between EGMA and other subsidiaries that are wholly-owned by Eversource.

L. Goodwill

As a result of Eversource's October 9, 2020 acquisition of CMA, goodwill of $51.9 million was recorded on the balance sheet. The goodwill amount recognized was the excess of Eversource's purchase price of CMA over the estimated fair values of the CMA assets acquired and liabilities assumed. This goodwill is not being recovered from EGMA's customers. Goodwill is not subject to amortization but is subject to a fair value-based assessment for impairment at least annually and whenever facts or circumstances indicate that there may be an impairment.

2. REGULATORY ACCOUNTING

EGMA is subject to rate regulation that is based on cost recovery and meets the criteria for application of accounting guidance for rate-regulated operations, which considers the effect of regulation on the timing of the recognition of certain revenues and expenses. EGMA's financial statements reflect the effects of the rate-making process. The rates charged to customers are designed to collect the Company's costs to provide service, plus a return on investment.

The application of accounting guidance for rate-regulated enterprises results in recording regulatory assets and liabilities. Regulatory assets represent the deferral of incurred costs that are probable of future recovery in customer rates. Regulatory assets are amortized as the incurred costs are recovered through customer rates. Regulatory liabilities represent either revenues received from customers to fund expected costs that have not yet been incurred or probable future refunds to customers.

Management believes it is probable that the Company will recover its investment in long-lived assets and the regulatory assets that have been recorded. If management were to determine that it could no longer apply the accounting guidance applicable to rate-regulated enterprises, or if management could not conclude it is probable that costs would be recovered from customers in future rates, the applicable 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:

	As of December 31,	
(Millions of Dollars)	**2021**	**2020**
Regulatory Tracker Mechanisms	$ 151.0	$ 91.3
Environmental Remediation Costs	31.3	31.9
Benefit Costs	7.1	28.8
Asset Retirement Obligations	2.0	9.7
Other Regulatory Assets	11.1	5.8
Total Regulatory Assets	202.5	167.5
Less: Current Portion	156.5	93.6
Total Long-Term Regulatory Assets	$ 46.0	$ 73.9

Regulatory Tracker Mechanisms: EGMA's approved rates are designed to recover its costs incurred to provide service to customers. EGMA recovers certain of its costs on a fully-reconciling basis through DPU-approved tracking mechanisms. The difference between the costs incurred (or the rate recovery allowed) and the actual revenues are recorded as regulatory assets (for undercollections) or as regulatory liabilities (for overcollections) to be included in future customer rates each year. Carrying charges are recovered in rates on all material regulatory tracker mechanisms. EGMA recovers, on a fully-reconciling basis, the costs associated with the procurement of natural gas for its firm and seasonal customers, infrastructure improvements, energy efficiency programs, and qualified pension and PBOP expenses through rate reconciling mechanisms.

EGMA has a DPU-approved revenue decoupling mechanism. Distribution revenues are decoupled from customer sales volumes, where applicable, which breaks the relationship between sales volumes and revenues. EGMA reconciles its annual base distribution rate recovery amount to the pre-established level of baseline distribution delivery service revenues. Any difference between the allowed level of distribution revenue and the actual amount realized during the reconciliation period is adjusted through rates in the following period.

Environmental Remediation Costs: Recoverable costs associated with the remediation of environmental sites are recorded as regulatory assets in accordance with DPU regulation. These costs do not earn a return. For further information, see Note 9A, "Commitments and Contingencies - Environmental Matters," to the financial statements.

Benefit Costs: EGMA participates in Eversource's Pension and PBOP Plans, which are accounted for in accordance with accounting guidance on defined benefit pension and other PBOP plans. The liability (or asset) recorded by EGMA to recognize the funded status of the retiree benefit plans is offset by a regulatory asset (or offset by a regulatory liability in the case of a benefit plan asset) in lieu of a charge to Accumulated Other Comprehensive Income, reflecting ultimate recovery from (or refund to) customers through rates. The regulatory asset (or regulatory liability) is amortized as the actuarial gains and losses are amortized to net periodic benefit cost for the pension and PBOP plans. All amounts are remeasured annually. As these regulatory assets or regulatory liabilities do not represent a cash outlay for EGMA, no carrying charge is recovered from customers.

EGMA recovers qualified pension and PBOP expenses related to its operations through a rate reconciling mechanism that fully tracks the change in net pension and PBOP expenses each year.

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

Regulatory Costs in Other Long-Term Assets: EGMA had $24.6 million and $20.2 million of additional regulatory costs as of December 31, 2021 and 2020, respectively, that were included in Other Long-Term Assets on the balance sheets. These amounts represent incurred costs for which recovery has not yet been specifically approved by the DPU. 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. As of December 31, 2021 and 2020, these regulatory costs included net incremental COVID-19 related costs deferred of $7.7 million and $3.8 million, respectively, and related to deferred non-tracked uncollectible expense.

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

	As of December 31,	
(Millions of Dollars)	**2021**	**2020**
Acquired Regulatory Liabilities	$ 125.5	$ 131.1
Cost of Removal	12.4	2.8
Benefit Costs	7.6	—
Other Regulatory Liabilities	4.2	—
Total Regulatory Liabilities	149.7	133.9
Less: Current Portion	12.7	7.7
Total Long-Term Regulatory Liabilities	$ 137.0	$ 126.2

Acquired Regulatory Liabilities: As a result of the 2020 DPU-approved rate settlement agreement and the CMA asset acquisition on October 9, 2020, EGMA established a regulatory liability to continue to refund the same amount to customers post-acquisition that CMA was previously refunding to customers prior to acquisition. The amount also includes a future refund to customers for CMA's overcollection of the lower income tax rate beginning in 2018.

Cost of Removal: EGMA 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 amount collected from customers but not yet expended is recognized as a regulatory liability.

Recent Regulatory Developments:

EGMA Distribution Rates and Mitigation Filings: As established in the October 7, 2020 EGMA Rate Settlement Agreement, EGMA filed for its first base distribution rate increase on September 17, 2021, for rates effective November 1, 2021. Subsequent to this base distribution rate filing, on October 6, 2021, EGMA made a filing with the DPU to defer recovery of certain costs for the purpose of mitigating November 1, 2021 bill impacts associated with the new delivery rates as a result of increases in natural gas supply costs, thereby providing rate relief to customers. These adjustments to rates do not impact the recovery of costs, only the timing of when the costs are collected in rates. For EGMA, these adjustments represent the delayed recovery of certain prior period under-collections totaling $19.7 million. These under-collections will begin collection on November 1, 2022. The DPU also approved a $13 million increase to base distribution rates on October 28, 2021, effective November 1, 2021.

3. PROPERTY, PLANT AND EQUIPMENT AND ACCUMULATED DEPRECIATION

Property, plant and equipment is recorded at original cost. Original cost includes materials, labor, construction overheads and AFUDC. The cost of repairs and maintenance is charged to Operations and Maintenance expense as incurred.

The following table summarizes property, plant and equipment:

(Millions of Dollars)	As of December 31, 2021	As of December 31, 2020
Natural Gas Distribution, Gross	$ 1,902.5	$ 1,765.8
Less: Accumulated Depreciation	(641.9)	(620.5)
Property, Plant and Equipment, Net	1,260.6	1,145.3
Construction Work in Progress	144.9	31.6
Total Property, Plant and Equipment, Net	$ 1,405.5	$ 1,176.9

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, which are subject to approval by the DPU, 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 2.9 percent in 2021 and 2.8 percent in 2020. As of December 31, 2021, the average remaining useful life of EGMA's depreciable assets was 33.4 years.

4. ASSET RETIREMENT OBLIGATIONS

EGMA recognizes a liability for the fair value of an ARO on the obligation date if the liability's fair value can be reasonably estimated, even if it is conditional on a future event. Settlement dates and future costs are reasonably estimated when sufficient information becomes available. Management has identified AROs related to the removal of hazardous materials and the cutting and capping of natural gas mains, and has performed fair value calculations reflecting expected probabilities for settlement scenarios.

The fair value of an ARO is recorded as a long-term liability with a corresponding amount included in Property, Plant and Equipment, Net on the balance sheets. The ARO assets are depreciated, and the ARO liabilities are accreted over the estimated life of the obligation and the corresponding credits are recorded as accumulated depreciation and ARO liabilities, respectively. As EGMA is rate-regulated on a cost-of-service basis, it applies regulatory accounting guidance and both the depreciation and accretion costs associated with the AROs are recorded as increases to Regulatory Assets on the balance sheets.

A reconciliation of the beginning and ending carrying amounts of ARO liabilities for the year ended December 31, 2021 and for the period from October 9, 2020 to December 31, 2020 is as follows:

(Millions of Dollars)	For the Year Ended December 31, 2021	From October 9, 2020 to December 31, 2020
Beginning Balance	$ 20.4	$ —
Liability Assumed Upon CMA Asset Acquisition	—	20.1
Accretion	1.0	0.3
Revisions in Estimated Cash Flows	(2.7)	—
Ending Balance	$ 18.7	$ 20.4

5. SHORT-TERM DEBT

The Eversource Energy holding company (Eversource parent) has a $2.00 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt. Eversource parent and certain of its subsidiaries, including EGMA, are parties to a five-year $2.00 billion revolving credit facility, which terminates on October 15, 2026. The revolving credit facility serves to backstop Eversource parent's $2.00 billion commercial paper program. There were no borrowings outstanding on the revolving credit facility as of December 31, 2021 or 2020.

As of December 31, 2021 and 2020, there were intercompany loans from Eversource parent to EGMA of $136.4 million and $11.2 million, respectively, recorded as Notes Payable to Eversource Parent and classified in current liabilities on the 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, 2021 and 2020 was 0.31 percent and 0.25 percent, respectively.

Under the credit facility, EGMA must comply with certain financial and non-financial covenants, including a debt to total capitalization ratio. As of December 31, 2021 and 2020, EGMA was in compliance with these covenants. If EGMA was not in compliance with these covenants, an event of default would occur requiring all outstanding borrowings by EGMA to be repaid, and additional borrowings would not be permitted under the credit facility.

EGMA is not required to obtain approval from any state or federal authority to incur short-term debt.

6. LONG-TERM DEBT

Details of EGMA's long-term debt outstanding are as follows:

	As of December 31,	
(Millions of Dollars)	**2021**	**2020**
First Mortgage Bonds:		
2.11% Series A First Mortgage Bonds due 2031 [1]	$ 310.0	$ —
2.92% Series B First Mortgage Bonds due 2051 [1]	240.0	—
Total First Mortgage Bonds	550.0	—
Unamortized Debt Issuance Costs	(1.6)	—
EGMA Long-Term Debt	$ 548.4	$ —

	As of December 31,	
(Millions of Dollars)	**2021**	**2020**
Notes Payable to Eversource Parent - Long-Term: 3.857% - 5.940% due 2024 - 2047 [1]	$ —	$ 309.4

[1] The use of proceeds from the 2021 issuances refinanced EGMA's existing long-term debt of $309.4 million, funded capital expenditures and were for general corporate purposes.

For the year ended December 31, 2021 and for the period from October 9, 2020 to December 31, 2020, interest expense on the Notes Payable to Eversource parent totaled $10.8 million and $3.3 million, respectively.

Availability under Long-Term Debt Issuance Authorization: On September 10, 2021, the DPU approved EGMA’s request for authorization to issue up to $725 million in long-term debt through December 31, 2023.

Long-Term Debt Provisions: The utility plant of EGMA is subject to the lien of its first mortgage bond indenture. The cross-default provisions on all series of EGMA’s first mortgage bonds would be triggered if EGMA were to default on a payment due on indebtedness in excess of $10 million.

7. EMPLOYEE BENEFITS

A. Pension Benefits and Postretirement Benefits Other Than Pension

Eversource Service sponsors a defined benefit retirement plan (Pension Plan) that covers eligible employees and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Pension Protection Act of 2006. Eversource Service's Employer Identification Number is 06-0810627. Eversource's policy is to annually fund the Pension Plan in an amount at least equal to an amount that will satisfy all federal funding requirements.

Eversource Service also sponsors a PBOP Plan that provides life insurance and a health reimbursement arrangement created for the purpose of reimbursing retirees and dependents for health insurance premiums and certain medical expenses to eligible employees that meet certain age and service eligibility requirements. The benefits provided under the PBOP Plan are not vested and Eversource has the right to modify any benefit provision subject to applicable laws at that time. Eversource annually funds postretirement costs through tax deductible contributions to external trusts.

Plan sponsor information is included in the Eversource 2021 Annual Report on Form 10-K filed on February 17, 2022 with the U.S. Securities and Exchange Commission (SEC).

EGMA is allowed to fully recover its allocated share of qualified pension and PBOP expenses through a DPU-approved reconciling rate mechanism tariff (pension adjustment mechanism or PAM) that is collected from customers. PAM-related costs are a part of EGMA's local distribution adjustment clause that is reset annually in a filing with the DPU.

The Pension and PBOP Plans cover eligible employees, including, among others, employees of EGMA. Because EGMA recovers the pension and PBOP benefit costs from customers through rates, regulatory assets are recorded in lieu of recording an adjustment to Accumulated Other Comprehensive Income as an offset to the funded status of the Pension and PBOP Plans. For further information, see Note 2, "Regulatory Accounting," to the financial statements.

Funded Status: EGMA participates in the overall Eversource single-employer Pension and PBOP Plans accounted for 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 plan benefit obligations, fair values of plan assets, and funded status attributable to EGMA in the Eversource single-employer Pension and PBOP Plans for the year ended December 31, 2021 and for the period from October 9, 2020 to December 31, 2020:

	Pension		PBOP	
	As of December 31,		As of December 31,	
(Millions of Dollars)	2021	2020	2021	2020
Benefit Obligation	$ (107.3)	$ (120.6)	$ (14.4)	$ (22.0)
Fair Value of Plan Assets	140.8	128.8	0.1	—
Funded Status	$ 33.5	$ 8.2	$ (14.3)	$ (22.0)
Employer Contributions	$ —	$ —	$ —	$ —
Benefits Paid	17.2	3.2	0.1	—

EGMA's accumulated benefit obligation for the Pension Plan was $107.3 million and $120.6 million as of December 31, 2021 and 2020, respectively.

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

	Pension		PBOP	
	As of December 31,		As of December 31,	
	2021	2020	2021	2020
Discount Rate	2.9%	2.6%	2.9%	2.6%
Compensation/Progression Rate	4.0%	4.0%	N/A	N/A

Expense: Eversource charges net periodic benefit plan expense/(income) for the Pension and PBOP Plans to its subsidiaries based on the actual participant demographic data for each subsidiary's participants. 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. Eversource utilizes the spot rate methodology to estimate the discount rate for the service and interest cost components of benefit plan expense/(income), which provides a relatively precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve.

EGMA's components of net periodic benefit plan expense/(income) for the Pension and PBOP Plans, prior to amounts capitalized as Property, Plant and Equipment or deferred as regulatory assets for future recovery, are shown below. The service cost component of net periodic benefit plan expense/(income), less the capitalized portion, is included in Operations and Maintenance expense on the statements of income. The remaining components of net periodic benefit plan expense/(income), less the deferred portion, are included in Other Income, Net on the statements of income. Pension and PBOP plan expense/(income) reflected in the statements of cash flows does not include intercompany allocations of net periodic benefit plan expense/(income), as these amounts are cash settled on a short-term basis.

	Pension		PBOP	
(Millions of Dollars)	For the Year Ended December 31, 2021	From October 9, 2020 to December 31, 2020	For the Year Ended December 31, 2021	From October 9, 2020 to December 31, 2020
Service Cost	$ 1.8	$ 0.5	$ 1.0	$ 0.4
Interest Cost	1.6	0.4	0.4	0.2
Expected Return on Plan Assets	(10.0)	(2.1)	—	—
Actuarial Loss/(Gain)	1.3	0.6	(0.2)	—
Prior Service Cost	0.4	0.1	—	—
Total Net Periodic Benefit Plan (Income)/Expense	$ (4.9)	$ (0.5)	$ 1.2	$ 0.6
Intercompany Expense/(Income) Allocations	$ 1.0	$ —	$ (0.2)	$ —

The following actuarial assumptions were used to calculate Pension and PBOP expense/(income) amounts:

	Pension		PBOP	
	For the Year Ended December 31, 2021	From October 9, 2020 to December 31, 2020	For the Year Ended December 31, 2021	From October 9, 2020 to December 31, 2020
Discount Rate	1.9% — 3.0%	2.9% — 3.5%	1.8% — 3.1%	2.7% — 3.6%
Expected Long-Term Rate of Return	8.25%	8.25%	8.25%	8.25%
Compensation/Progression Rate	4.0%	4.0%	N/A	N/A

Contributions: Based on the current status of the Eversource Pension Plans and federal pension funding requirements, there is no minimum funding requirement for our Pension Plans for 2022. Eversource currently expects to make contributions between $100 million to $175 million in 2022, however the planned contribution is discretionary and subject to change. Eversource currently estimates contributing $2.4 million to its PBOP Plans in 2022.

B. Defined Contribution Plans

Eversource maintains defined contribution plans on behalf of eligible participants, including, among others, employees of EGMA. The Eversource 401k Plan provides for employee and employer contributions up to statutory limits. For eligible employees, the Eversource 401k Plan provides employer matching contributions of either 100 percent up to a maximum of three percent of eligible compensation or 50 percent up to a maximum of eight percent of eligible compensation. The Eversource 401k Plan also contains a K-Vantage feature for the benefit of eligible participants, which provides an additional annual employer contribution based on age and years of service. K-Vantage participants are not eligible to actively participate in the Eversource Pension Plan.

The total Eversource 401k Plan employer matching contributions, including the K-Vantage contributions, for EGMA were $4.0 million and $0.7 million for the year ended December 31, 2021 and for the period from October 9, 2020 to December 31, 2020, respectively.

8. INCOME TAXES

The components of income tax expense were as follows:

(Millions of Dollars)	For the Year Ended December 31, 2021	From October 9, 2020 to December 31, 2020
Current Income Taxes:		
Federal	$ (30.2)	$ 3.7
State	(12.4)	1.4
Total Current	(42.6)	5.1
Deferred Income Taxes, Net:		
Federal	44.7	(0.1)
State	18.5	—
Total Deferred	63.2	(0.1)
Income Tax Expense	$ 20.6	$ 5.0

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 Year Ended December 31, 2021	From October 9, 2020 to December 31, 2020
Income Before Income Tax Expense	$ 78.8	$ 18.9
Statutory Federal Income Tax Expense at 21%	16.5	4.0
Tax Effect of Differences:		
Depreciation Differences	(0.6)	(0.2)
State Income Taxes, Net of Federal Impact	4.8	1.1
Other, Net	(0.1)	0.1
Income Tax Expense	$ 20.6	$ 5.0
Effective Tax Rate	26.1 %	26.5 %

EGMA files a consolidated federal income tax return with Eversource and also files state income tax returns. EGMA is party to a tax allocation agreement with Eversource 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.

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 DPU 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:

	As of December 31,			
(Millions of Dollars)	2021		2020	
Deferred Tax Assets:				
Regulatory Deferrals - Liabilities	$	13.6	$	—
Allowance for Uncollectible Accounts		7.6		4.1
Purchase Accounting		17.4		18.7
Environmental		5.5		6.2
Other		6.7		5.9
Total Deferred Tax Assets	$	50.8	$	34.9
Deferred Tax Liabilities:				
Accelerated Depreciation and Other Plant-Related Differences	$	22.2	$	(0.7)
Regulatory Amounts:				
Regulatory Deferrals - Assets		48.6		6.2
Employee Benefits		12.3		—
Environmental		4.4		4.1
Other		8.9		6.6
Total Deferred Tax Liabilities	$	96.4	$	16.2

2021 Federal Legislation: On November 5, 2021, Congress passed the Infrastructure Investment and Jobs Act. The Act provided spending of more than $500 billion on roads, highways, bridges, public transit, and utilities. The Act did not have a material impact on EGMA in 2021.

Open Tax Years: The following table summarizes EGMA's tax years that remain subject to examination by major tax jurisdictions as of December 31, 2021:

Description	Tax Years
Federal (Eversource consolidated)	2021
Massachusetts	2020 - 2021

9. COMMITMENTS AND CONTINGENCIES

A. Environmental Matters

EGMA 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. EGMA has an active environmental auditing and training program, and believes that it is substantially in compliance with all enacted laws and regulations. The environmental sites are primarily comprised of former manufactured gas plant (MGP) sites that were operated several decades ago and manufactured natural gas from coal and other processes, which resulted in certain by-products remaining in the environment that may pose a potential risk to human health and the environment, for which EGMA may have potential liability.

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 the 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 reserve 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 EGMA's responsibility for remediation or the extent of remediation required, recently enacted laws and regulations or changes 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 required environmental remediation. As this information becomes available, management will continue to assess the potential exposure and adjust the reserves accordingly.

The amounts recorded as environmental reserves are included in Other Current Liabilities and Other Long-Term Liabilities on the balance sheets and represent management's best estimate of the liability for environmental costs, and take into consideration site assessment, remediation and long-term monitoring costs. The environmental reserves also take into account recurring costs of managing hazardous substances and pollutants, mandated expenditures to remediate contaminated sites and any other infrequent and non-recurring clean-up costs. A reconciliation of the activity in the environmental reserves for the year ended December 31, 2021 and for the period from October 9, 2020 to December 31, 2020 is as follows:

(Millions of Dollars)	For the Year Ended December 31, 2021	From October 9, 2020 to December 31, 2020
Beginning Balance	$ 22.8	$ —
Liability Assumed Upon CMA Asset Acquisition	—	22.9
Additions	0.9	—
Payments/Reductions	(2.9)	(0.1)
Ending Balance	$ 20.8	$ 22.8

The Company has nine environmental sites as of December 31, 2021. As of December 31, 2021, for two environmental sites that are 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, 2021, $9.0 million has been accrued as a liability for these sites. As of December 31, 2021, for the remaining seven environmental sites that are included in the Company's reserve for environmental costs, the $11.8 million accrual represents management's best estimate of the probable liability and no additional loss is estimable at this time.

Environmental Rate Recovery: EGMA has a rate recovery mechanism for MGP related environmental costs, therefore, changes in environmental reserves do not impact Net Income.

B. Long-Term Contractual Arrangements

The estimated future annual costs of EGMA's significant executed, non-cancelable, long-term contractual arrangements in effect as of December 31, 2021 are as follows:

(Millions of Dollars)	2022	2023	2024	2025	2026	Thereafter	Total
Natural Gas Procurement	$ 128.3	$ 103.6	$ 93.5	$ 92.0	$ 89.8	$ 749.0	$ 1,256.2

In the normal course of business, EGMA has long-term contracts for the purchase, transportation and storage of natural gas as part of its portfolio of supplies. These contracts extend through 2045. The total cost incurred under these agreements was $246.2 million and $70.3 million for the year ended December 31, 2021 and for the period from October 9, 2020 to December 31, 2020, respectively.

C. Litigation and Legal Proceedings

EGMA 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.

10. LEASES

EGMA has entered into lease agreements as a lessee for the use of land, office space, service centers, and vehicles. These lease agreements are classified as either finance or operating leases and the liability and right-of-use asset are recognized on the balance sheet at lease commencement. Leases with an initial term of 12 months or less are not recorded on the balance sheet and are recognized as lease expense on a straight-line basis over the lease term.

EGMA determines whether or not a contract contains a lease based on whether or not it provides EGMA with the use of a specifically identified asset for a period of time, as well as both the right to direct the use of that asset and receive the significant economic benefits of the asset. EGMA has elected the practical expedient to not separate non-lease components from lease components and instead to account for both as a single lease component, with the exception of the information technology asset class where the lease and non-lease components are separated.

The provisions of EGMA lease agreements contain renewal options. The renewal options range from one year to twenty years. The renewal period is included in the measurement of the lease liability if it is reasonably certain that EGMA will exercise these renewal options. EGMA makes no material variable payments under its lease agreements.

For leases entered into or modified after the January 1, 2019 implementation date, the discount rate utilized for classification and measurement purposes as of the inception date of the lease is based on EGMA's collateralized incremental interest rate to borrow over a comparable term for an individual lease because the rate implicit in the lease is not determinable.

The components of lease cost, prior to amounts capitalized, are as follows:

(Millions of Dollars)	For the Year Ended December 31, 2021	From October 9, 2020 to December 31, 2020
Financing Lease Cost:		
Amortization of Right-of-use-Assets	$ 3.1	$ 0.8
Interest on Lease Liabilities	2.8	0.4
Total Finance Lease Cost	5.9	1.2
Operating Lease Cost	2.7	0.8
Total Lease Cost	$ 8.6	$ 2.0

Operating lease cost, net of the capitalized portion, is included in Operations and Maintenance on the statements of income. Amortization of finance lease assets is included in Depreciation on the statements of income. Interest expense on finance leases is included in Interest Expense on the statements of income.

Supplemental balance sheet information related to leases is as follows:

		As of December 31,	
(Millions of Dollars)	Balance Sheet Classification	2021	2020
Operating Leases:			
Operating Lease Right-of-use-Assets, Net	Other Long-Term Assets	$ 15.5	$ 14.2
Operating Lease Liabilities			
Operating Lease Liabilities - Current Portion	Other Current Liabilities	$ 4.4	$ 1.9
Operating Lease Liabilities - Long-Term	Other Long-Term Liabilities	11.1	12.3
Total Operating Lease Liabilities		$ 15.5	$ 14.2
Finance Leases:			
Finance Lease Right-of-use-Assets, Net	Property, Plant and Equipment, Net	$ 51.0	$ 53.8
Finance Lease Liabilities			
Finance Lease Liabilities - Current Portion	Other Current Liabilities	$ 2.6	$ 2.7
Finance Lease Liabilities - Long-Term	Finance Lease Obligations (Long-Term)	48.4	51.1
Total Finance Lease Liabilities		$ 51.0	$ 53.8

Other information related to leases is as follows (in millions of dollars, unless otherwise noted):

	As of December 31,	
	2021	2020
Weighted-Average Remaining Lease Term (Years):		
Operating Leases	5	2
Finance Leases	16	17
Weighted-Average Discount Rate (Percentage):		
Operating Leases	1.5 %	4.5 %
Finance Leases	2.6 %	2.7 %

	For the Year Ended December 31, 2021	From October 9, 2020 to December 31, 2020
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:		
Operating Cash Flows from Operating Leases	$ 2.8	$ 0.8
Operating Cash Flows from Finance Leases	2.6	0.4
Financing Cash Flows from Finance Leases	1.4	0.7
Supplemental Non-Cash Information on Lease Liabilities :		
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	11.0	—

As a result of the CMA asset acquisition on October 9, 2020, EGMA acquired $14.7 million of right-of-use assets in exchange for the assumption of new operating lease liabilities and $54.2 million of right-of-use assets in exchange for the assumption of new finance lease liabilities.

Future minimum lease payments, excluding variable costs, under long-term leases, as of December 31, 2021 are as follows:

(Millions of Dollars)	Operating Leases	Finance Leases
Year Ending December 31,		
2022	$ 4.6	$ 3.9
2023	3.7	3.9
2024	3.2	3.9
2025	1.4	3.9
2026	0.7	3.9
Thereafter	2.5	43.5
Future lease payments	16.1	63.0
Less amount representing interest	0.6	12.0
Present value of future minimum lease payments	$ 15.5	$ 51.0

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of EGMA's long-term debt securities is based upon pricing models that incorporate quoted market prices for those issues or similar issues adjusted for market conditions, credit ratings and treasury benchmark yields.

The carrying amount of EGMA's long-term debt was $548.4 million as of December 31, 2021 and the carrying amount of EGMA's long-term note payable was $309.4 million as of December 31, 2020. The estimated fair values of these financial instruments were $535.7 million and $400.2 million as of December 31, 2021 and 2020, respectively. These fair values were classified as Level 2 within the fair value hierarchy. See Note 1G, "Summary of Significant Accounting Policies - Fair Value Measurements," for the fair value measurement policy and the fair value hierarchy.

12. COMMON STOCK

EGMA had 1,000 shares of common stock authorized, of which 100 shares were issued and outstanding at a $1 per share par value as of December 31, 2021 and 2020.

13. REVENUES

Revenue is recognized when promised goods or services (referred to as performance obligations) are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. A five-step model is used for recognizing and measuring revenue from contracts with customers, which includes identifying the contract with the customer, identifying the performance obligations promised within the contract, determining the transaction price (the amount of consideration to which the Company expects to be entitled), allocating the transaction price to the performance obligations and recognizing revenue when (or as) the performance obligation is satisfied.

The following table presents operating revenues disaggregated by revenue source:

(Millions of Dollars)	For the Year Ended December 31, 2021	From October 9, 2020 to December 31, 2020
Revenues from Contracts with Customers		
Retail Tariff Sales		
Residential	$ 370.1	$ 97.0
Commercial	100.9	27.1
Industrial	61.9	16.4
Total Retail Tariff Sales Revenues	532.9	140.5
Wholesale Market Sales Revenues	34.2	7.1
Other Revenues from Contracts with Customers	1.5	0.3
Total Revenues from Contracts with Customers	568.6	147.9
Alternative Revenue Programs	17.6	6.9
Other Revenues	0.1	—
Total Operating Revenues	$ 586.3	$ 154.8

Retail Tariff Sales: EGMA provides products and services to its regulated customers under rates, pricing, payment terms and conditions of service, regulated by the DPU. The arrangement whereby a utility provides commodity service to a customer for a price approved by its state regulatory commission is referred to as a tariff sale contract, and the tariff governs all aspects of the provision of regulated services by the utility.

The majority of revenue for EGMA is derived from regulated retail tariff sales for the sale and distribution of natural gas to residential, commercial and industrial retail customers.

The utility's performance obligation for the regulated tariff sales is to provide natural gas to the customer as demanded. The promise to provide the commodity represents a single performance obligation, as it is a promise to transfer a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by the utility, and the utility satisfies its performance obligation. Revenue is recognized based on the output method as there is a directly observable output to the customer (natural gas units delivered to the customer and immediately consumed). EGMA is entitled to be compensated for performance completed to date (service taken by the customer) until service is terminated.

In regulated tariff sales, the transaction prices are the rates approved by the state regulatory commission. In general, rates can only be changed through formal proceedings with the state regulatory commission. These rates are designed to recover the costs to provide service to customers and include a return on investment. Regulatory commission-approved tracking mechanisms are included in these rates and are also used to recover, on a fully-reconciling basis, certain costs, such as the procurement of natural gas, infrastructure improvements, energy efficiency programs, and qualified pension and PBOP expenses. These tracking mechanisms result in rates being changed periodically to ensure recovery of actual costs incurred and the refund of any overcollection of costs.

A significant portion of EGMA's retail 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 on the statements of income.

Wholesale Market Sales Revenues: Wholesale market sales transactions include sales of natural gas to third party marketers. For sales of natural gas, transportation, and natural gas pipeline capacity to third party marketers, revenue is recognized when the performance obligation is satisfied at the point in time the sale occurred and the natural gas or related product is transferred to the marketer.

Alternative Revenue Programs: In accordance with accounting guidance for rate-regulated operations, certain rate making mechanisms qualify as alternative revenue programs (ARPs) if they meet specified criteria, in which case revenues may be recognized prior to billing based on allowed levels of collection in rates. EGMA recognizes revenue and records a regulatory asset or liability once the condition or event allowing for the automatic adjustment of future rates occurs. ARP revenues include both the recognition of the deferral adjustment to ARP revenues, when the regulator-specified condition or event allowing for additional billing or refund has occurred, and an equal and offsetting reversal of the ARP deferral to revenues as those amounts are reflected in the price of service in subsequent periods.

EGMA's ARPs include a revenue decoupling mechanism. Decoupled distribution revenues are not directly based on sales volumes. EGMA reconciles its annual base distribution rate recovery to a pre-established level of baseline distribution delivery service revenues, with any difference between the allowed level of distribution revenue and the actual amount realized adjusted through subsequent rates.

Other Revenues: Other Revenues include certain fees charged to customers that are not considered revenue from contracts with customers.

Receivables: Receivables, Net on the balance sheets primarily includes trade receivables from retail customers and wholesale market sales of natural gas and capacity to marketers. In general, retail tariff customers are billed monthly and the payment terms are generally due and payable upon receipt of the bill.

Unbilled Revenues: Unbilled Revenues on the balance sheets represent estimated amounts due from retail customers for natural gas delivered to customers but not yet billed. The Company has satisfied its performance obligation and the customer has received and consumed the commodity as of the balance sheet date, and therefore, the Company records revenue for those services in the period the services were provided. Only the passage of time is required before the Company is entitled to payment for the satisfaction of the performance obligation. Payment from customers is due monthly as services are rendered and amounts are billed. Actual amounts billed to customers when meter readings become available may vary from the estimated amount.

Unbilled revenues are recognized by allocating estimated unbilled sales volumes to the respective customer classes, and then applying an estimated rate by customer class to those sales volumes. Unbilled revenue estimates reflect seasonality, weather, customer usage patterns, customer rates in effect for customer classes, and the timing of customer billing. EGMA records a regulatory deferral to reflect the actual allowed amount of revenue associated with its decoupled distribution rate design.

Practical Expedients: EGMA has elected practical expedients in the accounting guidance that allow the Company to record revenue in the amount that the Company has a right to invoice, if that amount corresponds directly with the value to the customer of the Company's performance to date, and not to disclose related unsatisfied performance obligations. Retail tariff sales fall into this category, as these sales are recognized as revenue in the period the utility provides the service and completes the performance obligation, which is the same as the monthly amount billed to customers. There are no other material revenue streams for which EGMA has unsatisfied performance obligations.