NSTAR Gas Company

Consolidated Financial Statements as of and for the
Years Ended December 31, 2020 and 2019,
Together With Independent Auditors' Report

NSTAR Gas Company

Table of Contents

Deloitte.

Deloitte & Touche LLP
City Place I, 33rd Floor
185 Asylum Street
Hartford, CT 06103-3402
USA

Tel: +1 860 725 3000
Fax: +1 860 725 3500
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

NSTAR Gas Company and subsidiary
To the Board of Directors and Stockholder of NSTAR Gas Company
Berlin, CT

We have audited the accompanying consolidated financial statements of NSTAR Gas Company and subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, common stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of NSTAR Gas Company and subsidiary as of December 31, 2020 and 2019, 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 29, 2021

NSTAR GAS COMPANY
CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)	As of December 31, 2020	2019
ASSETS		
Current Assets:		
Cash	$ 51	$ 1,453
Receivables, Net (net of allowance for uncollectible accounts of $24,761 and $17,031 as of December 31, 2020 and 2019, respectively)	53,837	53,946
Accounts Receivable from Affiliated Companies	6,518	10,835
Unbilled Revenues	18,727	14,972
Fuel, Materials and Supplies	9,790	11,072
Regulatory Assets	80,794	57,018
Prepayments and Other Current Assets	454	5,335
Total Current Assets	170,171	154,631
Property, Plant and Equipment, Net	1,733,423	1,471,983
Deferred Debits and Other Assets:		
Regulatory Assets	233,585	218,161
Prepaid PBOP	33,615	27,790
Other Long-Term Assets	15,367	18,787
Total Deferred Debits and Other Assets	282,567	264,738
Total Assets	$ 2,186,161	$ 1,891,352
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable to Eversource Parent	$ 187,300	$ 121,300
Long-Term Debt - Current Portion	—	150,000
Accounts Payable	96,807	70,273
Accounts Payable to Affiliated Companies	26,615	31,325
Regulatory Liabilities	22,854	9,507
Other Current Liabilities	15,633	18,038
Total Current Liabilities	349,209	400,443
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	210,457	191,422
Regulatory Liabilities	208,106	213,251
Accrued Pension and SERP	56,093	60,683
Other Long-Term Liabilities	51,232	54,303
Total Deferred Credits and Other Liabilities	525,888	519,659
Long Term Debt	498,470	308,920
Common Stockholder's Equity:		
Common Stock	71,425	71,425
Capital Surplus, Paid In	665,155	527,634
Retained Earnings	75,598	62,845
Accumulated Other Comprehensive Income	416	426
Common Stockholder's Equity	812,594	662,330
Total Liabilities and Capitalization	$ 2,186,161	$ 1,891,352

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

NSTAR GAS COMPANY
CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Dollars)	For the Years Ended December 31, 2020	2019
Operating Revenues	$ 509,862	$ 506,624
Operating Expenses:		
Cost of Natural Gas	194,737	224,837
Operations and Maintenance	108,717	98,702
Depreciation	45,939	41,815
Amortization of Regulatory Liabilities, Net	(3,126)	(4,012)
Energy Efficiency Programs	59,148	47,703
Taxes Other Than Income Taxes	28,304	29,365
Total Operating Expenses	433,719	438,410
Operating Income	76,143	68,214
Interest Expense	13,356	22,624
Other Income, Net	3,300	1,702
Income Before Income Tax Expense	66,087	47,292
Income Tax Expense	15,242	9,096
Net Income	$ 50,845	$ 38,196

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of Dollars)	For the Years Ended December 31, 2020	2019
Net Income	$ 50,845	$ 38,196
Other Comprehensive (Loss)/Income, Net of Tax:		
Changes in Funded Status of SERP Benefit Plans	(10)	38
Other Comprehensive (Loss)/Income, Net of Tax	(10)	38
Comprehensive Income	$ 50,835	$ 38,234

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

NSTAR GAS COMPANY
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(Thousands of Dollars, Except Stock Information)	Common Stock		Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Stock	Amount				
Balance as of January 1, 2019	2,857,000	$ 71,425	$ 372,334	$ 46,249	$ 388	$ 490,396
Net Income				38,196		38,196
Dividends on Common Stock				(21,600)		(21,600)
Capital Contributions from Parent			155,300			155,300
Other Comprehensive Income					38	38
Balance as of December 31, 2019	2,857,000	71,425	527,634	62,845	426	662,330
Net Income				50,845		50,845
Dividends on Common Stock				(38,000)		(38,000)
Capital Contributions from Parent			115,000			115,000
Capital Contribution from Parent to Hopkinton LNG Corp. of LNG and LPG Assets			22,521			22,521
Adoption of New Accounting Standard (See Note 1C)				(92)		(92)
Other Comprehensive Loss					(10)	(10)
Balance as of December 31, 2020	2,857,000	$ 71,425	$ 665,155	$ 75,598	$ 416	$ 812,594

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

NSTAR GAS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Dollars)	For the Years Ended December 31, 2020	2019
Operating Activities:		
Net Income	$ 50,845	$ 38,196
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:		
Depreciation	45,939	41,815
Deferred Income Taxes	15,661	15,811
Pension, SERP and PBOP Income, Net	(1,857)	(124)
Pension and PBOP Contributions	(17,000)	(5,778)
Regulatory Underrecoveries, Net	(12,399)	(12,770)
Amortization of Regulatory Liabilities, Net	(3,126)	(4,012)
Uncollectible Expense	4,887	7,765
Other	(8,649)	(7,509)
Changes in Current Assets and Liabilities:		
Receivables and Unbilled Revenues, Net	(12,066)	(10,289)
Fuel, Materials and Supplies	1,283	2,352
Taxes Receivable/Accrued, Net	5,358	(1,035)
Accounts Payable	3,071	(7,164)
Other Current Assets and Liabilities, Net	(894)	(11)
Net Cash Flows Provided by Operating Activities	71,053	57,247
Investing Activities:		
Investments in Property, Plant and Equipment	(254,912)	(243,571)
Net Cash Flows Used in Investing Activities	(254,912)	(243,571)
Financing Activities:		
Cash Dividends on Common Stock	(38,000)	(21,600)
Capital Contributions from Parent	115,000	155,300
Issuance of Long-Term Debt	190,000	75,000
Retirement of Long-Term Debt	(150,000)	—
Increase/(Decrease) in Notes Payable to Eversource Parent	66,000	(20,800)
Other Financing Activities	(543)	(328)
Net Cash Flows Provided by Financing Activities	182,457	187,572
Net (Decrease)/Increase in Cash	(1,402)	1,248
Cash - Beginning of Year	1,453	205
Cash - End of Year	$ 51	$ 1,453

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

NSTAR GAS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. About NSTAR Gas Company

NSTAR Gas Company (NSTAR Gas or the Company) is a regulated public utility company engaged in the distribution and sale of natural gas to customers in parts of Massachusetts. NSTAR Gas distributes natural gas to approximately 303,000 customers in 51 communities in central and eastern Massachusetts covering 1,067 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). NSTAR Gas is a wholly-owned subsidiary of Yankee Energy System, Inc., a holding company that is a wholly-owned subsidiary of Eversource Energy (Eversource). NSTAR Gas is doing business as Eversource Energy.

NSTAR Gas' natural gas business provides 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 NSTAR Gas. NSTAR Gas offers firm transportation service to all customers who purchase natural gas from sources other than NSTAR Gas. In addition, NSTAR Gas has the ability to offer interruptible transportation and interruptible natural gas sales service to high volume commercial and industrial customers. NSTAR Gas 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 NSTAR Gas during the winter heating season is provided by Hopkinton LNG Corp. (Hopkinton), another wholly-owned subsidiary of Yankee Energy System, Inc. Hopkinton owns a satellite vaporization plant, liquefaction and vaporization plants, propane peak shaving plants, and above ground storage tanks in Massachusetts.

B. Basis of Presentation

The preparation of the consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NSTAR Gas has a DPU-approved gas service agreement with Hopkinton for firm underground storage and storage capacity entitlements. NSTAR Gas is the primary beneficiary of Hopkinton and consolidates Hopkinton in its consolidated financial statements. Intercompany transactions between NSTAR Gas and Hopkinton have been eliminated in consolidation.

On October 9, 2020, Eversource completed the acquisition of certain assets and liabilities that comprised NiSource's natural gas distribution business in Massachusetts, which was previously doing business as Columbia Gas of Massachusetts (CMA). The liquified natural gas (LNG) and liquified petroleum gas (LPG) assets acquired from CMA were assigned to Hopkinton. The transfer of these assets to Hopkinton was recorded as a non-cash capital contribution from Yankee Energy System, Inc. on the consolidated statement of equity and the assets acquired are reflected on the consolidated balance sheet.

The natural gas distribution assets acquired from CMA were assigned to Eversource Gas Company of Massachusetts (EGMA), an indirect wholly-owned subsidiary of Eversource formed in 2020. Effective October 9, 2020, EGMA has a 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. 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. Based upon an evaluation of the consolidation accounting guidance, NSTAR Gas has remained the primary beneficiary and continues to consolidate Hopkinton within its financial statements. For further information, see Note 13, "Consolidation of Variable Interest Entity," to the consolidated financial statements.

NSTAR 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.

COVID-19 has adversely affected workers and the economy and caused volatility in the financial markets. Due to the inherent uncertainty of the unprecedented and evolving situation, we continue to closely monitor how COVID-19 related developments affect NSTAR Gas. Based on available information, we have not experienced significant impacts directly related to the pandemic that have adversely affected our current operations or results of operations. The extent of the impact to us in the future will vary and depend in large part on the duration, scope and severity of the pandemic and the timing and extent of COVID-19 relief legislation, and the resulting impact on economic, health care and capital market conditions. The future impact will also depend on the outcome of planned proceedings before our state regulatory commission to recover our incremental costs associated with COVID-19.

We believe that we are developing a successful mechanism with the DPU that will allow us to recover our incremental costs associated with COVID-19, which include uncollectible customer receivable expenses, while balancing the impact on our customers' bills and our operating cash flows. See Note 1E, "Summary of Significant Accounting Policies - Allowance for Uncollectible Accounts," for discussion of our evaluation of the allowance for doubtful accounts as of December 31, 2020 in light of the COVID-19 pandemic.

An extended economic slowdown has resulted in lower demand for natural gas by our commercial and industrial customers. However, fluctuations in retail sales volumes for NSTAR Gas do not materially impact earnings due to the DPU-approved distribution revenue decoupling mechanism.

NSTAR Gas evaluates events and transactions that occur after the balance sheet date but before financial statements are available to be issued and recognizes in the consolidated financial statements the effects of all subsequent events that provide additional information about conditions that existed as of the balance sheet date. NSTAR Gas discloses, but does not recognize, in the consolidated financial statements subsequent events that provide information about the conditions that arose after the balance sheet date but before the consolidated financial statements are available to be issued. In preparing the consolidated financial statements, NSTAR Gas has evaluated events subsequent to December 31, 2020 through the date the financial statements were available to be issued, March 29, 2021, and did not identify any such events that required recognition or disclosure under this guidance.

C. Accounting Standards

Accounting Standards Issued but Not Yet Effective: In December 2019, the FASB issued 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 guidance is effective in the first quarter of 2021. The ASU is not expected to have a material impact on the consolidated financial statements.

Accounting Standards Recently Adopted: On January 1, 2020, the Company adopted ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*, which provides a model for recognizing credit losses on financial instruments based on an estimate of current expected losses, requiring immediate recognition of credit losses expected over the life of a financial instrument. The Company determined the impacts of this standard on the allowance for credit losses on its financial instruments, primarily accounts receivable. As of January 1, 2020, the Company recorded an increase to the allowance for uncollectible accounts for other receivable amounts of $0.1 million. The impact to retained earnings, net of tax, was $0.1 million.

The Company also adjusted the allowance for uncollectible amounts of hardship receivables and other receivable amounts, which are ultimately collectible in rates at specified points in time under approved regulatory mechanisms. The impact on the allowance, which was offset in other long-term assets on the balance sheets, was a decrease of $0.5 million as of January 1, 2020. See Note 1E, “Summary of Significant Accounting Policies - Allowance for Uncollectible Accounts,” for further information.

On January 1, 2020, the Company adopted ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The ASU aligned the requirements for capitalizing costs incurred to implement a cloud computing arrangement with existing internal-use software guidance. The prospective implementation of this standard did not have a material impact on the consolidated financial statements for the year ended December 31, 2020.

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 consolidated balance sheets. There are no restricted cash balances.

E. Allowance for Uncollectible Accounts

Receivables, Net on the consolidated balance sheets primarily includes trade receivables from retail customers, wholesale market sales, property rentals, 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. Effective January 1, 2020, the current expected credit loss (CECL) model was 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, 2020, management evaluated the adequacy of the allowance for uncollectible accounts in light of the COVID-19 pandemic and the related economic downturn. 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 NSTAR Gas has experienced an increase in aged receivables and some lower cash collections from customers because of the moratorium on disconnections and the economic slowdown resulting from the COVID-19 pandemic. Based upon the evaluation performed, for the year ended December 31, 2020, management increased the allowance for uncollectible accounts for amounts incurred as a result of COVID-19 by $4.3 million. These COVID-19 related uncollectible amounts were deferred either as incremental regulatory costs or deferred through existing regulatory tracking mechanisms that recover 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 as of December 31, 2020 adequately reflected the collection risk and net realizable value for NSTAR Gas' 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 NSTAR Gas 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 consolidated 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. As a result of the adoption of ASU 2016-13, management aligned the allowance for uncollectible hardship accounts across all regulatory jurisdictions, using a higher credit risk profile for this pool of trade receivables as compared to non-hardship receivables. Implementation impacts of the accounting standard on the allowance for uncollectible hardship accounts are reflected in the rollforward of the uncollectible allowance in the table below. 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 consolidated balance sheets. The activity in the allowance for uncollectible accounts by portfolio segment is as follows:

	As of December 31, 2020		
(Millions of Dollars)	Hardship Accounts	Retail (Non-Hardship), Wholesale, and Other Receivables	Total Allowance
Beginning Balance	$ 7.1	$ 9.9	$ 17.0
ASU 2016-13 Implementation Impact on January 1, 2020	(0.6)	0.2	(0.4)
Uncollectible Expense [(1)]	—	4.9	4.9
Uncollectible Costs Deferred [(2)]	1.0	7.1	8.1
Write-Offs	(0.1)	(6.0)	(6.1)
Recoveries Collected	—	1.3	1.3
Ending Balance	$ 7.4	$ 17.4	$ 24.8

(1) Uncollectible expense associated with customer and other accounts receivable is included in Operations and Maintenance expense on the consolidated statements of income. For the year ended December 31, 2019, uncollectible expense included in Operations and Maintenance Expense was $7.8 million.

(2) Uncollectible expense from hardship accounts and certain other customer receivables, including uncollectible amounts related to COVID-19, are deferred as a regulatory cost on the consolidated balance sheets, as these amounts are ultimately recoverable in rates.

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 consolidated balance sheets as of December 31, 2020 and 2019 were $6.7 million and $7.2 million, respectively, of natural gas inventory, and $3.1 million and $3.9 million, respectively, of materials and supplies. Inventory is valued at the lower of cost or net realizable value.

G. Fair Value Measurements

Fair value measurement guidance is applied to derivative contracts that are not elected or designated as "normal purchases" or "normal sales" (normal). Fair value measurement guidance is also 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, including prices of energy and energy-related products.

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," Note 5, "Derivative Instruments," and Note 11, "Fair Value of Financial Instruments," to the consolidated financial statements.

H. Derivative Accounting

NSTAR Gas has entered into New York Mercantile Exchange (NYMEX) natural gas futures that are derivatives in order to reduce cash flow variability associated with the purchase price for approximately one-third of its natural gas purchases during the winter heating season of November through March. These are financial instruments that do not procure natural gas supply and qualify as derivative instruments. NSTAR Gas has entered into these contracts in accordance with a DPU order. The costs and benefits from all of the NYMEX futures contracts are recovered from, or refunded to, customers in rates and therefore, regulatory assets or regulatory liabilities are recorded to offset the fair values of these derivative contracts. All changes in the fair value of derivative contracts are recorded as regulatory assets or liabilities and do not impact net income.

NSTAR Gas also has natural gas supply contracts that are derivatives and meet the definition of, and are designated as, normal and therefore qualify for accrual accounting under the applicable accounting guidance.

The application of derivative accounting is complex and requires management judgment in the following respects: identification of derivatives and embedded derivatives, election and designation of a contract as normal, and determination of the fair value of derivative contracts. The judgment applied in the election of a contract as normal (and resulting accrual accounting) includes the conclusion that it is probable at the inception of the contract and throughout its term that it will result in physical delivery of the underlying product and that the quantities will be used or sold by the business in the normal course of business. If facts and circumstances change and management can no longer support this conclusion, then a contract cannot be considered normal, accrual accounting is terminated, and fair value accounting is applied prospectively. The costs and benefits of these derivative contracts that meet the definition of normal are recognized in Operating Expenses on the consolidated statements of income, as applicable, as natural gas is delivered.

The fair value of derivative contracts is based upon the contract terms and conditions and the underlying market price or fair value per unit. When quantities are not specified in the contract, the Company determines whether the contract has a determinable quantity by using amounts referenced in default provisions and other relevant sections of the contract. The fair value of derivative assets and liabilities with the same counterparty are offset and recorded as a net derivative asset or liability, with current and long-term portions, on the consolidated balance sheets.

For further information regarding derivative contracts, see Note 5, "Derivative Instruments," to the consolidated financial statements.

I. 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 consolidated 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 consolidated 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 years ended December 31, 2020 and 2019, AFUDC costs included borrowed funds of $3.3 million and $2.3 million, respectively.

NSTAR Gas' 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 rate for the years ended December 31, 2020 and 2019 were 1.9 percent and 1.8 percent, respectively.

J. Other Income, Net

Items included within Other Income, Net on the consolidated statements of income primarily consist of the non-service related components of pension, SERP and PBOP benefit costs, investment income or loss, and interest income.

K. Supplemental Cash Flow Information

(Millions of Dollars)	As of and For the Years Ended December 31, 2020	2019
Cash Paid/(Received) During the Year For:		
Interest, Net of Amounts Capitalized	$ 15.4	$ 21.3
Income Taxes	(4.8)	(5.2)
Non-Cash Investing Activities:		
Plant Additions Included in Accounts Payable (As of)	49.9	31.5

L. 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 NSTAR Gas. In addition, NSTAR Gas 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 NSTAR Gas are in the ordinary course of business.

Also in the ordinary course of business, NSTAR Gas 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 total $12.5 million annually and are classified as Cost of Natural Gas on the consolidated statements of income.

Included in the consolidated balance sheets as of December 31, 2020 and 2019 were Accounts Receivable from Affiliated Companies and Accounts Payable to Affiliated Companies related to transactions between NSTAR Gas and other subsidiaries that are wholly-owned by Eversource.

2. REGULATORY ACCOUNTING

NSTAR Gas 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. NSTAR Gas' consolidated 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:

(Millions of Dollars)	As of December 31, 2020	2019
Benefit Costs	$ 136.1	$ 126.7
Goodwill-related	44.5	46.9
Regulatory Tracker Mechanisms	70.5	45.5
Environmental Remediation Costs	29.9	31.2
Asset Retirement Obligations	13.0	11.9
Income Taxes, Net	3.5	3.6
Other Regulatory Assets	16.9	9.4
Total Regulatory Assets	314.4	275.2
Less: Current Portion	80.8	57.0
Total Long-Term Regulatory Assets	$ 233.6	$ 218.2

Benefit Costs: NSTAR Gas 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 NSTAR Gas 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 and prior service cost 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 NSTAR Gas, no carrying charge is recovered from customers.

NSTAR Gas 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.

Goodwill-related: The goodwill-related regulatory asset originated from a 1999 transaction, and the DPU allowed its recovery in NSTAR Gas' rates. This regulatory asset is currently being amortized and recovered from customers in rates without a carrying charge over a 40-year period, and, as of December 31, 2020, there were 19 years of amortization remaining.

Regulatory Tracker Mechanisms: NSTAR Gas' approved rates are designed to recover its costs incurred to provide service to customers. NSTAR Gas 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. NSTAR Gas recovers, on a fully-reconciling basis, the costs associated with the procurement of natural gas for its firm and seasonal customers, energy efficiency programs, and qualified pension and PBOP expenses through rate reconciling mechanisms.

NSTAR Gas 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. NSTAR Gas 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 10A, "Commitments and Contingencies - Environmental Matters," to the consolidated financial statements.

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

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 DPU and accounting guidance for income taxes. Differences in income taxes between the accounting guidance and the rate-making treatment of the DPU are recorded as regulatory assets. As these assets are offset by deferred income tax liabilities, no carrying charge is collected. The amortization period of these assets varies depending on the nature and/or remaining life of the underlying assets and liabilities. For further information regarding income taxes, see Note 9, "Income Taxes," to the consolidated financial statements.

Regulatory Costs in Other Long-Term Assets: NSTAR Gas had $14.6 million and $17.8 million of additional regulatory costs as of December 31, 2020 and 2019, respectively, that were included in Other Long-Term Assets on the consolidated 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, 2020, net incremental costs as a result of COVID-19 deferred by NSTAR Gas totaled $2.4 million, of which $1.6 million was related to non-tracked uncollectible expense and $0.8 million related to facilities and fleet cleaning, sanitizing costs and supplies for personal protective equipment.

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

	As of December 31,	
(Millions of Dollars)	**2020**	**2019**
EDIT Due to Tax Cuts and Jobs Act of 2017	$ 126.1	$ 129.6
Cost of Removal	70.1	71.2
Benefit Costs	11.1	12.2
Regulatory Tracker Mechanisms	15.5	3.8
Other Regulatory Liabilities	8.2	6.0
Total Regulatory Liabilities	231.0	222.8
Less: Current Portion	22.9	9.5
Total Long-Term Regulatory Liabilities	$ 208.1	$ 213.3

EDIT due to Tax Cuts and Jobs Act of 2017: Pursuant to the Tax Cuts and Jobs Act of 2017, NSTAR Gas had remeasured its existing deferred federal income tax balances to reflect the decrease in the U.S. federal corporate income tax rate from 35 percent to 21 percent. The remeasurement resulted in provisional regulated excess accumulated deferred income tax (excess ADIT or EDIT) liabilities that will benefit our customers in future periods and were recognized as regulatory liabilities on the consolidated balance sheets. EDIT liabilities related to property, plant, and equipment are subject to IRS normalization rules and will be returned to customers using the same timing as the remaining useful lives of the underlying assets that gave rise to the ADIT liabilities. Effective February 1, 2019, NSTAR Gas' refund of EDIT liabilities was incorporated into rates through a new reconciling factor.

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

Recent Regulatory Developments:

NSTAR Gas Rate Case: On October 30, 2020, the DPU approved a base distribution rate increase of $23.0 million effective November 1, 2020, compared to the original request of $38.0 million. NSTAR Gas' 2019 plant additions are allowed recovery beginning on November 1, 2021. Thus, the reduced revenue requirement reflects the removal of this recovery, among other adjustments. The DPU also approved NSTAR Gas' proposal to continue its ongoing Gas System Enhancement Program (GSEP), the inclusion of GSEP investments since 2015 into base rates, and the implementation of a 10-year performance-based ratemaking plan, which includes an inflation-based adjustment mechanism to annual base distribution rates. The decision allows an authorized regulatory ROE of 9.9 percent on a capital structure including 54.77 percent equity. The decision also approves a geothermal pilot program. The impact of the rate case decision resulted in a pre-tax charge to earnings in 2020 of $2.7 million at NSTAR Gas, primarily due to certain plant-related disallowances.

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:

	As of December 31,	
(Millions of Dollars)	**2020**	**2019**
Natural Gas Distribution, Gross	$ 2,008.4	$ 1,773.4
Less: Accumulated Depreciation	(491.1)	(447.5)
Property, Plant and Equipment, Net	1,517.3	1,325.9
Construction Work in Progress	216.1	146.1
Total Property, Plant and Equipment, Net	$ 1,733.4	$ 1,472.0

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 2.7 percent in 2020 and 2.8 percent in 2019. As of December 31, 2020, the average remaining useful life of NSTAR Gas' depreciable assets was 40.9 years.

The LNG and LPG assets acquired from CMA on October 9, 2020 that were assigned to Hopkinton totaled approximately $23 million and were included in Property, Plant and Equipment, Net on the consolidated balance sheet as of December 31, 2020.

4. ASSET RETIREMENT OBLIGATIONS

NSTAR 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, 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 liability in Other Long-Term Liabilities with a corresponding amount included in Property, Plant and Equipment, Net on the consolidated 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 NSTAR Gas 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 consolidated balance sheets.

A reconciliation of the beginning and ending carrying amounts of ARO liabilities is as follows:

	As of December 31,	
(Millions of Dollars)	**2020**	**2019**
Balance as of Beginning of Year	$ 13.7	$ 12.4
Accretion	0.7	0.7
Revisions in Estimated Cash Flows	0.4	0.6
Balance as of End of Year	$ 14.8	$ 13.7

5. DERIVATIVE INSTRUMENTS

The following table presents the gross fair values of contracts, categorized by risk type, and the net amount recorded as current derivative liabilities, all of which are classified as Level 2 in the fair value hierarchy:

	As of December 31, 2020			As of December 31, 2019		
(Millions of Dollars)	Commodity Supply & Price Risk Management	Netting [1]	Net Amount Recorded as a Derivative	Commodity Supply & Price Risk Management	Netting [1]	Net Amount Recorded as a Derivative
Current Derivative Liabilities	(3.3)	0.1	(3.2)	(5.2)	—	(5.2)

[1] Amounts represent derivative assets that NSTAR Gas elected to record net on the consolidated balance sheets. These amounts are subject to master netting agreements or similar agreements for which the right of offset exists.

Derivative liabilities are included in Other Current Liabilities on the consolidated balance sheets.

NSTAR Gas' derivative contracts reflected on the consolidated balance sheets relate to NYMEX natural gas futures that are entered into in order to reduce cash flow variability associated with the purchase price of a portion of its natural gas purchases during the winter heating season. These natural gas futures are financial instruments that do not procure natural gas supply and qualify as derivative instruments. As of December 31, 2020 and 2019, NSTAR Gas had NYMEX financial contracts for natural gas futures in order to reduce variability associated with the price of 8.9 million and 9.6 million MMBtu of natural gas, respectively.

For the years ended December 31, 2020 and 2019, there were losses of $3.2 million and $5.7 million, respectively, deferred as regulatory costs, which reflect the change in fair value associated with these derivative contracts.

Fair Value Measurements of Derivative Instruments
Derivative contracts are classified as Level 2 in the fair value hierarchy and relate to the financial contracts for natural gas futures. Prices are obtained from broker quotes and are based on actual market activity. The contracts are valued using NYMEX natural gas prices. Valuations of these contracts also incorporate discount rates using the yield curve approach.

6. 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 NSTAR Gas, are parties to a five-year $1.45 billion revolving credit facility, which terminates on December 6, 2024. 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, 2020 or 2019.

As of December 31, 2020 and 2019, there were intercompany loans from Eversource parent to NSTAR Gas of $187.3 million and $121.3 million, respectively, recorded as Notes Payable to Eversource Parent and classified in current liabilities on the consolidated 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, 2020 and 2019 was 0.25 percent and 1.98 percent, respectively.

Under the credit facility, NSTAR Gas must comply with certain financial and non-financial covenants, including a consolidated debt to total capitalization ratio. As of December 31, 2020 and 2019, NSTAR Gas was in compliance with these covenants. If NSTAR Gas was not in compliance with these covenants, an event of default would occur requiring all outstanding borrowings by NSTAR Gas to be repaid, and additional borrowings would not be permitted under the credit facility.

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

7. LONG-TERM DEBT

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

	As of December 31,	
(Millions of Dollars)	2020	2019
First Mortgage Bonds:		
9.95% Series J due 2020	$ —	$ 25.0
4.46% Series N due 2020	—	125.0
2.33% Series R due 2025	75.0	—
7.11% Series K due 2033	35.0	35.0
4.35% Series O due 2045	100.0	100.0
4.09% Series P due 2048	100.0	100.0
3.74% Series Q due 2049	75.0	75.0
3.15% Series S due 2050	115.0	—
Total First Mortgage Bonds	500.0	460.0
Less Amounts due Within One Year	—	(150.0)
Unamortized Debt Issuance Costs	(1.5)	(1.1)
NSTAR Gas Long-Term Debt	$ 498.5	$ 308.9

Long-Term Debt Issuance Authorization: On January 27, 2020, the DPU approved NSTAR Gas' request for authorization to issue up to $270 million in long-term debt through December 31, 2021.

Long-Term Debt Provisions: The utility plant of NSTAR Gas is subject to the lien of its first mortgage bond indenture. Additionally, NSTAR Gas' long-term debt agreements provide that it must comply with certain covenants as are customarily included in such agreements, including an equity requirement. Under the equity requirement, the outstanding long-term debt of NSTAR Gas must not exceed equity. NSTAR Gas was in compliance with these covenants as of December 31, 2020 and 2019.

8. 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. In addition to the Pension Plan, Eversource Service sponsors non-qualified defined benefit retirement plans (SERP Plans), which provide benefits in excess of Internal Revenue Code limitations to eligible participants consisting of current and retired employees.

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 2020 Annual Report on Form 10-K filed on February 17, 2021 with the U.S. Securities and Exchange Commission (SEC).

NSTAR Gas 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 NSTAR Gas' local distribution adjustment clause that is reset annually in a filing with the DPU.

The Pension, SERP and PBOP Plans cover eligible employees, including, among others, employees of NSTAR Gas. Because NSTAR Gas 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. Adjustments to the SERP Plan funded status are offset on an after-tax basis to Accumulated Other Comprehensive Income. For further information, see Note 2, "Regulatory Accounting," and Note 12, "Accumulated Other Comprehensive Income," to the consolidated financial statements.

Funded Status: NSTAR Gas participates in the overall Eversource single-employer Pension, SERP, and PBOP Plans accounted for under the multiple-employer approach, with its share of the funded status of the plans reflected on its consolidated balance sheet. Although Eversource maintains marketable securities in a benefit trust, the SERP Plans do not contain any assets. The following table provides information on the plan benefit obligations, fair values of plan assets, and funded status attributable to NSTAR Gas in the Eversource single-employer Pension, SERP and PBOP Plans:

	Pension and SERP		PBOP	
	As of December 31,		As of December 31,	
(Millions of Dollars)	2020	2019	2020	2019
Benefit Obligation	$ (291.9)	$ (273.4)	$ (45.0)	$ (42.9)
Fair Value of Plan Assets	235.7	212.6	78.6	70.7
Funded Status	$ (56.2)	$ (60.8)	$ 33.6	$ 27.8
Employer Contributions	$ 17.0	$ 5.0	$ —	$ 0.8
Benefits Paid	16.0	13.1	2.3	2.4
Benefits Paid - SERP	0.1	0.1	N/A	N/A

The Pension and SERP Plans' funded status includes the current portion of the SERP liability, which is included in Other Current Liabilities on the consolidated balance sheets.

NSTAR Gas' accumulated benefit obligation for the Pension and SERP Plans was $284.2 million and $267.7 million as of December 31, 2020 and 2019, respectively.

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

	Pension and SERP		PBOP	
	As of December 31,		As of December 31,	
	2020	2019	2020	2019
Discount Rate	2.5% — 2.6%	3.0% — 3.3%	2.6%	3.3%
Compensation/Progression Rate	3.5%	3.5%	N/A	N/A

Expense: Eversource charges net periodic benefit expense/(income) for the Pension, SERP 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 expense/(income), which provides a more precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve.

NSTAR Gas' components of net periodic benefit expense/(income) for the Pension, SERP 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 expense/(income), less the capitalized portion, is included in Operations and Maintenance expense on the consolidated statements of income. The remaining components of net periodic benefit expense/(income), less the deferred portion, are included in Other Income, Net on the consolidated statements of income. Pension, SERP and PBOP expense/(income) reflected in the consolidated statements of cash flows does not include the intercompany allocations or the corresponding capitalized and deferred portion, as these amounts are cash settled on a short-term basis.

	Pension and SERP		PBOP	
	For the Years Ended December 31,		For the Years Ended December 31,	
(Millions of Dollars)	2020	2019	2020	2019
Service Cost	$ 2.3	$ 2.5	$ 0.5	$ 0.4
Interest Cost	7.5	9.6	1.2	1.6
Expected Return on Plan Assets	(17.4)	(15.8)	(5.8)	(5.1)
Actuarial Loss	10.6	9.1	0.6	0.7
Prior Service Cost/(Credit)	0.1	0.1	(3.4)	(3.4)
Total Net Periodic Benefit Expense/(Income)	$ 3.1	$ 5.5	$ (6.9)	$ (5.8)
Intercompany Allocations	$ 2.1	$ 1.7	$ (0.3)	$ (0.3)

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

	Pension and SERP		PBOP	
	For the Years Ended December 31,		For the Years Ended December 31,	
	2020	2019	2020	2019
Discount Rate	2.6% — 3.5%	2.7% — 3.5%	2.7% — 3.6%	3.9% — 4.7%
Expected Long-Term Rate of Return	8.25%	8.25%	8.25%	8.25%
Compensation/Progression Rate	3.5%	3.5%	N/A	N/A

Contributions: Based on the current status of Eversource's Pension Plans and federal pension funding requirements, Eversource currently expects to make contributions of $130 million in 2021. Eversource currently estimates contributing $2.8 million to its PBOP Plans in 2021.

B. Defined Contribution Plans

Eversource maintains defined contribution plans on behalf of eligible participants, including, among others, employees of NSTAR Gas. 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 NSTAR Gas were $2.4 million and $2.2 million for the years ended December 31, 2020 and 2019, respectively.

9. INCOME TAXES

The components of income tax expense were as follows:

	For the Years Ended December 31,	
(Millions of Dollars)	**2020**	**2019**
Current Income Taxes:		
Federal	$ 0.8	$ (3.4)
State	(1.1)	(3.1)
Total Current	(0.3)	(6.5)
Deferred Income Taxes, Net:		
Federal	9.1	8.8
State	6.6	7.0
Total Deferred	15.7	15.8
Investment Tax Credit Amortization	(0.2)	(0.2)
Income Tax Expense	$ 15.2	$ 9.1

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

	For the Years Ended December 31,	
(Millions of Dollars, except percentages)	**2020**	**2019**
Income Before Income Tax Expense	$ 66.1	$ 47.3
Statutory Federal Income Tax Expense at 21%	13.9	9.9
Tax Effect of Differences:		
State Income Taxes, Net of Federal Impact	4.4	3.2
Investment Tax Credit Amortization	(0.2)	(0.2)
Excess Stock Benefit	(0.2)	(0.1)
EDIT Amortization	(2.5)	(3.7)
Other, Net	(0.2)	—
Income Tax Expense	$ 15.2	$ 9.1
Effective Tax Rate	23.0 %	19.2 %

NSTAR Gas files a consolidated federal income tax return with Eversource and also files state income tax returns. NSTAR Gas 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)	2020	2019
Deferred Tax Assets:		
Regulatory Deferrals - Liabilities	$ 26.9	$ 23.9
Other	70.6	67.3
Total Deferred Tax Assets	$ 97.5	$ 91.2
Deferred Tax Liabilities:		
Accelerated Depreciation and Other Plant-Related Differences	$ 216.8	$ 201.8
Regulatory Amounts:		
Regulatory Deferrals - Assets	65.2	55.4
Goodwill Regulatory Asset - 1999 Merger	12.2	12.8
Employee Benefits	8.1	6.8
Other	5.7	5.8
Total Deferred Tax Liabilities	$ 308.0	$ 282.6

2020 Federal Legislation: On March 27, 2020, President Trump signed the $2.2 trillion bipartisan Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act provides for loans and other benefits to small and large businesses, expanded unemployment insurance, direct payments to those with wages middle-income and below, new appropriations funding for health care and other priorities, and tax changes like deferrals of employer payroll tax liabilities coupled with an employee retention tax credit and rollbacks of Tax Cuts and Jobs Act of 2017 limitations on net operating losses and certain business interest limitation. For the year ended December 31, 2020, NSTAR Gas has recorded a tax liability of $2.2 million related to the deferral of employer payroll tax liability provision. Fifty percent of the deferral of employer payroll tax liability must be paid by December 31, 2021 and the remaining amount by December 31, 2022. Other than the cash flow benefit described, the CARES Act did not have a material impact.

Open Tax Years: The following table summarizes NSTAR Gas' tax years that remain subject to examination by major tax jurisdictions as of December 31, 2020:

Description	Tax Years
Federal (Eversource consolidated)	2020
Massachusetts	2017 - 2020

10. COMMITMENTS AND CONTINGENCIES

A. Environmental Matters

NSTAR 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. NSTAR Gas has an active environmental auditing and training program, and believes that it is substantially in compliance with all enacted laws and regulations. The environmental sites are 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 NSTAR Gas 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 NSTAR Gas' 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 consolidated 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 is as follows:

	As of December 31,	
(Millions of Dollars)	2020	2019
Balance as of Beginning of Year	$ 19.2	$ 13.1
Additions	1.0	9.7
Payments/Reductions	(0.5)	(3.6)
Balance as of End of Year	$ 19.7	$ 19.2

The Company has six environmental sites as of December 31, 2020. As of December 31, 2020, for one of the six environmental sites that are included in the Company's reserve for environmental costs, the information known and the nature of the remediation options allow for the Company to estimate the range of loss for environmental costs. As of December 31, 2020, $19.0 million had been accrued as a liability for this site, which represents the low end of the range of the liability for environmental costs. Management believes that additional losses of up to approximately $17 million may be incurred in executing current remediation plans for this site.

As of December 31, 2020, for the remaining five environmental sites that are included in the Company's reserve for environmental costs, the $0.7 million accrual represents management's best estimate of the probable liability and no additional loss is anticipated at this time.

Environmental Rate Recovery: NSTAR Gas 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 NSTAR Gas' significant executed, non-cancelable, long-term contractual arrangements in effect as of December 31, 2020 are as follows:

(Millions of Dollars)	2021	2022	2023	2024	2025	Thereafter	Total
Natural Gas Procurement	$ 122.9	$ 117.0	$ 96.9	$ 80.9	$ 80.9	$ 498.7	$ 997.3

In the normal course of business, NSTAR Gas has long-term contracts for the purchase, transportation and storage of natural gas as part of its portfolio of supplies. These contracts extend through 2038. The total cost incurred under these agreements was $196.8 million and $227.1 million in 2020 and 2019, respectively.

C. Litigation and Legal Proceedings

NSTAR 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. FAIR VALUE OF FINANCIAL INSTRUMENTS

Long-Term Debt: The fair value of NSTAR 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 amount of NSTAR Gas' long-term debt was $498.5 million and $458.9 million as of December 31, 2020 and 2019, respectively. The estimated fair values of these financial instruments were $580.9 million and $484.3 million as of December 31, 2020 and 2019, 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. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated Other Comprehensive Income (AOCI) was $0.4 million as of both December 31, 2020 and 2019. The balance in AOCI, net of tax, is the result of activity within the SERP Plans. Other Comprehensive Income amounts relate to actuarial gains and losses that arose during the year on the SERP Plans and were recognized in AOCI. The unamortized actuarial gains and losses on the SERP Plans are amortized from AOCI into Other Income, Net over the average future employee service period.

13. CONSOLIDATION OF VARIABLE INTEREST ENTITY

A company is required to consolidate a variable interest entity (VIE) if the company is the primary beneficiary of a VIE's activities. NSTAR Gas has a DPU-approved gas service agreement with Hopkinton for firm underground storage and storage capacity entitlements. Hopkinton is an affiliated company and is also a wholly-owned subsidiary of Yankee Energy System, Inc. Hopkinton owns a satellite vaporization plant, liquefaction and vaporization plants, propane peak shaving plants, and above ground storage tanks in Massachusetts.

Effective October 9, 2020, EGMA, a related party and another wholly-owned subsidiary of Yankee Energy System, Inc., has a 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 2.0 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. Both NSTAR Gas and EGMA approve Hopkinton's annual operating budget and control the use of its 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 remains the primary beneficiary. NSTAR Gas has consolidated Hopkinton in the consolidated financial statements and intercompany transactions have been eliminated in consolidation. Creditors of Hopkinton have no recourse to NSTAR Gas.

The impact of consolidating Hopkinton to NSTAR Gas is as follows:

Condensed consolidating statement of income for the year ended December 31, 2020:

(Millions of Dollars)	NSTAR Gas	Hopkinton	Intercompany Eliminations	Consolidated Total
Operating Revenues	$ 509.9	$ 20.5	$ (20.5)	$ 509.9
Operating Expenses	435.3	19.1	(20.6)	433.8
Operating Income	74.6	1.4	0.1	76.1
Interest Expense/(Income)	15.3	(1.9)	—	13.4
Other Income, Net	3.4	—	(0.1)	3.3
Income Before Income Tax Expense	62.7	3.3	—	66.0
Income Tax Expense	14.4	0.8	—	15.2
Net Income	$ 48.3	$ 2.5	$ —	$ 50.8

Condensed consolidating balance sheet as of December 31, 2020:

(Millions of Dollars)	NSTAR Gas	Hopkinton	Intercompany Eliminations	Consolidated Total
Total Current Assets	$ 169.6	$ 2.5	$ (1.9)	$ 170.2
Property, Plant and Equipment	1,830.1	178.3	—	2,008.4
Accumulated Depreciation	(403.9)	(87.2)	—	(491.1)
Construction Work in Progress	66.6	149.5	—	216.1
Property, Plant and Equipment, Net	1,492.8	240.6	—	1,733.4
Total Deferred Debits and Other Assets	282.2	0.4	—	282.6
Total Assets	$ 1,944.6	$ 243.5	$ (1.9)	$ 2,186.2
Total Current Liabilities	$ 301.3	$ 49.8	$ (1.9)	$ 349.2
Total Deferred Credits and Other Liabilities	520.2	5.7	—	525.9
Long-Term Debt	498.5	—	—	498.5
Common Stockholder's Equity	624.6	188.0	—	812.6
Total Liabilities and Capitalization	$ 1,944.6	$ 243.5	$ (1.9)	$ 2,186.2

Condensed consolidating statement of income for the year ended December 31, 2019:

(Millions of Dollars)	NSTAR Gas	Hopkinton	Intercompany Eliminations	Consolidated Total
Operating Revenues	$ 506.5	$ 18.3	$ (18.2)	$ 506.6
Operating Expenses	439.2	17.5	(18.3)	438.4
Operating Income	67.3	0.8	0.1	68.2
Interest Expense	22.6	—	—	22.6
Other Income, Net	1.8	—	(0.1)	1.7
Income Before Income Tax Expense	46.5	0.8	—	47.3
Income Tax Expense	8.9	0.2	—	9.1
Net Income	$ 37.6	$ 0.6	$ —	$ 38.2

Condensed consolidating balance sheet as of December 31, 2019:

(Millions of Dollars)	NSTAR Gas	Hopkinton	Intercompany Eliminations	Consolidated Total
Total Current Assets	$ 153.2	$ 3.1	$ (1.7)	$ 154.6
Property, Plant and Equipment	1,646.5	126.9	—	1,773.4
Accumulated Depreciation	(381.0)	(66.5)	—	(447.5)
Construction Work in Progress	41.0	105.1	—	146.1
Property, Plant and Equipment, Net	1,306.5	165.5	—	1,472.0
Total Deferred Debits and Other Assets	264.7	0.1	—	264.8
Total Assets	$ 1,724.4	$ 168.7	$ (1.7)	$ 1,891.4
Total Current Liabilities	$ 325.2	$ 77.0	$ (1.7)	$ 400.5
Total Deferred Credits and Other Liabilities	515.9	3.8	—	519.7
Long-Term Debt	308.9	—	—	308.9
Common Stockholder's Equity	574.4	87.9	—	662.3
Total Liabilities and Capitalization	$ 1,724.4	$ 168.7	$ (1.7)	$ 1,891.4

14. COMMON STOCK

NSTAR Gas had 2,857,000 shares of common stock authorized, issued and outstanding at a $25 per share par value as of December 31, 2020 and 2019.

15. 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:

	For the Years Ended December 31,	
(Millions of Dollars)	2020	2019
Revenues from Contracts with Customers		
Retail Tariff Sales		
Residential	$ 290.8	$ 289.6
Commercial	147.2	145.4
Industrial	20.6	19.9
Total Retail Tariff Sales Revenues	458.6	454.9
Wholesale Market Sales Revenues	30.5	48.6
Other Revenues from Contracts with Customers	3.1	2.2
Total Revenues from Contracts with Customers	492.2	505.7
Alternative Revenue Programs	17.3	0.3
Other Revenues	0.4	0.6
Total Operating Revenues	$ 509.9	$ 506.6

Retail Tariff Sales: NSTAR Gas 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 NSTAR Gas 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). NSTAR Gas 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, 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.

A significant portion of NSTAR Gas' 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 consolidated 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.

Other Revenues from Contracts with Customers: Other revenues from contracts with customers primarily include property rentals that are not deemed leases. These revenues are generally recognized on a straight-line basis over time as the service is provided to the customer.

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. NSTAR Gas 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.

NSTAR Gas' ARPs include the revenue decoupling mechanism. Decoupled distribution revenues are not directly based on sales volumes. NSTAR Gas 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. Other revenues also include lease revenues under lessor accounting of $0.3 million for each of the years ended December 31, 2020 and 2019.

Receivables: Receivables, Net on the consolidated balance sheets include trade receivables from retail customers, sales of natural gas and capacity to marketers, and property rentals. 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 consolidated 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. NSTAR Gas records a regulatory deferral to reflect the actual allowed amount of revenue associated with its decoupled distribution rate design.

Practical Expedients: NSTAR Gas 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 NSTAR Gas has unsatisfied performance obligations.