NSTAR Gas Company

Consolidated Financial Statements as of and for the
Years Ended December 31, 2017 and 2016,
Together With Independent Auditors' Reports

NSTAR Gas Company

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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, 2017 and 2016, and the related consolidated statements of income, comprehensive income, common stockholder's equity, and cash flows for the year 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 audit. We conducted our audit 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, 2017 and 2016, 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, 2018

NSTAR GAS COMPANY
CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)	As of December 31, 2017	2016
ASSETS		
Current Assets:		
Cash	$ 45	$ 19
Receivables, Net	45,636	38,978
Accounts Receivable from Affiliated Companies	16,360	5,626
Unbilled Revenues	20,117	15,127
Fuel, Materials and Supplies	15,921	19,211
Regulatory Assets	55,364	51,792
Prepayments and Other Current Assets	2,060	6,429
Total Current Assets	155,503	137,182
Property, Plant and Equipment, Net	1,085,061	939,255
Deferred Debits and Other Assets:		
Regulatory Assets	191,828	218,885
Other Long-Term Assets	37,259	31,463
Total Deferred Debits and Other Assets	229,087	250,348
Total Assets	$ 1,469,651	$ 1,326,785
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable to Eversource Parent	$ 227,000	$ 85,000
Long-Term Debt - Current Portion	—	25,000
Accounts Payable	66,686	49,751
Accounts Payable to Affiliated Companies	31,012	20,081
Regulatory Liabilities	7,448	6,997
Other Current Liabilities	24,095	15,911
Total Current Liabilities	356,241	202,740
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	163,475	285,879
Regulatory Liabilities	230,582	100,799
Accrued Pension and SERP	38,127	46,535
Other Long-Term Liabilities	37,259	43,923
Total Deferred Credits and Other Liabilities	469,443	477,136
Capitalization:		
Long-Term Debt	284,409	284,299
Common Stockholder's Equity:		
Common Stock	71,425	71,425
Capital Surplus, Paid In	262,134	190,358
Retained Earnings	25,673	100,511
Accumulated Other Comprehensive Income	326	316
Common Stockholder's Equity	359,558	362,610
Total Capitalization	643,967	646,909
Total Liabilities and Capitalization	$ 1,469,651	$ 1,326,785

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, 2017	2016
Operating Revenues	$ 441,064	$ 412,443
Operating Expenses:		
Cost of Natural Gas	179,000	173,544
Operations and Maintenance	87,496	89,209
Depreciation	35,970	32,092
Amortization of Regulatory Assets/(Liabilities), Net	176	(2,760)
Energy Efficiency Programs	42,063	26,788
Taxes Other Than Income Taxes	23,708	22,699
Total Operating Expenses	368,413	341,572
Operating Income	72,651	70,871
Interest Expense	17,671	16,733
Other Income, Net	202	595
Income Before Income Tax Expense	55,182	54,733
Income Tax Expense	21,920	21,542
Net Income	$ 33,262	$ 33,191

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, 2017	2016
Net Income	$ 33,262	$ 33,191
Other Comprehensive Income/(Loss), Net of Tax:		
Changes in Funded Status of SERP Benefit Plan	10	(89)
Other Comprehensive Income/(Loss), Net of Tax	10	(89)
Comprehensive Income	$ 33,272	$ 33,102

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

NSTAR GAS COMPANY
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

	Common Stock		Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Income	Total
(Thousands of Dollars, Except Stock Information)	Stock	Amount				
Balance as of January 1, 2016	2,857,000	$ 71,425	$ 190,358	$ 118,120	$ 405	$ 380,308
Net Income				33,191		33,191
Dividends on Common Stock				(50,800)		(50,800)
Other Comprehensive Loss					(89)	(89)
Balance as of December 31, 2016	2,857,000	71,425	190,358	100,511	316	362,610
Net Income				33,262		33,262
Dividends on Common Stock				(108,100)		(108,100)
Capital Contributions from Parent			71,775			71,775
Other Comprehensive Income					10	10
Other			1			1
Balance as of December 31, 2017	2,857,000	$ 71,425	$ 262,134	$ 25,673	$ 326	$ 359,558

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

NSTAR GAS COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
(Thousands of Dollars)	2017	2016
Operating Activities:		
Net Income	$ 33,262	$ 33,191
Adjustments to Reconcile Net Income to Net Cash Flows		
Provided by Operating Activities:		
Depreciation	35,970	32,092
Deferred Income Taxes	22,378	34,252
Amortization of Regulatory Assets/(Liabilities), Net	176	(2,760)
Pension, SERP and PBOP (Income)/Expense, Net	(1,394)	901
Pension and PBOP Contributions	(11,324)	(12,673)
Regulatory Over/(Under) Recoveries, Net	16,683	(11,481)
Bad Debt Expense	6,500	7,767
Other	(15,334)	(15,578)
Changes in Current Assets and Liabilities:		
Receivables and Unbilled Revenues, Net	(15,947)	(28,315)
Fuel, Materials and Supplies	3,290	1,790
Taxes Receivable/Accrued, Net	641	13,619
Accounts Payable	(3,853)	7,217
Accounts Receivable from/Payable to Affiliates, Net	197	33,843
Other Current Assets and Liabilities, Net	2,446	2,634
Net Cash Flows Provided by Operating Activities	73,691	96,499
Investing Activities:		
Investments in Property, Plant and Equipment	(154,340)	(133,255)
Net Cash Flows Used in Investing Activities	(154,340)	(133,255)
Financing Activities:		
Cash Dividends on Common Stock	(108,100)	(50,800)
Capital Contributions from Parent	71,775	—
Retirement of Long-Term Debt	(25,000)	—
Increase in Notes Payable to Eversource Parent	142,000	85,000
Net Cash Flows Provided by Financing Activities	80,675	34,200
Net Increase/(Decrease) in Cash	26	(2,556)
Cash - Beginning of Year	19	2,575
Cash - End of Year	$ 45	$ 19

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, 2017 AND 2016

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 292,000 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 service to retail customers who require a continuous natural gas supply throughout the year and commercial and industrial customers who choose to purchase natural gas from NSTAR Gas. 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. NSTAR Gas offers firm transportation service to all customers who purchase natural gas from sources other than NSTAR Gas. In addition, NSTAR Gas offers interruptible transportation and interruptible natural gas sales service to those high volume commercial and industrial customers, generally during the colder months, that have the capability to switch from natural gas to an alternative fuel on short notice, for whom NSTAR Gas can interrupt service during peak demand periods or at any other time to maintain distribution system integrity.

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 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.

NSTAR Gas has an exclusive service agreement with Hopkinton. NSTAR Gas is the sole customer of Hopkinton, bears the risk of financial losses to which Hopkinton could be exposed, and 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. For further information, see Note 14, "Consolidation of Variable Interest Entity," to the consolidated financial statements.

NSTAR Gas and Hopkinton entered into a 30-year term Gas Service Agreement, commencing on January 1, 2016, which was approved by the DPU. The Gas Service Agreement maintains NSTAR Gas' entitlement to 100 percent of the current capacity of the Hopkinton facilities, and provides for the recovery of costs associated with planned capital expenditures at the Hopkinton facilities. The Hopkinton facilities' capital expenditures are currently estimated to be approximately $200 million, and are expected to be placed into service in late 2019.

NSTAR Gas evaluates events and transactions that occur after the balance sheet date but before financial statements are 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 and 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 financial statements are issued. In preparing the consolidated financial statements, NSTAR Gas has evaluated events subsequent to December 31, 2017 through the issuance of the consolidated financial statements on March 29, 2018 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 May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, which amends existing revenue recognition guidance and is required to be applied either fully retrospectively (to each reporting period presented) or under a modified retrospective method (cumulatively at the date of initial application). The FASB deferred implementation of ASU 2014-09 in ASU 2015-14, *Revenue from Contracts with Customers (Topic: 606): Deferral of the Effective Date*. The new accounting guidance is effective for interim and annual periods beginning in 2018 with early adoption permitted. The Company implemented the standard in the first quarter of 2018 using the modified retrospective method of adoption. Under this method of adoption, prior year reported results are not restated.

Under the new standard, an entity must identify the performance obligations in a contract, determine the transaction price and allocate the price to specific performance obligations to recognize the revenue when the obligation is completed. The amendments in this ASU also require disclosure of sufficient information to allow users to understand the nature, amount, timing and uncertainty of revenue and cash flow arising from contracts.

The Company has reviewed and performed accounting analyses of its revenue streams under contracts with customers. These accounting analyses included reviewing representative contracts and tariffs for each material revenue stream and evaluating them under the new guidance. The majority of the Company's sales are derived from tariffs to provide natural gas to customers. For such tariffs, the Company expects that the revenue from contracts with customers under ASU 2014-09 will be equivalent to revenue from natural gas supplied and billed in that period (including estimated unbilled revenues), which is consistent with current practice.

The Company has concluded that the new guidance will not have a material impact on the amounts or timing of revenue recognition. Implementation of the ASU will not have a material effect on the results of operations, financial position or cash flows of NSTAR Gas. Significant additional disclosures of the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers will be presented beginning in 2018.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which changes existing lease accounting guidance and is required to be applied in the first quarter of 2019, with earlier application permitted. The ASU lease criteria are required to be applied to leases and lease renewals entered into effective January 1, 2019, and leases entered into before that date are required to be recognized and measured using a modified retrospective approach. The Company is reviewing the requirements of ASU 2016-02, including balance sheet recognition of leases previously deemed to be operating leases, and expects to implement the ASU in 2019.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, required to be implemented in the first quarter of 2018. The ASU requires separate presentation of service cost from other components of net pension and PBOP costs, with the other components presented as non-operating income and not subject to capitalization. The ASU is required to be applied retrospectively for the separate presentation in the income statement of service costs and other components and prospectively in the balance sheet for the capitalization of only the service cost component. The implementation of the ASU will not have an impact on the net income of NSTAR Gas.

D. Cash

Cash consists of 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.

E. Provision for Uncollectible Accounts

NSTAR Gas presents its receivables at estimated net realizable value by maintaining a provision for uncollectible accounts. This provision is determined based upon a variety of judgments and factors, including the application of an estimated uncollectible percentage to each receivable aging category. The estimate is based upon historical collection and write-off experience and management's assessment of collectability from customers. Management continuously assesses the collectability of receivables and adjusts collectability estimates based on actual experience. Receivable balances are written off against the provision for uncollectible accounts when the customer accounts are terminated and these balances are deemed to be uncollectible.

The DPU allows NSTAR Gas to recover in rates amounts associated with accounts receivable balances attributable to certain customers under hardship (uncollectible hardship accounts receivable). As of December 31, 2017 and 2016, NSTAR Gas had an uncollectible hardship accounts receivable reserve of $6.2 million and $5.6 million, respectively. These uncollectible hardship customer account balances, which are expected to be recovered in rates, are included in Regulatory Assets or Other Long-Term Assets on the consolidated balance sheets and are reflected in the total provision for uncollectible accounts.

The total provision for uncollectible accounts, which includes uncollectible hardship accounts, is included in Receivables, Net on the consolidated balance sheets, and was $16.4 million as of both December 31, 2017 and 2016.

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, 2017 and 2016 were $11.4 million and $14.9 million, respectively, of natural gas inventory, and $4.5 million and $4.3 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, and the Company's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. The three levels of the fair value hierarchy are described below:

> Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Inputs are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs are observable.

Level 3 - Quoted market prices are not available. Fair value is derived from valuation techniques in which one or more significant inputs or assumptions are unobservable. Where possible, valuation techniques incorporate observable market inputs that can be validated to external sources such as industry exchanges, including prices of energy and energy-related products.

Determination of Fair Value: The valuation techniques and inputs used in the Company's fair value measurements are described in Note 4, "Asset Retirement Obligations," Note 5, "Derivative Instruments," and Note 12, "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.

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 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 and 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 or Operating Revenues on the consolidated statements of income, as applicable, as natural gas is delivered.

All changes in the fair value of derivative contracts are recorded as regulatory assets or liabilities and do not impact net income.

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 derivative 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. Revenues

NSTAR Gas' revenues are based on rates approved by the DPU. In general, rates can only be changed through formal proceedings with the DPU. The rates are designed to recover the costs to provide service to its customers, and include a return on investment. DPU-approved tracking mechanisms are also used to recover certain costs on a fully-reconciling basis. These tracking mechanisms require rates to be changed periodically to ensure recovery of actual costs incurred.

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 recognized. NSTAR Gas reconciles its annual base distribution rate recovery to a pre-established level of baseline distribution delivery service revenues. Any difference between the allowed level of distribution revenue and the actual amount incurred during each 6-month seasonal period is adjusted through rates in the subsequent corresponding seasonal period.

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

Because customers are billed throughout the month based on pre-determined cycles rather than on a calendar month basis, an estimate of natural gas delivered to customers for which the customers have not yet been billed is calculated as of the balance sheet date. Unbilled revenues are included in Operating Revenues on the consolidated statements of income and in Current Assets on the consolidated balance sheets. 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 revenues can vary significantly from period to period as a result of 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.

J. 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 year ended December 31, 2017, AFUDC costs included borrowed funds of $0.4 million. For the year ended December 31, 2016, AFUDC costs included borrowed funds of $0.6 million and equity funds of $0.4 million.

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. Average AFUDC rates for the years ended December 31, 2017 and 2016 were 1.4 percent and 3.2 percent, respectively.

K. Supplemental Cash Flow Information

	As of and for the Years Ended December 31,	
(Millions of Dollars)	2017	2016
Cash Paid/(Received) During the Year For:		
Interest, Net of Amounts Capitalized	$ 18.6	$ 17.5
Income Taxes	(0.9)	(26.0)
Non-Cash Investing Activities:		
Plant Additions Included in Accounts Payable (As of)	28.2	10.3

L. Related Parties

Eversource Energy Service Company ("Eversource Service"), a service company affiliate of Eversource, provides centralized accounting, administrative, engineering, financial, information technology, legal, operational, planning, purchasing, and other services to NSTAR Gas. In addition, NSTAR Gas incurs costs associated with leases entered into by The Rocky River Realty Company, which is also a subsidiary of Eversource.

Included in the consolidated balance sheets as of December 31, 2017 and 2016 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, primarily Eversource Service.

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' 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, including a return on investment.

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

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

	As of December 31,	
(Millions of Dollars)	2017	2016
Benefit Costs	$ 107.4	$ 108.4
Goodwill-related	51.7	65.7
Regulatory Tracker Mechanisms	36.3	41.7
Environmental Remediation Costs	27.4	33.2
Asset Retirement Obligations	10.4	9.7
Derivative Liabilities	3.4	—
Other Regulatory Assets	10.6	12.0
Total Regulatory Assets	247.2	270.7
Less: Current Portion	55.4	51.8
Total Long-Term Regulatory Assets	$ 191.8	$ 218.9

<u>Benefit Costs:</u> 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/

(liability) is amortized as 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/(liabilities) do not represent a cash outlay for NSTAR Gas, no carrying charge is recovered from customers.

Goodwill-related: The goodwill regulatory asset originated from a 1999 merger 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, 2017, there were 22 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 recognized. NSTAR Gas reconciles its annual base distribution rate recovery to a pre-established level of baseline distribution delivery service revenues. Any difference between the allowed level of distribution revenue and the actual amount incurred during each 6-month seasonal period is adjusted through rates in the subsequent corresponding seasonal 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 liabilities offset and are excluded from rate base. These costs are being recovered over the life of the underlying property, plant and equipment.

Derivative Liabilities: Regulatory assets are recorded as an offset to derivative liabilities and relate to the fair value of contracts structured to hedge a portion of future natural gas supply purchases with settled amounts to be recovered from customers in future rates. These assets are excluded from rate base and are being recovered as the actual settlements occur over the duration of the contracts, the majority of which are less than one year. See Note 5, "Derivative Instruments," to the consolidated financial statements for further information.

Regulatory Costs in Other Long-Term Assets: NSTAR Gas had $15.0 million and $14.4 million of additional regulatory costs as of December 31, 2017 and 2016, 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.

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

	As of December 31,	
(Millions of Dollars)	**2017**	**2016**
Cost of Removal	$ 73.6	$ 68.4
Benefit Costs	19.7	20.9
Regulatory Tracker Mechanisms	7.4	7.0
Other Regulatory Liabilities	4.0	11.5
Total Regulatory Liabilities (1)	104.7	107.8
Less: Current Portion	7.4	7.0
Total Long-Term Regulatory Liabilities (1)	$ 97.3	$ 100.8

(1) The amounts above do not include the impacts associated with the "Tax Cuts and Jobs Act" (the "Act"), which became law on December 22, 2017. Pursuant to the enacted law, the Company remeasured its existing deferred federal income tax balance as of December 31, 2017 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 (ADIT) liabilities that are expected to benefit customers in future periods, which were estimated to be approximately $130 million as of December 31, 2017 and recognized as regulatory liabilities on the balance sheet. It is estimated that about 85 percent of the provisional regulated excess ADIT liabilities relate to property, plant, and equipment with remaining useful lives estimated to be in excess of 20 years. These amounts are subject to IRS normalization rules and would be returned to customers using the same timing as the remaining useful lives of the underlying assets that gave rise to the ADIT liabilities. The Company is currently working with the DPU, who has opened an investigation to examine the impact of the Act on customer rates. For further information, see Note 9, "Income Taxes," to the consolidated financial statements.

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.

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)	2017	2016
Natural Gas Distribution, Gross	$ 1,426.1	$ 1,300.8
Less: Accumulated Depreciation	(406.7)	(385.1)
Property, Plant and Equipment, Net	1,019.4	915.7
Construction Work in Progress	65.7	23.6
Total Property, Plant and Equipment, Net	$ 1,085.1	$ 939.3

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 2.8 percent in 2017 and 2.9 percent in 2016. As of December 31, 2017, the average remaining useful life of NSTAR Gas' depreciable assets was 37.3 years.

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)	2017	2016
Balance as of Beginning of Year	$ 11.1	$ 10.7
Liabilities Incurred During the Year	—	0.2
Liabilities Settled During the Year	—	(0.4)
Accretion	0.7	0.6
Balance as of End of Year	$ 11.8	$ 11.1

5. DERIVATIVE INSTRUMENTS

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

	As of December 31, 2017			As of December 31, 2016		
(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 Assets	$ —	$ —	$ —	$ 6.0	$ —	$ 6.0
Long-Term Derivative Assets	—	—	—	0.3	(0.1)	0.2
Current Derivative Liabilities	(3.4)	—	(3.4)	—	—	—

(1) Amounts represent derivative assets and liabilities 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 assets are included in Prepayments and Other Current Assets and Other Long-Term Assets on the consolidated balance sheet. 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, 2017 and 2016, NSTAR Gas had NYMEX financial contracts for natural gas futures in order to reduce variability associated with the purchase price of 9.5 million and 9.2 million MMBtu of natural gas, respectively.

For the years ended December 31, 2017 and 2016, there were losses of $17.7 million and gains of $5.2 million, respectively, deferred as regulatory costs, which reflect the change in fair value associated with these derivative contracts.

Credit Risk

NSTAR Gas' derivative contracts contain credit risk contingent provisions. These provisions require NSTAR Gas to maintain investment grade credit ratings from the major rating agencies and to post collateral for contracts in a net liability position over specified credit limits. As of December 31, 2017, NSTAR Gas had $3.4 million of derivative contracts in a net liability position that were subject to credit risk contingent provisions and would have been required to post additional collateral of $3.7 million if NSTAR Gas' unsecured debt credit ratings had been downgraded to below investment grade. As of December 31, 2016, NSTAR Gas had no derivative contracts in a net liability position that were subject to credit risk contingent provisions.

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 $1.45 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt. Eversource parent, CL&P, PSNH, NSTAR Gas and Yankee Gas are also parties to a five-year $1.45 billion revolving credit facility. On December 8, 2017, Eversource parent amended and restated the revolving credit facility. The amended and restated credit facility terminates on December 8, 2022 and serves to backstop Eversource parent's $1.45 billion commercial paper program. There were no borrowings outstanding on the revolving credit facility as of December 31, 2017 or 2016.

As of December 31, 2017 and 2016, there were intercompany loans from Eversource parent to NSTAR Gas of $227.0 million and $85.0 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, 2017 and 2016 was 1.86 percent and 0.88 percent, respectively.

Under the credit facility, NSTAR Gas must comply with certain financial and non-financial covenants, including a debt to total capitalization ratio. As of December 31, 2017 and 2016, 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.

7. LONG-TERM DEBT

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

	As of December 31,	
(Millions of Dollars)	**2017**	**2016**
First Mortgage Bonds:		
7.04% Series M due 2017	$ —	$ 25.0
9.95% Series J due 2020	25.0	25.0
4.46% Series N due 2020	125.0	125.0
7.11% Series K due 2033	35.0	35.0
4.35% Series O due 2045	100.0	100.0
Total First Mortgage Bonds	285.0	310.0
Less Amounts due Within One Year	—	(25.0)
Unamortized Debt Issuance Costs	(0.6)	(0.7)
NSTAR Gas Long-Term Debt	$ 284.4	$ 284.3

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, 2017 and 2016.

8. EMPLOYEE BENEFITS

A. Pension Benefits and Postretirement Benefits Other Than Pensions

Eversource Service sponsors a defined benefit retirement plan (the "Pension Plan") that covers eligible employees, including, among others, employees of NSTAR Gas. The Pension Plan 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 maintains non-qualified defined benefit retirement plans ("SERP Plans"), sponsored by Eversource Service, which provide benefits in excess of Internal Revenue Code limitations to eligible participants consisting of current and retired employees.

Eversource Service also sponsors a defined benefit postretirement plan (the "PBOP Plan") that provided certain benefits, primarily medical, dental and life insurance to eligible employees that met certain age and service eligibility requirements. In August 2016, Eversource amended its PBOP Plan, which standardized separate benefit structures that existed within the plan and made other benefit changes. The new plan 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. 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 2017 Annual Report on Form 10-K filed on February 26, 2018 with the U.S. Securities and Exchange Commission.

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.

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 Plans funded status are offset on an after-tax basis to Accumulated Other Comprehensive Income on the consolidated balance sheets. For further information, see Note 2, "Regulatory Accounting," and Note 13, "Accumulated Other Comprehensive Income," to the consolidated financial statements.

The difference between the actual return and calculated expected return on plan assets for the Pension and PBOP Plans is reflected as a component of unrecognized actuarial gains or losses, which are recorded in Regulatory Assets or Accumulated Other Comprehensive Income. Unrecognized actuarial gains or losses are amortized as a component of pension and PBOP expense over the estimated average future employee service period.

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

Pension and SERP	**As of December 31,**	
(Millions of Dollars)	**2017**	**2016**
Benefit Obligation	$ (260.1)	$ (245.6)
Fair Value of Pension Plan Assets	221.9	199.0
Funded Status	$ (38.2)	$ (46.6)
Employer Contributions	$ 10.4	$ 11.1
Benefits Paid	14.8	14.4
Benefits Paid - SERP	0.1	0.1

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 $249.3 million and $234.8 million as of December 31, 2017 and 2016, respectively.

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

	As of December 31,	
Pension and SERP	**2017**	**2016**
Discount Rate	3.58% — 3.75%	4.01% — 4.33%
Compensation/Progression Rate	3.50%	3.50%

Pension and SERP Expense: Eversource charges net periodic pension expense 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.

NSTAR Gas' components of net periodic benefit expense for the Pension and SERP Plans are shown below. The net periodic benefit expense and the intercompany allocations, less the capitalized portion, are included in Operations and Maintenance expense on the consolidated statements of income. Capitalized amounts relate to employees working on capital projects and are included in Property, Plant and Equipment, Net on the consolidated balance sheets. Pension and SERP expense reflected in the consolidated statements of cash flows does not include the intercompany allocations or the corresponding capitalized portion, as these amounts are cash settled on a short-term basis.

Pension and SERP	**For the Years Ended December 31,**	
(Millions of Dollars)	**2017**	**2016**
Service Cost	$ 2.8	$ 3.1
Interest Cost	8.5	8.7
Expected Return on Pension Plan Assets	(16.3)	(15.8)
Actuarial Loss	8.0	7.9
Prior Service Cost	0.1	—
Total Net Periodic Benefit Expense	$ 3.1	$ 3.9
Intercompany Allocations	$ 1.7	$ 2.0
Capitalized Pension Expense	$ 1.6	$ 1.9

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

	For the Years Ended December 31,	
Pension and SERP	**2017**	**2016**
Discount Rate	3.20% — 3.90%	3.27% — 4.89%
Expected Long-Term Rate of Return	8.25%	8.25%
Compensation/Progression Rate	3.50%	3.50%

PBOP Plan: NSTAR Gas participates in the overall Eversource single-employer PBOP Plan and accounts for the PBOP Plan under the multiple-employer approach, with its share of the funded status of the plan reflected on its balance sheets. The following table provides information on the portions attributable to NSTAR Gas in the Eversource single-employer PBOP Plan:

PBOP	**As of December 31,**	
(Millions of Dollars)	**2017**	**2016**
Benefit Obligation	$ (47.1)	$ (44.8)
Fair Value of Plan Assets	68.6	60.9
Funded Status	$ 21.5	$ 16.1
Employer Contributions	$ 0.9	$ 1.6
Benefits Paid	1.9	3.5

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

	As of December 31,	
PBOP	**2017**	**2016**
Discount Rate	3.70%	4.21%

Effective with the plan amendment that standardized plan designs and made benefit changes in August 2016, the health care cost trend rate is no longer applicable.

PBOP Expense: Eversource charges net periodic postretirement benefits expense to its subsidiaries based on the actual participant demographic data for each subsidiary's participants. The actual investment return in the trust each year is allocated to each of the subsidiaries annually in proportion to the investment return expected to be earned during the year.

The August 2016 PBOP Plan amendment resulted in a remeasurement of the benefit obligation and annual expense using assumptions at that point in time, including updated discount rates and asset values.

NSTAR Gas' components of net periodic benefit expense/(income) for the PBOP Plan are shown below. The net periodic benefit expense/(income) and the intercompany allocations, less the capitalized portion of PBOP, are included in Operations and Maintenance expense on the consolidated statements of income. Capitalized amounts relate to employees working on capital projects and are included in Property, Plant and Equipment, Net on the consolidated balance sheets. PBOP expense/(income) reflected in the consolidated statements of cash flows does not include the intercompany allocations or the corresponding capitalized portion, as these amounts are cash settled on a short-term basis.

PBOP	**For the Years Ended December 31,**	
(Millions of Dollars)	**2017**	**2016**
Service Cost	$ 0.4	$ 0.8
Interest Cost	1.5	2.4
Expected Return on Plan Assets	(4.9)	(4.7)
Actuarial Loss	0.8	0.7
Prior Service Credit	(3.4)	(1.4)
Total Net Periodic Benefit Income	$ (5.6)	$ (2.2)
Intercompany Allocations	$ (0.2)	$ —
Capitalized PBOP Income	$ (2.7)	$ (1.0)

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

	For the Years Ended December 31,	
PBOP	**2017**	**2016**
Discount Rate	3.48% — 4.64%	2.88% — 4.09%
Expected Long-Term Rate of Return	8.25%	8.25%

The health care cost trend rate assumption used to calculate the PBOP expense amount was 6.25 percent for the year ended December 31, 2016. Effective January 1, 2017, the health care trend rate no longer has an impact on the PBOP expense due to the benefit design changes effective with the plan amendment.

Contributions: Based on the current status of the Pension Plan and federal pension funding requirements, Eversource currently expects to make contributions of approximately $175 million in 2018. Eversource expects to make approximately $8 million in contributions to the PBOP Plan in 2018, of which $0.8 million will be contributed by NSTAR Gas.

B. Defined Contribution Plan

Eversource maintains a defined contribution plan 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. For newly hired employees, the Eversource 401k Plan provides employer matching contributions of 100 percent up to a maximum of three 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 defined Eversource 401k Plan employer matching contributions, including the K-Vantage contributions, for NSTAR Gas were $1.9 million and $1.8 million for the years ended December 31, 2017 and 2016, respectively.

9. INCOME TAXES

The components of income tax expense were as follows:

	For the Years Ended December 31,	
(Millions of Dollars)	**2017**	**2016**
Current Income Taxes:		
Federal	$ (1.1)	$ (14.1)
State	0.8	1.5
Total Current	(0.3)	(12.6)
Deferred Income Taxes, Net:		
Federal	18.6	31.4
State	3.8	2.9
Total Deferred	22.4	34.3
Investment Tax Credit Amortization	(0.2)	(0.2)
Income Tax Expense	$ 21.9	$ 21.5

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)	2017	2016
Income Before Income Tax Expense	$ 55.2	$ 54.7
Statutory Federal Income Tax Expense at 35%	19.3	19.2
Tax Effect of Differences:		
Depreciation	—	(0.1)
State Income Taxes, Net of Federal Impact	3.0	2.8
Investment Tax Credit Amortization	(0.2)	(0.2)
Excess Stock Benefit	(0.1)	(0.1)
Other, Net	(0.1)	(0.1)
Income Tax Expense	$ 21.9	$ 21.5
Effective Tax Rate	39.7%	39.4%

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)	2017	2016
Deferred Tax Assets:		
Regulatory Deferrals - Liabilities	$ 28.1	$ 40.0
Other	61.2	42.6
Total Deferred Tax Assets	$ 89.3	$ 82.6
Deferred Tax Liabilities:		
Accelerated Depreciation and Other Plant-Related Differences	$ 174.9	$ 255.2
Regulatory Amounts:		
Regulatory Deferrals - Assets	47.3	72.3
Goodwill Regulatory Asset - 1999 Merger	14.1	26.4
Employee Benefits	5.3	7.2
Other	11.2	7.4
Total Deferred Tax Liabilities	$ 252.8	$ 368.5

2017 Federal Legislation: On December 22, 2017, the "Tax Cuts and Jobs Act" (the "Act") became law, which amended existing federal tax rules and included numerous provisions that impacted corporations. In particular, the Act reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. In terms of the impacts to the Company, the most significant changes will be (1) the benefit of incurring a lower federal income tax expense, which is expected to be passed back to customers, and (2) the provisional regulated excess ADIT liabilities that are expected to benefit customers in future periods, which were estimated to be approximately $130 million as of December 31, 2017 and recognized as regulatory liabilities on the balance sheet.

The Company is currently working with the DPU, who has opened an investigation to examine the impact of the Act on customer rates. The Company will continue to evaluate the impacts of the Act, which will vary depending on the ultimate amount and timing of when certain income tax benefits will benefit customers.

Although the impacts could not be finalized upon the issuance of these financial statements, reasonable provisional estimates were recognized as of December 31, 2017. In accordance with SEC Staff Accounting Bulletin No. 118 ("SAB 118"), additional re-measurement may occur based on final analysis, computations, technical corrections, or other forms of guidance issued from regulatory agencies or commissions. While the Company believes the impacts of the Act were appropriately accounted for in accordance with the applicable authoritative guidance, the ultimate outcome may be different from the provisional estimates recorded, and those differences may materially impact its future statement of financial position, results of operations, and cash flows.

Unrecognized Tax Benefits: As of December 31, 2017 and 2016, there were no unrecognized tax benefits of a permanent nature that if recognized would have an impact on the Company's effective tax rate. The Company did not have a reserve for uncertain tax positions as of December 31, 2017 and 2016.

Open Tax Years: The following table summarizes NSTAR Gas' tax years that remain subject to examination by major tax jurisdictions as of December 31, 2017:

Description	Tax Years
Federal (Eversource consolidated)	2017
Massachusetts	2014 - 2017

10. COMMITMENTS AND CONTINGENCIES

A. Environmental Matters

General: 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 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 related environmental matters. 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)	2017	2016
Balance as of Beginning of Year	$ 23.9	$ 11.1
Additions	1.8	15.7
Payments/Reductions	(9.5)	(2.9)
Balance as of End of Year	$ 16.2	$ 23.9

The reduction in the reserve balance is due to a change in cost estimates at one site where actual contamination was less than originally estimated.

The Company has seven environmental sites as of December 31, 2017. As of December 31, 2017, for two of the seven 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 losses for environmental costs. As of December 31, 2017, $11.5 million had been accrued as a liability for these sites, which represents the low end of the range of the liabilities for environmental costs. Management believes that additional losses of up to approximately $6 million may be incurred in executing current remediation plans for these sites.

As of December 31, 2017, for the remaining five of the seven environmental sites that are included in the Company's reserve for environmental costs, the $4.7 million accrual represents management's best estimate of the probable liability and no additional loss is anticipated at this time.

Comprehensive Environmental Response, Compensation and Liability Act of 1980: Of the total environmental sites, three sites are superfund sites under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") and its amendments or state equivalents for which the Company has been notified that it is a potentially responsible party but for which the site assessment and remediation are not being managed by the Company. As of December 31, 2017, a liability of $0.1 million accrued on these sites represents management's best estimate of its potential remediation costs with respect to these superfund sites.

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. For further information, see Note 2, "Regulatory Accounting," to the consolidated financial statements.

B. Long-Term Contractual Arrangements

The estimated future annual costs of NSTAR Gas' significant long-term contractual arrangements as of December 31, 2017 are as follows:

(Millions of Dollars)	2018	2019	2020	2021	2022	Thereafter	Total
Natural Gas Procurement	$ 94.9	$ 100.8	$ 85.5	$ 68.2	$ 55.5	$ 475.7	$ 880.6

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 2032. The total cost incurred under these agreements was $177.9 million and $171.8 million in 2017 and 2016, 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. LEASES

NSTAR Gas has entered into operating lease agreements for the use of data processing and office equipment, vehicles, service centers, and office space. In addition, NSTAR Gas incurs costs associated with leases entered into by Eversource Service and The Rocky River Realty Company, which are included below in operating lease rental expense and future minimum rental payments. The provisions of these lease agreements generally contain renewal options. Certain lease agreements contain payments impacted by the London Interbank Offered Rate ("LIBOR") rate plus a credit spread.

Operating lease rental payments charged to expense were $2.5 million and $2.2 million for the years ended December 31, 2017 and 2016, respectively.

Future minimum rental payments, excluding executory costs, such as property taxes, state use taxes, insurance, and maintenance, under long-term noncancelable leases, as of December 31, 2017 are as follows:

(Millions of Dollars)	
2018	$ 1.9
2019	1.6
2020	1.3
2021	1.1
2022	0.8
Thereafter	0.7
Future Minimum Lease Payments	$ 7.4

12. 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 $284.4 million and $309.3 million as of December 31, 2017 and 2016, respectively. The estimated fair values of these financial instruments were $301.7 million and $324.1 million as of December 31, 2017 and 2016, 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.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income/(loss) by component, net of tax, as a result of activity within the SERP Plans, was as follows:

	For the Years Ended December 31,	
(Millions of Dollars)	2017	2016
Balance as of Beginning of Year	$ 0.3	$ 0.4
OCI Before Reclassifications	—	(0.1)
Amounts Reclassified from AOCI	—	—
Net OCI	—	(0.1)
Balance as of End of Year	$ 0.3	$ 0.3

Other Comprehensive Income ("OCI") amounts before reclassifications relate to actuarial gains and losses that arose during the year on the SERP Plans and were recognized in Accumulated Other Comprehensive Income ("AOCI"). The unamortized actuarial gains and losses on the SERP Plans are amortized from AOCI into Operations and Maintenance expense over the average future employee service period, and are reflected in amounts reclassified from AOCI.

14. 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 an exclusive service agreement with Hopkinton and is Hopkinton's sole customer. Hopkinton is an affiliated company and is also a wholly-owned subsidiary of Yankee Energy System, Inc. Hopkinton owns several facilities, including a natural gas liquefaction and vaporization plant, a satellite vaporization plant and storage tanks. Hopkinton provides a portion of the storage of natural gas supply for NSTAR Gas during the winter heating season. NSTAR Gas approves Hopkinton's operating budget and controls the use of its facilities. Accordingly, NSTAR Gas has the power to direct the activities of Hopkinton that most significantly impact its economic performance and is the primary beneficiary of Hopkinton. NSTAR Gas has consolidated Hopkinton in the consolidated financial statements. All significant 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, 2017:

(Millions of Dollars)	**NSTAR Gas**	**Hopkinton**	**Intercompany Eliminations**	**Consolidated Total**
Operating Revenues	$ 441.1	$ 15.3	$ (15.3)	$ 441.1
Operating Expenses	369.1	14.7	(15.4)	368.4
Operating Income	72.0	0.6	0.1	72.7
Interest Expense	17.6	0.1	—	17.7
Other Income, Net	0.3	—	(0.1)	0.2
Income Before Income Tax Expense	54.7	0.5	—	55.2
Income Tax Expense	21.7	0.2	—	21.9
Net Income	$ 33.0	$ 0.3	$ —	$ 33.3

Condensed consolidating balance sheet as of December 31, 2017:

(Millions of Dollars)	**NSTAR Gas**	**Hopkinton**	**Intercompany Eliminations**	**Consolidated Total**
Total Current Assets	$ 153.9	$ 3.1	$ (1.5)	$ 155.5
Property, Plant and Equipment	1,334.0	92.1	—	1,426.1
Accumulated Depreciation	(347.0)	(59.7)	—	(406.7)
Construction Work in Progress	27.5	38.2	—	65.7
Property, Plant and Equipment, Net	1,014.5	70.6	—	1,085.1
Total Deferred Debits and Other Assets	229.1	—	—	229.1
Total Assets	$ 1,397.5	$ 73.7	$ (1.5)	$ 1,469.7
Total Current Liabilities	$ 312.1	$ 45.6	$ (1.5)	$ 356.2
Total Deferred Credits and Other Liabilities	467.1	2.4	—	469.5
Long-Term Debt	284.4	—	—	284.4
Common Stockholder's Equity	333.9	25.7	—	359.6
Total Liabilities and Capitalization	$ 1,397.5	$ 73.7	$ (1.5)	$ 1,469.7

Condensed consolidating statement of income for the year ended December 31, 2016:

(Millions of Dollars)	**NSTAR Gas**	**Hopkinton**	**Intercompany Eliminations**	**Consolidated Total**
Operating Revenues	$ 412.4	$ 14.8	$ (14.8)	$ 412.4
Operating Expenses	344.1	12.4	(14.9)	341.6
Operating Income	68.3	2.4	0.1	70.8
Interest Expense/(Income)	17.0	(0.3)	—	16.7
Other Income, Net	0.7	—	(0.1)	0.6
Income Before Income Tax Expense	52.0	2.7	—	54.7
Income Tax Expense	20.4	1.1	—	21.5
Net Income	$ 31.6	$ 1.6	$ —	$ 33.2

Condensed consolidating balance sheet as of December 31, 2016:

(Millions of Dollars)	NSTAR Gas	Hopkinton	Intercompany Eliminations	Consolidated Total
Total Current Assets	$ 138.3	$ 1.2	$ (2.3)	$ 137.2
Property, Plant and Equipment	1,214.2	86.6	—	1,300.8
Accumulated Depreciation	(328.0)	(57.1)	—	(385.1)
Construction Work in Progress	19.6	4.0	—	23.6
Property, Plant and Equipment, Net	905.8	33.5	—	939.3
Total Deferred Debits and Other Assets	250.3	—	—	250.3
Total Assets	$ 1,294.4	$ 34.7	$ (2.3)	$ 1,326.8
Total Current Liabilities	$ 196.1	$ 8.9	$ (2.3)	$ 202.7
Total Deferred Credits and Other Liabilities	475.2	2.0	—	477.2
Long-Term Debt	284.3	—	—	284.3
Common Stockholder's Equity	338.8	23.8	—	362.6
Total Liabilities and Capitalization	$ 1,294.4	$ 34.7	$ (2.3)	$ 1,326.8

15. 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, 2017 and 2016.