

NSTAR Gas Company

Consolidated Financial Statements as of and for the
Years Ended December 31, 2022 and 2021,
Together With Independent Auditor's Report

NSTAR Gas Company
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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of NSTAR Gas Company and subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, 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 (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Deloitte & Touche LLP

March 29, 2023

NSTAR GAS COMPANY
CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)	As of December 31,	
	2022	2021
ASSETS		
Current Assets:		
Cash	\$ 2,837	\$ 273
Receivables, Net (net of allowance for uncollectible accounts of \$26,808 and \$26,206 as of December 31, 2022 and 2021, respectively)	79,344	58,280
Accounts Receivable from Affiliated Companies	9,876	18,211
Unbilled Revenues	20,530	19,986
Natural Gas, Materials and Supplies	22,973	13,865
Regulatory Assets	161,684	104,733
Prepayments and Other Current Assets	4,385	7,687
Total Current Assets	301,629	223,035
Property, Plant and Equipment, Net	2,178,737	1,973,931
Deferred Debits and Other Assets:		
Regulatory Assets	173,887	179,429
Prepaid Pension and PBOP	72,634	50,787
Other Long-Term Assets	17,832	20,641
Total Deferred Debits and Other Assets	264,353	250,857
Total Assets	\$ 2,744,719	\$ 2,447,823
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable to Eversource Parent	\$ 193,600	\$ 211,400
Accounts Payable	123,017	127,050
Accounts Payable to Affiliated Companies	35,422	36,411
Regulatory Liabilities	7,693	6,613
Other Current Liabilities	15,410	12,564
Total Current Liabilities	375,142	394,038
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	288,218	240,300
Regulatory Liabilities	182,584	211,344
Accrued SERP and PBOP	1,445	1,256
Other Long-Term Liabilities	55,429	51,705
Total Deferred Credits and Other Liabilities	527,676	504,605
Long-Term Debt	702,873	578,237
Common Stockholder's Equity:		
Common Stock	71,425	71,425
Capital Surplus, Paid In	934,055	792,755
Retained Earnings	133,268	106,525
Accumulated Other Comprehensive Income	280	238
Common Stockholder's Equity	1,139,028	970,943
Total Liabilities and Capitalization	\$ 2,744,719	\$ 2,447,823

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,	
	2022	2021
Operating Revenues	\$ 745,859	\$ 602,260
Operating Expenses:		
Cost of Natural Gas	336,056	237,369
Operations and Maintenance	151,946	119,500
Depreciation	58,216	49,737
Amortization of Regulatory (Liabilities)/Assets, Net	(4,788)	5,453
Energy Efficiency Programs	50,553	54,487
Taxes Other Than Income Taxes	44,098	36,476
Total Operating Expenses	636,081	503,022
Operating Income	109,778	99,238
Interest Expense	24,152	18,048
Other Income, Net	17,539	9,038
Income Before Income Tax Expense	103,165	90,228
Income Tax Expense	26,422	19,301
Net Income	\$ 76,743	\$ 70,927

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,	
	2022	2021
Net Income	\$ 76,743	\$ 70,927
Other Comprehensive Income/(Loss), Net of Tax:		
Changes in Funded Status of SERP Benefit Plans	42	(178)
Other Comprehensive Income/(Loss), Net of Tax	42	(178)
Comprehensive Income	\$ 76,785	\$ 70,749

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, 2021	2,857,000	\$ 71,425	\$ 665,155	\$ 75,598	\$ 416	\$ 812,594
Net Income				70,927		70,927
Dividends on Common Stock				(40,000)		(40,000)
Capital Contributions from Parent			127,600			127,600
Other Comprehensive Loss					(178)	(178)
Balance as of December 31, 2021	2,857,000	71,425	792,755	106,525	238	970,943
Net Income				76,743		76,743
Dividends on Common Stock				(50,000)		(50,000)
Capital Contributions from Parent			141,300			141,300
Other Comprehensive Income					42	42
Balance as of December 31, 2022	2,857,000	\$ 71,425	\$ 934,055	\$ 133,268	\$ 280	\$ 1,139,028

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,	
	2022	2021
Operating Activities:		
Net Income	\$ 76,743	\$ 70,927
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:		
Depreciation	58,216	49,737
Deferred Income Taxes	44,673	22,888
Pension, SERP and PBOP Income, Net	(6,207)	(3,360)
Regulatory Under Recoveries, Net	(44,563)	(42,210)
Amortization of Regulatory (Liabilities)/Assets, Net	(4,788)	5,453
Uncollectible Expense	3,268	4,846
Cost of Removal Expenditures	(43,882)	(20,212)
Other	1,156	(8,017)
Changes in Current Assets and Liabilities:		
Receivables and Unbilled Revenues, Net	(24,879)	(23,013)
Taxes Receivable/Accrued, Net	3,446	(7,967)
Accounts Payable	(7,394)	27,679
Other Current Assets and Liabilities, Net	(6,560)	(4,335)
Net Cash Flows Provided by Operating Activities	49,229	72,416
Investing Activities:		
Investments in Property, Plant and Equipment	(244,699)	(263,894)
Net Cash Flows Used in Investing Activities	(244,699)	(263,894)
Financing Activities:		
Cash Dividends on Common Stock	(50,000)	(40,000)
Capital Contributions from Parent	141,300	127,600
Issuance of Long-Term Debt	125,000	80,000
(Decrease)/Increase in Notes Payable to Eversource Parent	(17,800)	24,100
Other Financing Activities	(466)	—
Net Cash Flows Provided by Financing Activities	198,034	191,700
Net Increase in Cash	2,564	222
Cash - Beginning of Year	273	51
Cash - End of Year	\$ 2,837	\$ 273

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

NSTAR GAS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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 throughout Massachusetts. NSTAR Gas distributes natural gas to approximately 306,000 customers in 52 communities in central and eastern Massachusetts covering 1,104 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 non-interruptible (firm) natural gas sales and transportation service to eligible retail customers who require a continuous natural gas supply throughout the year, and to customers who choose to purchase natural gas from 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 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 and Eversource Gas Company of Massachusetts (EGMA) each have a DPU-approved gas service agreement with Hopkinton for firm underground storage and storage capacity entitlements. NSTAR Gas and EGMA are Hopkinton's only two customers and bear the risk of financial losses to which Hopkinton could be exposed. 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. In accordance with consolidation accounting guidance, NSTAR Gas is the primary beneficiary 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 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, 2022 through the date the financial statements were available to be issued, March 29, 2023. These financial statements include all necessary disclosures resulting from this evaluation.

C. 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.

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

The allowance for uncollectible accounts is determined based upon a variety of judgments and factors, including an aging-based quantitative assessment that applies an estimated uncollectible percentage to each receivable aging category. Factors in determining credit loss include historical collection, write-off experience, analysis of delinquency statistics, and management's assessment of collectability from customers, including current economic conditions, customer payment trends, the impact on customer bills because of usage trends and changes in rates, flexible payment plans and financial hardship arrearage management programs being offered to customers, 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 conditions, 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. Management concluded that the reserve balance as of December 31, 2022 adequately reflected the collection risk and net realizable value for its receivables.

As of December 31, 2022 and 2021, the total amount incurred as a result of COVID-19 included in the allowance for uncollectible accounts was \$2.1 million and \$3.0 million, respectively. The COVID-19 related uncollectible amounts were deferred either as incremental regulatory costs or deferred through an existing regulatory tracking mechanism that recovers uncollectible natural gas supply costs, as management believes it is probable that these costs will ultimately be recovered from customers in future rates. Based on the status of our COVID-19 regulatory docket, policies and practices in Massachusetts, we believe the DPU will allow us to recover our incremental uncollectible customer receivable costs associated with COVID-19.

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. Management uses a higher credit risk profile for this pool of trade receivables as compared to non-hardship receivables. The allowance for uncollectible hardship accounts is included in the total uncollectible allowance balance.

The total allowance for uncollectible accounts is included in Receivables, Net on the consolidated balance sheets. The activity in the allowance for uncollectible accounts by portfolio segment is as follows:

	As of December 31, 2022			As of December 31, 2021		
	Hardship Accounts	Retail (Non-Hardship), Wholesale, and Other	Total Allowance	Hardship Accounts	Retail (Non-Hardship), Wholesale, and Other	Total Allowance
(Millions of Dollars)						
Beginning Balance	\$ 6.6	\$ 19.6	\$ 26.2	\$ 7.4	\$ 17.4	\$ 24.8
Uncollectible Expense	—	3.3	3.3	—	4.8	4.8
Uncollectible Costs Deferred ⁽¹⁾	0.8	5.1	5.9	—	3.3	3.3
Write-Offs	(0.3)	(9.7)	(10.0)	(0.8)	(7.1)	(7.9)
Recoveries Collected	—	1.4	1.4	—	1.2	1.2
Ending Balance	\$ 7.1	\$ 19.7	\$ 26.8	\$ 6.6	\$ 19.6	\$ 26.2

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

E. Natural Gas, Materials and Supplies

Natural Gas, 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 Natural Gas, Materials and Supplies on the consolidated balance sheets as of December 31, 2022 and 2021 were \$19.3 million and \$11.1 million, respectively, of natural gas inventory, and \$3.7 million and \$2.8 million, respectively, of materials and supplies. Inventory is valued at the lower of cost or net realizable value.

F. Fair Value Measurements

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

Fair Value Hierarchy: In measuring fair value, the Company uses observable market data when available in order to minimize the use of unobservable inputs. Inputs used in fair value measurements are categorized into three fair value hierarchy levels for disclosure purposes. The entire fair value measurement is categorized based on the lowest level of input that is significant to the fair value measurement. The Company evaluates the classification of assets and liabilities measured at fair value on a quarterly basis. The levels of the fair value hierarchy are described below:

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

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

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

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

Determination of Fair Value: The valuation techniques and inputs used in the Company's fair value measurements are described in Note 4, "Asset Retirement Obligations" and Note 10, "Fair Value of Financial Instruments," to the consolidated financial statements.

G. Derivative Accounting

NSTAR Gas entered into New York Mercantile Exchange (NYMEX) natural gas futures that were 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 were financial instruments that did not procure natural gas supply and qualified as derivative instruments. NSTAR Gas entered into these contracts in accordance with a DPU order. The costs and benefits from all of the NYMEX futures contracts were recovered from, or refunded to, customers in rates and therefore, regulatory assets or regulatory liabilities were recorded to offset the fair values of these derivative contracts. NSTAR Gas terminated its financial contracts swap program in April 2021.

For the year ended December 31, 2021, there were gains of \$1.4 million that were deferred as regulatory costs, which reflected the change in fair value associated with the derivative contracts. All changes in the fair value of derivative contracts were recorded as regulatory assets or liabilities and did 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.

H. Allowance for Funds Used During Construction

Allowance for funds used during construction (AFUDC) represents the cost of borrowed and equity funds used to finance construction and is included in the cost of plant on the 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, 2022, AFUDC costs included borrowed funds of \$1.1 million and equity funds of \$2.0 million. For the year ended December 31, 2021, AFUDC costs included borrowed funds of \$2.4 million and equity funds of \$2.3 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. The average AFUDC rates for the years ended December 31, 2022 and 2021 were 1.9 percent and 2.0 percent, respectively.

I. 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, non-qualified defined benefit retirement plan (SERP) and PBOP benefit plan income/expense, AFUDC related to equity funds, interest income, and investment income/loss. For further information on AFUDC related to equity funds, see Note 1H, "Summary of Significant Accounting Policies - Allowance for Funds Used During Construction," to the consolidated financial statements.

J. Supplemental Cash Flow Information

(Millions of Dollars)	As of and For the Years Ended December 31,	
	2022	2021
Cash Paid/(Received) During the Year For:		
Interest, Net of Amounts Capitalized	\$ 23.7	\$ 17.7
Income Taxes	(22.5)	4.5
Non-Cash Investing Activities:		
Plant Additions Included in Accounts Payable (As of)	64.3	59.7

K. Related Parties

Eversource Energy Service Company (Eversource Service), a service company subsidiary of Eversource, provides centralized accounting, administrative, engineering, financial, information technology, legal, operational, planning, purchasing, tax, and other services to 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, 2022 and 2021 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:

	As of December 31,	
	2022	2021
(Millions of Dollars)		
Regulatory Tracking Mechanisms	\$ 149.5	\$ 92.4
Benefit Costs	59.2	78.9
Goodwill-related	39.7	42.1
Environmental Remediation Costs	40.2	39.1
Asset Retirement Obligations	13.7	13.9
Income Taxes, Net	5.1	4.4
Other Regulatory Assets	28.2	13.3
Total Regulatory Assets	335.6	284.1
Less: Current Portion	161.7	104.7
Total Long-Term Regulatory Assets	\$ 173.9	\$ 179.4

Regulatory Tracking 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 tracking mechanisms. NSTAR Gas recovers, on a fully-reconciling basis, the costs associated with the procurement of natural gas for its firm and seasonal customers, infrastructure improvements, energy efficiency programs, low income assistance programs, certain uncollectible accounts receivable, 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.

Benefit Costs: Deferred benefit costs represent unrecognized actuarial losses and gains and unrecognized prior service costs and credits attributable to NSTAR Gas's participation in Eversource's Pension and PBOP Plans. NSTAR Gas records actuarial losses and gains and prior service costs and credits arising at the December 31st remeasurement date of the funded status of the benefit plans as a regulatory asset or regulatory liability in lieu of a charge to Accumulated Other Comprehensive Income/(Loss), reflecting ultimate recovery from customers through rates. The regulatory asset or regulatory liability is amortized with the recognition of actuarial losses and gains and prior service costs and credits to net periodic benefit expense/income over the estimated average future employee service period using the corridor approach. As these regulatory assets or regulatory liabilities do not represent a cash outlay for NSTAR Gas, no carrying charge is recovered from customers.

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, 2022, there were 17 years of amortization remaining.

Environmental Remediation Costs: Recoverable costs associated with the remediation of environmental sites are recorded as regulatory assets in accordance with DPU regulation. These costs do not earn a return. For further information, see Note 9A, "Commitments and Contingencies - Environmental Matters," to the 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 8, "Income Taxes," to the consolidated financial statements.

Other Regulatory Assets: Other Regulatory Assets primarily include certain exogenous property taxes, certain uncollectible accounts receivable for hardship customers and deferred costs from a 2021 rate relief mitigation plan filing allowed for recovery.

Regulatory Costs in Other Long-Term Assets: NSTAR Gas had \$16.8 million and \$19.6 million of additional regulatory costs as of December 31, 2022 and 2021, 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, 2022 and 2021, these regulatory costs included incremental COVID-19 related non-tracked uncollectible expense deferred of \$1.3 million and \$1.9 million, respectively.

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

(Millions of Dollars)	As of December 31,	
	2022	2021
EDIT Due to Tax Cuts and Jobs Act of 2017	\$ 117.4	\$ 119.9
Cost of Removal	37.3	64.2
Deferred Portion of Non-Service Income Components of Pension, SERP and PBOP	23.6	13.5
Benefit Costs	5.0	18.5
Regulatory Tracking Mechanisms	5.4	1.7
Other Regulatory Liabilities	1.6	0.1
Total Regulatory Liabilities	190.3	217.9
Less: Current Portion	7.7	6.6
Total Long-Term Regulatory Liabilities	\$ 182.6	\$ 211.3

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 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.

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.

Deferred Portion of Non-Service Income Components of Pension, SERP and PBOP: Regulatory liabilities were recorded for the deferred portion of the non-service related components of net periodic benefit expense/(income) for the Pension, SERP and PBOP Plans. These regulatory liabilities will be amortized over the remaining useful lives of the various classes of utility property, plant and equipment.

Recent Regulatory Developments:

NSTAR Gas Distribution Rates: As part of an inflation-based mechanism, NSTAR Gas submitted its second annual Performance Based Rate Adjustment filing on September 15, 2022 and on October 31, 2022, the DPU approved a \$21.7 million increase to base distribution rates for effect on November 1, 2022. The increase is inclusive of a \$4.5 million permanent increase related to exogenous property taxes and a \$5.4 million increase related to an October 6, 2021 mitigation plan filing that delayed recovery of a portion of a base distribution rate increase originally scheduled to take effect November 1, 2021. The DPU also approved the recovery of historical exogenous property taxes incurred from November 1, 2020 through October 31, 2022 of \$8.2 million over a two-year period through a separate reconciling mechanism effective November 1, 2022. As a result of this decision, these deferred property taxes were reclassified from Other Long-Term Assets to Regulatory Assets on the consolidated balance sheets.

3. PROPERTY, PLANT AND EQUIPMENT AND ACCUMULATED DEPRECIATION

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

The following table summarizes property, plant and equipment:

(Millions of Dollars)	As of December 31,	
	2022	2021
Natural Gas Distribution, Gross	\$ 2,576.3	\$ 2,275.5
Less: Accumulated Depreciation	(542.5)	(519.6)
Property, Plant and Equipment, Net	2,033.8	1,755.9
Construction Work in Progress	144.9	218.0
Total Property, Plant and Equipment, Net	\$ 2,178.7	\$ 1,973.9

Depreciation of assets is calculated on a straight-line basis using composite rates based on the estimated remaining useful lives of the various classes of property. The composite rates, which are subject to approval by the DPU, include a cost of removal component, which is collected from customers over the lives of the plant assets and is recognized as a regulatory liability. Depreciation rates are applied to property from the time it is placed in service. Upon retirement from service, the cost of the asset is charged to the accumulated provision for depreciation. The actual incurred removal costs are applied against the related regulatory liability. The depreciation rates for the various classes of property, plant and equipment aggregate to a composite rate of 2.8 percent in both 2022 and 2021. As of December 31, 2022, the average remaining useful life of NSTAR Gas' depreciable assets was 38.5 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 long-term liability 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:

(Millions of Dollars)	As of December 31,	
	2022	2021
Balance as of Beginning of Year	\$ 13.4	\$ 14.8
Accretion	0.7	0.8
Revisions in Estimated Cash Flows	—	(2.2)
Balance as of End of Year	\$ 14.1	\$ 13.4

5. SHORT-TERM DEBT

The Eversource Energy holding company (Eversource parent) has a \$2.00 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt. Eversource parent and certain of its subsidiaries, including NSTAR Gas, are parties to a five-year \$2.00 billion revolving credit facility, which terminates on October 15, 2027. 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, 2022 or 2021.

As of December 31, 2022 and 2021, there were intercompany loans from Eversource parent to NSTAR Gas of \$193.6 million and \$211.4 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, 2022 and 2021 was 4.63 percent and 0.31 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, 2022 and 2021, 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.

6. LONG-TERM DEBT

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

(Millions of Dollars)	Interest Rate	As of December 31,	
		2022	2021
First Mortgage Bonds:			
2020 Series R due 2025	2.33 %	\$ 75.0	\$ 75.0
2021 Series T due 2031	2.25 %	40.0	40.0
2022 Series V due 2032 ⁽¹⁾	4.40 %	125.0	—
1993 Series K due 2033	7.11 %	35.0	35.0
2015 Series O due 2045	4.35 %	100.0	100.0
2018 Series P due 2048	4.09 %	100.0	100.0
2019 Series Q due 2049	3.74 %	75.0	75.0
2020 Series S due 2050	3.15 %	115.0	115.0
2021 Series U due 2051	3.03 %	40.0	40.0
Total First Mortgage Bonds		705.0	580.0
Unamortized Debt Issuance Costs		(2.1)	(1.8)
NSTAR Gas Long-Term Debt		\$ 702.9	\$ 578.2

⁽¹⁾ The use of proceeds from the 2022 issuance repaid short-term debt, paid capital expenditures and were for general corporate purposes.

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, 2022 and 2021.

7. EMPLOYEE BENEFITS

A. Pension Benefits and Postretirement Benefits Other Than Pension

Eversource Service sponsors a defined benefit retirement plan (Pension Plan) that covers eligible employees and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Pension Protection Act of 2006. Eversource Service's Employer Identification Number is 06-0810627. Eversource's policy is to annually fund the Pension Plan in an amount at least equal to an amount that will satisfy all federal funding requirements. In addition to the Pension Plan, Eversource Service sponsors 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 2022 Annual Report on Form 10-K filed on February 15, 2023 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. NSTAR Gas records actuarial losses and gains and prior service costs and credits arising at the December 31st remeasurement date of the funded status of the benefit plans as a regulatory asset or regulatory liability in lieu of a charge to Accumulated Other Comprehensive Income, reflecting ultimate recovery from customers through rates. Adjustments to the SERP Plan funded status are recorded on an after-tax basis to Accumulated Other Comprehensive Income. For further information, see Note 2, "Regulatory Accounting," and Note 11, "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 sheets. 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,	
	2022	2021	2022	2021
(Millions of Dollars)				
Benefit Obligation	\$ (213.8)	\$ (273.0)	\$ (32.4)	\$ (39.5)
Fair Value of Plan Assets	240.7	273.5	76.6	88.4
Funded Status	\$ 26.9	\$ 0.5	\$ 44.2	\$ 48.9
Benefits Paid	\$ 14.2	\$ 14.5	\$ 2.7	\$ 2.7
Benefits Paid - SERP	0.1	0.1	N/A	N/A

A reconciliation of the prepaid assets and liabilities within the Pension, SERP and PBOP Plans' funded status to the balance sheets is as follows:

	As of December 31,	
	2022	2021
(Millions of Dollars)		
Prepaid Pension	\$ 28.0	\$ 1.9
Prepaid PBOP	44.6	48.9
Prepaid Pension and PBOP	\$ 72.6	\$ 50.8
Accrued SERP	\$ 1.1	\$ 1.4
Accrued PBOP	0.4	—
Less: Accrued SERP - current portion	(0.1)	(0.1)
Accrued SERP and PBOP	\$ 1.4	\$ 1.3

NSTAR Gas' accumulated benefit obligation for the Pension and SERP Plans was \$207.5 million and \$264.9 million as of December 31, 2022 and 2021, 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,	
	2022	2021	2022	2021
Discount Rate	5.2%	2.9%	5.2%	2.9%
Compensation/Progression Rate	3.5%	3.5%	N/A	N/A

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

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

	Pension and SERP		PBOP	
	For the Years Ended December 31,		For the Years Ended December 31,	
	2022	2021	2022	2021
(Millions of Dollars)				
Service Cost	\$ 2.0	\$ 2.4	\$ 0.4	\$ 0.5
Interest Cost	6.4	5.1	0.9	0.8
Expected Return on Plan Assets	(21.8)	(18.7)	(7.1)	(6.3)
Actuarial Loss	7.2	11.4	—	0.5
Prior Service Cost/(Credit)	0.1	0.1	(3.4)	(3.4)
Total Net Periodic Benefit Plan (Income)/Expense	\$ (6.1)	\$ 0.3	\$ (9.2)	\$ (7.9)
Intercompany (Income)/Expense Allocations	\$ (2.9)	\$ 2.3	\$ (0.9)	\$ (0.5)

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,					
	2022			2021			2022			2021		
Discount Rate	2.2%	—	3.2%	1.5%	—	3.0%	2.3%	—	3.3%	1.8%	—	3.1%
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 the Pension Plans and federal pension funding requirements, there is no minimum funding requirement for our Eversource Service Pension Plan in 2023 and we do not expect to make pension contributions in 2023. We do not expect to make any contributions to the Eversource Service PBOP Plan in 2023.

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 \$2.8 million and \$2.6 million for the years ended December 31, 2022 and 2021, respectively.

8. INCOME TAXES

The components of income tax expense were as follows:

	For the Years Ended December 31,	
	2022	2021
(Millions of Dollars)		
Current Income Taxes:		
Federal	\$ (11.0)	\$ (1.1)
State	(7.1)	(2.3)
Total Current	(18.1)	(3.4)
Deferred Income Taxes, Net:		
Federal	29.2	13.6
State	15.5	9.3
Total Deferred	44.7	22.9
Investment Tax Credit Amortization	(0.2)	(0.2)
Income Tax Expense	\$ 26.4	\$ 19.3

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

	For the Years Ended December 31,	
	2022	2021
<i>(Millions of Dollars, except percentages)</i>		
Income Before Income Tax Expense	\$ 103.2	\$ 90.2
Statutory Federal Income Tax Expense at 21%	21.7	18.9
Tax Effect of Differences:		
State Income Taxes, Net of Federal Impact	6.6	5.6
EDIT Amortization	(1.8)	(4.3)
Investment Tax Credit Amortization	(0.2)	(0.2)
Excess Stock Benefit	(0.1)	(0.2)
Depreciation	(0.4)	(0.5)
Other, Net	0.6	—
Income Tax Expense	\$ 26.4	\$ 19.3
Effective Tax Rate	25.6 %	21.4 %

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,	
	2022	2021
<i>(Millions of Dollars)</i>		
Deferred Tax Assets:		
Regulatory Deferrals - Liabilities	\$ 20.2	\$ 23.7
Allowance for Uncollectible Accounts	7.3	7.1
Other	56.6	53.4
Total Deferred Tax Assets	\$ 84.1	\$ 84.2
Deferred Tax Liabilities:		
Accelerated Depreciation and Other Plant-Related Differences	\$ 255.7	\$ 233.1
Regulatory Amounts:		
Regulatory Deferrals - Assets	83.5	62.3
Goodwill-related Regulatory Asset - 1999 Merger	10.9	11.5
Employee Benefits	17.0	12.1
Other	5.2	5.5
Total Deferred Tax Liabilities	\$ 372.3	\$ 324.5

2022 Federal Legislation: On August 16, 2022, the Inflation Reduction Act of 2022 (IRA) was signed into law. This is a broad package of legislation that includes incentives and support for clean energy resource development, which do not pertain to NSTAR Gas. In addition, the IRA includes other tax provisions focused on implementing a 15 percent minimum tax on adjusted financial statement income and a one percent excise tax on corporate share repurchases. The Department of Treasury and the Internal Revenue Service issued limited guidance in the fourth quarter; however, they are expected to issue additional needed guidance with respect to the application of the newly enacted IRA provisions in the future. We will continue to monitor and evaluate impacts; however the alternative minimum tax is not expected to have a material impact on NSTAR Gas.

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

Open Tax Years: The following table summarizes NSTAR Gas' tax years that remain subject to examination by major tax jurisdictions as of December 31, 2022:

Description	Tax Years
Federal (Eversource consolidated)	2022
Massachusetts	2019 - 2022

9. 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:

(Millions of Dollars)	As of December 31,	
	2022	2021
Balance as of Beginning of Year	\$ 30.0	\$ 19.7
Additions	3.4	11.5
Payments/Reductions	(0.7)	(1.2)
Balance as of End of Year	\$ 32.7	\$ 30.0

The Company has six environmental sites as of December 31, 2022. As of December 31, 2022, for one environmental site that is included in the Company's reserve for environmental costs, management cannot reasonably estimate the exposure to loss in excess of the reserve, or range of loss, as these sites are under investigation and/or there is significant uncertainty as to what remedial actions, if any, the Company may be required to undertake. As of December 31, 2022, \$0.2 million has been accrued as a liability for this site.

As of December 31, 2022, for the remaining five environmental sites that are included in the Company's reserve for environmental costs, the \$32.5 million accrual represents management's best estimate of the probable liability and no additional loss is estimable 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, 2022 are as follows:

(Millions of Dollars)	2023	2024	2025	2026	2027	Thereafter	Total
Natural Gas Procurement	\$ 136.8	\$ 131.3	\$ 109.5	\$ 80.9	\$ 70.1	\$ 365.1	\$ 893.7

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 \$351.7 million and \$244.7 million in 2022 and 2021, 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.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 \$702.9 million and \$578.2 million as of December 31, 2022 and 2021, respectively. The estimated fair values of these financial instruments were \$578.2 million and \$649.1 million as of December 31, 2022 and 2021, respectively. These fair values were classified as Level 2 within the fair value hierarchy. See Note 1F, "Summary of Significant Accounting Policies - Fair Value Measurements," for the fair value measurement policy and the fair value hierarchy.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated Other Comprehensive Income (AOCI) was \$0.3 million and \$0.2 million as of December 31, 2022 and 2021, respectively. 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.

12. 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, 2022 and 2021.

13. REVENUES

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

The following table presents operating revenues disaggregated by revenue source:

(Millions of Dollars)	For the Years Ended December 31,	
	2022	2021
Revenues from Contracts with Customers		
Retail Tariff Sales		
Residential	\$ 396.7	\$ 342.3
Commercial	218.6	171.9
Industrial	29.0	23.0
Total Retail Tariff Sales Revenues	644.3	537.2
Wholesale Market Sales Revenues	84.2	48.9
Other Revenues from Contracts with Customers	3.6	3.5
Total Revenues from Contracts with Customers	732.1	589.6
Alternative Revenue Programs	13.0	12.4
Other Revenues	0.8	0.3
Total Operating Revenues	\$ 745.9	\$ 602.3

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, infrastructure improvement costs, energy efficiency programs, and qualified pension and PBOP expenses. These tracking mechanisms result in rates being changed periodically to ensure recovery of actual costs incurred and the refund of any overcollection of costs.

A significant portion of 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.

Certain eligible customers may elect to purchase natural gas from the Company or may contract separately with a gas supply operator. Revenue is not recorded for the sale of the natural gas commodity to customers who have contracted separately with these operators, only the delivery to a customer, as the utility is acting as an agent on behalf of the gas supply operator.

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 a 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 guidance of \$0.3 million for each of the years ended December 31, 2022 and 2021.

Receivables: Receivables, Net on the consolidated balance sheets primarily includes trade receivables from retail customers, wholesale market 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.

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 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.

EGMA, a related party and another wholly-owned subsidiary of Yankee Energy System, Inc., also 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 1.9 BcF facilities serve EGMA. Collectively, NSTAR Gas and EGMA are entitled to 100 percent of the aggregate capacity of the Hopkinton facilities, and are charged for the costs associated with planned capital expenditures at the Hopkinton facilities. 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 is 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, 2022:

<i>(Millions of Dollars)</i>	NSTAR Gas	Hopkinton	Intercompany Eliminations	Consolidated Total
Operating Revenues	\$ 729.7	\$ 39.4	\$ (23.2)	\$ 745.9
Operating Expenses	612.7	46.7	(23.3)	636.1
Operating Income/(Loss)	117.0	(7.3)	0.1	109.8
Interest Expense	24.1	0.1	—	24.2
Other Income, Net	15.4	2.2	(0.1)	17.5
Income Before Income Tax Expense	108.3	(5.2)	—	103.1
Income Tax Expense/(Benefit)	28.3	(1.9)	—	26.4
Net Income	\$ 80.0	\$ (3.3)	\$ —	\$ 76.7

Condensed consolidating balance sheet as of December 31, 2022:

<i>(Millions of Dollars)</i>	NSTAR Gas	Hopkinton	Intercompany Eliminations	Consolidated Total
Total Current Assets	\$ 297.7	\$ 7.2	\$ (3.3)	\$ 301.6
Property, Plant and Equipment	2,176.4	399.9	—	2,576.3
Accumulated Depreciation	(440.2)	(102.3)	—	(542.5)
Construction Work in Progress	115.6	29.3	—	144.9
Property, Plant and Equipment, Net	1,851.8	326.9	—	2,178.7
Total Deferred Debits and Other Assets	257.3	7.1	—	264.4
Total Assets	\$ 2,406.8	\$ 341.2	\$ (3.3)	\$ 2,744.7
Total Current Liabilities	\$ 295.7	\$ 82.7	\$ (3.3)	\$ 375.1
Total Deferred Credits and Other Liabilities	512.5	15.2	—	527.7
Long-Term Debt	702.9	—	—	702.9
Common Stockholder's Equity	895.7	243.3	—	1,139.0
Total Liabilities and Capitalization	\$ 2,406.8	\$ 341.2	\$ (3.3)	\$ 2,744.7

Condensed consolidating statement of income for the year ended December 31, 2021:

<i>(Millions of Dollars)</i>	NSTAR Gas	Hopkinton	Intercompany Eliminations	Consolidated Total
Operating Revenues	\$ 594.4	\$ 27.0	\$ (19.1)	\$ 602.3
Operating Expenses	492.1	30.2	(19.2)	503.1
Operating Income/(Loss)	102.3	(3.2)	0.1	99.2
Interest Expense/(Income)	19.7	(1.7)	—	18.0
Other Income, Net	6.9	2.2	(0.1)	9.0
Income Before Income Tax Expense	89.5	0.7	—	90.2
Income Tax Expense/(Benefit)	20.0	(0.7)	—	19.3
Net Income	\$ 69.5	\$ 1.4	\$ —	\$ 70.9

Condensed consolidating balance sheet as of December 31, 2021:

<i>(Millions of Dollars)</i>	NSTAR Gas	Hopkinton	Intercompany Eliminations	Consolidated Total
Total Current Assets	\$ 219.3	\$ 5.4	\$ (1.7)	\$ 223.0
Property, Plant and Equipment	2,010.3	265.2	—	2,275.5
Accumulated Depreciation	(427.6)	(92.0)	—	(519.6)
Construction Work in Progress	92.6	125.4	—	218.0
Property, Plant and Equipment, Net	1,675.3	298.6	—	1,973.9
Total Deferred Debits and Other Assets	249.6	1.3	—	250.9
Total Assets	\$ 2,144.2	\$ 305.3	\$ (1.7)	\$ 2,447.8
Total Current Liabilities	\$ 345.5	\$ 50.3	\$ (1.7)	\$ 394.1
Total Deferred Credits and Other Liabilities	496.0	8.6	—	504.6
Long-Term Debt	578.2	—	—	578.2
Common Stockholder's Equity	724.5	246.4	—	970.9
Total Liabilities and Capitalization	\$ 2,144.2	\$ 305.3	\$ (1.7)	\$ 2,447.8

15. SUBSEQUENT EVENT

In January 2023, NSTAR Gas transferred \$5.0 million of its PBOP prepaid asset to EGMA. NSTAR Gas reduced its PBOP prepaid asset upon receipt of the cash from EGMA.