Yankee Gas Services Company

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

Yankee Gas Services Company

Table of Contents

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

Tel: +1 860 725 3000
Fax: +1 860 725 3500

www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Yankee Gas Services Company (the "Company"), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income, comprehensive income, common stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yankee Gas Services Company as of December 31, 2017 and 2016, 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.

Deloitte & Touche LLP

March 29, 2018

YANKEE GAS SERVICES COMPANY
BALANCE SHEETS

(Thousands of Dollars)	As of December 31, 2017	2016
ASSETS		
Current Assets:		
Cash	$ 8,153	$ 1,807
Receivables, Net	54,612	47,250
Accounts Receivable from Affiliated Companies	24,820	3,182
Unbilled Revenues	18,100	15,026
Taxes Receivable	616	11,812
Fuel, Materials and Supplies	21,050	24,109
Regulatory Assets	17,355	18,585
Prepayments	8,284	8,005
Total Current Assets	152,990	129,776
Property, Plant and Equipment, Net	1,428,012	1,313,915
Deferred Debits and Other Assets:		
Regulatory Assets	137,179	128,913
Goodwill	287,591	287,591
Other Long-Term Assets	4,534	4,579
Total Deferred Debits and Other Assets	429,304	421,083
Total Assets	$ 2,010,306	$ 1,864,774
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable to Eversource Parent	$ —	$ 17,300
Long-Term Debt - Current Portion	100,000	—
Accounts Payable	48,843	52,210
Accounts Payable to Affiliated Companies	17,243	13,180
Accrued Interest	8,556	7,859
Regulatory Liabilities	5,298	1,535
Other Current Liabilities	19,848	15,348
Total Current Liabilities	199,788	107,432
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	200,665	344,008
Regulatory Liabilities	225,698	43,570
Accrued Pension, SERP and PBOP	68,181	69,463
Other Long-Term Liabilities	38,961	42,479
Total Deferred Credits and Other Liabilities	533,505	499,520
Capitalization:		
Long-Term Debt	418,620	443,858
Common Stockholder's Equity:		
Common Stock	5	5
Capital Surplus, Paid In	780,962	707,168
Retained Earnings	78,438	108,167
Accumulated Other Comprehensive Loss	(1,012)	(1,376)
Common Stockholder's Equity	858,393	813,964
Total Capitalization	1,277,013	1,257,822
Total Liabilities and Capitalization	$ 2,010,306	$ 1,864,774

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

YANKEE GAS SERVICES COMPANY
STATEMENTS OF INCOME

(Thousands of Dollars)	For the Years Ended December 31, 2017	2016
Operating Revenues	$ 502,253	$ 445,230
Operating Expenses:		
Cost of Natural Gas	211,181	155,445
Operations and Maintenance	101,778	97,230
Depreciation	35,649	33,891
Amortization of Regulatory Assets, Net	1,134	2,043
Energy Efficiency Programs	16,218	16,865
Taxes Other Than Income Taxes	52,088	47,166
Total Operating Expenses	418,048	352,640
Operating Income	84,205	92,590
Interest Expense	25,390	24,492
Other Income, Net	735	94
Income Before Income Tax Expense	59,550	68,192
Income Tax Expense	20,680	23,662
Net Income	$ 38,870	$ 44,530

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

STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of Dollars)	For the Years Ended December 31, 2017	2016
Net Income	$ 38,870	$ 44,530
Other Comprehensive Income/(Loss), Net of Tax:		
Qualified Cash Flow Hedging Instruments	93	93
Changes in Funded Status of SERP Benefit Plan	271	(509)
Other Comprehensive Income/(Loss), Net of Tax	364	(416)
Comprehensive Income	$ 39,234	$ 44,114

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

YANKEE GAS SERVICES COMPANY
STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(Thousands of Dollars, Except Stock Information)	Common Stock Stock	Common Stock Amount	Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as of January 1, 2016	1,000	$ 5	$ 667,169	$ 89,238	$ (960)	$ 755,452
Net Income				44,530		44,530
Dividends on Common Stock				(25,600)		(25,600)
Capital Contributions from Parent			40,000			40,000
Other			(1)	(1)		(2)
Other Comprehensive Loss					(416)	(416)
Balance as of December 31, 2016	1,000	5	707,168	108,167	(1,376)	813,964
Net Income				38,870		38,870
Dividends on Common Stock				(68,600)		(68,600)
Capital Contributions from Parent			73,794			73,794
Other				1		1
Other Comprehensive Income					364	364
Balance as of December 31, 2017	1,000	$ 5	$ 780,962	$ 78,438	$ (1,012)	$ 858,393

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

YANKEE GAS SERVICES COMPANY

STATEMENTS OF CASH FLOWS

(Thousands of Dollars)	For the Years Ended December 31, 2017	2016
Operating Activities:		
Net Income	$ 38,870	$ 44,530
Adjustments to Reconcile Net Income to Net Cash Flows		
Provided by Operating Activities:		
Depreciation	35,649	33,891
Deferred Income Taxes	30,717	33,438
Pension, PBOP and SERP Expense	3,083	4,275
Pension Contributions	(12,700)	(9,370)
Amortization of Regulatory Assets, Net	1,134	2,043
Regulatory Over/(Under) Recoveries, Net	12,144	(2,830)
Bad Debt Expense	4,685	5,110
Other	(6,645)	442
Changes in Current Assets and Liabilities:		
Receivables and Unbilled Revenues, Net	(35,775)	(23,753)
Fuel, Materials and Supplies	3,059	9,624
Taxes Receivable/Accrued, Net	15,782	6,516
Accounts Payable	(4,949)	13,556
Other Current Assets and Liabilities, Net	2,611	550
Net Cash Flows Provided by Operating Activities	87,665	118,022
Investing Activities:		
Investments in Property, Plant and Equipment	(143,826)	(122,011)
Net Cash Flows Used in Investing Activities	(143,826)	(122,011)
Financing Activities:		
Cash Dividends on Common Stock	(68,600)	(25,600)
Capital Contributions from Parent	73,794	40,000
Issuance of Long-Term Debt	75,000	—
Decrease in Notes Payable to Eversource Parent	(17,300)	(8,600)
Other Financing Activities	(387)	(4)
Net Cash Flows Provided by Financing Activities	62,507	5,796
Net Increase in Cash	6,346	1,807
Cash - Beginning of Year	1,807	—
Cash - End of Year	$ 8,153	$ 1,807

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

YANKEE GAS SERVICES COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. About Yankee Gas Services Company

Yankee Gas Services Company ("Yankee Gas" or the "Company") is a regulated public utility company engaged in the distribution and sale of natural gas to customers in parts of Connecticut. Yankee Gas distributes natural gas to approximately 232,000 customers in 72 cities and towns in Connecticut covering 2,187 square miles. The Company is subject to regulation of the rates it charges its customers, accounting and other matters, by the Connecticut Public Utility Regulatory Authority ("PURA"). Yankee Gas is a wholly-owned subsidiary of Yankee Energy System, Inc., a holding company that is a wholly-owned subsidiary of Eversource Energy ("Eversource"). Yankee Gas is doing business as Eversource Energy.

Yankee 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 Yankee Gas. Yankee Gas offers firm transportation service to its commercial and industrial customers who purchase natural gas from sources other than Yankee Gas. In addition, Yankee 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 Yankee 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 financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

As of December 31, 2017 and 2016, Yankee Gas' carrying amount of goodwill was $287.6 million. Yankee Gas performs an assessment for possible impairment of its goodwill at least annually. Yankee Gas completed its annual goodwill impairment test as of October 1, 2017 and determined that no impairment exists. See Note 5, "Goodwill," for further information.

Yankee Gas evaluates events and transactions that occur after the balance sheet date but before financial statements are issued and recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed as of the balance sheet date and discloses, but does not recognize, in the financial statements subsequent events that provide evidence about the conditions that arose after the balance sheet date but before the financial statements are issued. In preparing the financial statements, Yankee Gas evaluated events subsequent to December 31, 2017 through the issuance of the 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 Yankee 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 Yankee 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 balance sheets.

E. Provision for Uncollectible Accounts

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

The PURA allows Yankee Gas to accelerate the recovery of accounts receivable balances attributable to qualified customers under financial or medical duress (uncollectible hardship accounts receivable) outstanding for greater than 90 days. As of December 31, 2017 and 2016, Yankee Gas had an uncollectible hardship accounts receivable reserve of $10.4 million and $10.5 million, respectively. These uncollectible hardship customer account balances, which are expected to be recovered in rates, are included in Regulatory Assets on the 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 balance sheets, and was $17.2 million and $17.0 million as of December 31, 2017 and 2016, respectively.

F. Fuel, Materials and Supplies

Fuel, Materials and Supplies include natural gas purchased for delivery to customers and materials and supplies purchased primarily for construction or operation and maintenance purposes. Included in Fuel, Materials and Supplies on the balance sheets as of December 31, 2017 and 2016 were $18.3 million and $21.0 million, respectively, of natural gas inventory, and $2.8 million and $3.1 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 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 goodwill and 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 Yankee Gas' fair value measurements are described in Note 4, "Asset Retirement Obligations," and Note 12, "Fair Value of Financial Instruments," to the financial statements.

H. Revenues
Yankee Gas' revenues are based on rates approved by the PURA. In general, rates can only be changed through formal proceedings with the PURA. The rates are designed to recover the costs to provide service to its customers, and include a return on investment. PURA-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.

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

I. Allowance for Funds Used During Construction
Allowance for funds used during construction ("AFUDC") represents the cost of borrowed and equity funds used to finance construction and is included in the cost of plant on the balance sheets. The portion of AFUDC attributable to borrowed funds is recorded as a reduction of Interest Expense, and the AFUDC related to equity funds is recorded as Other Income, Net on the statements of income. AFUDC costs are recovered from customers over the service life of the related plant in the form of increased revenue collected as a result of higher depreciation expense. For the year ended December 31, 2017, AFUDC costs included borrowed funds of $0.8 million and equity funds of $0.9 million. For the year ended December 31, 2016, AFUDC costs included borrowed funds of $0.3 million and equity funds of $0.4 million.

Yankee Gas' average AFUDC rate is based on a Federal Energy Regulatory Commission prescribed formula using the cost of a company's short-term financings 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 5.0 percent and 2.5 percent, respectively.

J. Other Taxes
Gross receipts taxes levied by the state of Connecticut are collected by Yankee Gas from its customers. These gross receipts taxes are shown separately with collections in Operating Revenues and with payments in Taxes Other Than Income Taxes on the statements of income. For the years ended December 31, 2017 and 2016, gross receipts taxes were $19.9 million and $17.5 million, respectively. As an agent for the state and local governments, Yankee Gas collects certain sales taxes that are recorded on a net basis with no impact on the statements of income.

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	$ 24.3	$ 24.0
Income Taxes	(25.0)	(15.0)
Non-Cash Investing Activities:		
Plant Additions Included in Accounts Payable (As of)	20.6	20.1

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 Yankee Gas. In addition, Yankee Gas incurs costs associated with leases entered into by The Rocky River Realty Company, which is also a subsidiary of Eversource.

Included in the 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 Yankee Gas and other subsidiaries that are wholly-owned by Eversource, primarily Eversource Service.

2. REGULATORY ACCOUNTING

Yankee 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. Yankee 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	$ 70.7	$ 63.2
Income Taxes, Net	41.1	37.3
Environmental Remediation Costs	25.2	27.6
Hardship Customer Receivables	8.4	9.2
Asset Retirement Obligations	4.4	4.1
Other Regulatory Assets	4.8	6.1
Total Regulatory Assets	154.6	147.5
Less: Current Portion	17.4	18.6
Total Long-Term Regulatory Assets	$ 137.2	$ 128.9

Benefit Costs: Yankee 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 recorded by Yankee Gas to recognize the funded status of the retiree benefit plans is offset by a regulatory asset in lieu of a charge to Accumulated Other Comprehensive Income/(Loss), reflecting ultimate recovery from customers through rates. The regulatory asset is amortized as the actuarial gains and losses and prior service cost are amortized to net periodic benefit cost for the pension and PBOP plans. All amounts are remeasured annually. As these regulatory assets do not represent a cash outlay for Yankee Gas, no carrying charge is recovered from customers.

Income Taxes, Net: The tax effect of temporary book-tax differences (differences between the periods in which transactions affect income in the financial statements and the periods in which they affect the determination of taxable income, including those differences relating to uncertain tax positions) is accounted for in accordance with the rate-making treatment of the PURA and accounting guidance for income taxes. Differences in income taxes between the accounting guidance and the rate-making treatment of the PURA are recorded as regulatory assets. As these assets are offset by deferred income tax liabilities, no carrying charge is collected. The amortization period of these assets varies depending on the nature and/or remaining life of the underlying assets and liabilities. For further information regarding income taxes, see Note 9, "Income Taxes," to the financial statements.

Environmental Remediation Costs: Recoverable costs associated with the remediation of environmental sites are recorded as regulatory assets in accordance with PURA regulation. These costs earn a return. For further information, see Note 10A, "Commitments and Contingencies - Environmental Matters," to the financial statements.

Hardship Customer Receivables: Yankee Gas has recorded regulatory assets for the reserve for customer receivables that qualify under Connecticut's Matching Payment Program and hardship protection plans (hardship accounts receivable), which represent uncollectible amounts attributable to qualified customers under financial or medical duress outstanding for greater than 90 days. These deferred costs are included in rate base. The PURA approved an allowed annual level of recoverable hardship costs. For further information regarding hardship accounts receivable, see Note 1E, "Summary of Significant Accounting Policies - Provision for Uncollectible Accounts," to the financial statements.

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

Regulatory Costs in Other Long-Term Assets: Yankee Gas had $2.7 million of additional regulatory costs as of both December 31, 2017 and 2016 that were included in Other Long-Term Assets on the balance sheets. These amounts represent incurred costs for which recovery has not yet been specifically approved by the PURA. However, based on regulatory policies or past precedent on similar costs, management believes it is probable that these costs will ultimately be approved and recovered from customers in rates.

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

	As of December 31,	
(Millions of Dollars)	2017	2016
Cost of Removal	$ 25.0	$ 28.0
Regulatory Tracker Mechanisms	21.3	15.2
Other Regulatory Liabilities	1.9	1.9
Total Regulatory Liabilities [(1)]	48.2	45.1
Less: Current Portion	5.3	1.5
Total Long-Term Regulatory Liabilities [(1)]	$ 42.9	$ 43.6

[(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 $180 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 PURA, 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 financial statements.

Cost of Removal: Yankee Gas currently recovers amounts in rates for future costs of removal of plant assets over the lives of the assets. The estimated cost to remove utility assets from service is recognized as a component of depreciation expense, and the cumulative amount collected from customers but not yet expended is recognized as a regulatory liability.

Regulatory Tracker Mechanisms: Yankee Gas' approved rates are designed to recover its costs incurred to provide service to customers. Yankee Gas recovers certain of its costs on a fully-reconciling basis through PURA-approved tracking mechanisms. The difference between the costs incurred (or the rate recovery allowed) and the actual revenues 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. Yankee Gas recovers, on a fully reconciling basis, the costs associated with the procurement of natural gas for its firm and seasonal customers, system expansion costs and conservation costs through rate reconciling mechanisms.

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	$ 1,818.1	$ 1,709.6
Less: Accumulated Depreciation	(433.8)	(419.6)
Property, Plant and Equipment, Net	1,384.3	1,290.0
Construction Work in Progress	43.7	23.9
Total Property, Plant and Equipment, Net	$ 1,428.0	$ 1,313.9

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 PURA, 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 2.2 percent in 2017 and 2.3 percent in 2016. As of December 31, 2017, the average remaining useful life of Yankee Gas' depreciable assets was 46.4 years.

4. ASSET RETIREMENT OBLIGATIONS

Yankee Gas recognizes a liability for the fair value of an ARO on the obligation date if the liability's fair value can be reasonably estimated, 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 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 Yankee Gas is rate-regulated on a cost-of-service basis, it applies regulatory accounting guidance and both the depreciation and accretion costs associated with the AROs are recorded as increases to Regulatory Assets on the balance sheets.

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

	As of December 31,	
(Millions of Dollars)	**2017**	**2016**
Balance as of Beginning of Year	$ 4.6	$ 3.9
Liabilities Incurred During the Year	—	0.5
Accretion	0.2	0.2
Balance as of End of Year	$ 4.8	$ 4.6

5. GOODWILL

Yankee Gas recorded $287.6 million of goodwill related to the acquisition of the parent of Yankee Gas in 2000. This goodwill is not being recovered from its customers.

In a business combination, the excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed is recognized as goodwill. Goodwill is evaluated for impairment at least annually and more frequently if indicators of impairment arise. In accordance with the accounting standards, if the fair value of a reporting unit is less than its carrying value (including goodwill), the goodwill is tested for impairment. Goodwill is not subject to amortization, however is subject to a fair value based assessment for impairment at least annually and whenever facts or circumstances indicate that there may be an impairment. A resulting write-down, if any, would be charged to Operating Expenses. Management is required to test the goodwill balance for impairment by considering the fair value of the reporting unit, which requires the use of estimates and judgments.

Goodwill impairment is deemed to exist if the carrying amount of a reporting unit exceeds its estimated fair value and if the implied fair value of goodwill based on the estimated fair value of the reporting unit's assets and liabilities is less than the carrying amount of the goodwill. If goodwill were deemed to be impaired, it would be written down in the current period to the extent of the impairment.

The annual goodwill assessment included an evaluation of credit ratings, financial performance, cost and risk factors, long-term strategy, growth and future projections, as well as macroeconomic, industry and market conditions. Yankee Gas completed its annual goodwill impairment test as of October 1, 2017 and determined that no impairment existed. There were no events subsequent to October 1, 2017 that indicated impairment of goodwill.

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 and certain of its subsidiaries, including 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, there were no intercompany loans from Eversource parent to Yankee Gas. As of December 31, 2016, there were intercompany loans from Eversource parent to Yankee Gas of $17.3 million recorded as Notes Payable to Eversource Parent and classified in current liabilities on the balance sheet as all borrowings are outstanding for no more than 364 days at one time. The weighted-average interest rate on borrowings as of December 31, 2017 and 2016 was 1.86 percent and 0.88 percent, respectively.

Under the credit facility, Yankee Gas must comply with certain financial and non-financial covenants, including a debt to total capitalization ratio. As of December 31, 2017 and 2016, Yankee Gas was in compliance with these covenants. If Yankee Gas was not in compliance with these covenants, an event of default would occur requiring all outstanding borrowings by Yankee Gas to be repaid, and additional borrowings would not be permitted under the credit facility.

7. LONG-TERM DEBT

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

(Millions of Dollars)	As of December 31, 2017	2016
First Mortgage Bonds:		
6.90% Series J due 2018	$ 100.0	$ 100.0
5.26% Series H due 2019	50.0	50.0
4.87% Series K due 2020	50.0	50.0
8.48% Series B due 2022	20.0	20.0
3.35% Series M due 2025	75.0	75.0
3.02% Series N due 2027	75.0	—
5.35% Series I due 2035	50.0	50.0
4.82% Series L due 2044	100.0	100.0
Total First Mortgage Bonds	520.0	445.0
Less Amounts due Within One Year	(100.0)	—
Unamortized Premium	0.3	0.4
Unamortized Debt Issuance Costs	(1.7)	(1.5)
Yankee Gas Long-Term Debt	$ 418.6	$ 443.9

Long-Term Debt Issuance Authorization: On December 20, 2017, PURA approved Yankee Gas's request to extend the authorization period for issuance of up to $50 million in long-term debt from December 31, 2017 to December 31, 2018.

Long-Term Debt Provisions: The utility plant of Yankee Gas is subject to the lien of its' first mortgage bond indenture. Additionally, Yankee Gas' long-term debt agreements contain cross-default provisions. The cross-default provisions on Yankee Gas' Series B Bonds would be triggered if Yankee Gas were to default on a payment due on indebtedness in excess of $2 million. The cross-default provisions on all other series of Yankee Gas' first mortgage bonds would be triggered if Yankee Gas were to default in a payment due on indebtedness in excess of $10 million.

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 Yankee 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.

Because Yankee 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/(Loss) as an offset to the funded status of the Pension and PBOP Plans. Adjustments to the SERP Plan funded status are offset on an after-tax basis to Accumulated Other Comprehensive Income/(Loss) on the balance sheets. For further information, see Note 2, "Regulatory Accounting," and Note 13, "Accumulated Other Comprehensive Income/(Loss)," to the 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/(Loss). Unrecognized actuarial gains or losses are amortized as a component of pension and PBOP expense over the estimated average future employee service period.

Pension and SERP Plans: Yankee Gas 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 Yankee Gas in the Eversource single-employer Pension and SERP Plan:

Pension and SERP	**As of December 31,**	
(Millions of Dollars)	**2017**	**2016**
Benefit Obligation	$ (200.5)	$ (183.8)
Fair Value of Pension Plan Assets	142.9	122.9
Funded Status	$ (57.6)	$ (60.9)
Employer Contributions	$ 12.7	$ 9.4
Benefits Paid	8.3	8.2
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 balance sheets.

Yankee Gas' accumulated benefit obligation for the Pension and SERP Plans was $183.4 million and $163.3 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	3.68% — 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.

Yankee 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 portions, are included in Operations and Maintenance expense on the statements of income. Capitalized amounts relate to employees working on capital projects and are included in Property, Plant and Equipment, Net on the balance sheets. Pension and SERP expense reflected in the 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	$ 3.5	$ 3.7
Interest Cost	6.6	6.7
Expected Return on Pension Plan Assets	(10.2)	(9.4)
Actuarial Loss	4.1	3.7
Prior Service Cost	0.1	0.1
Total Net Periodic Benefit Expense	$ 4.1	$ 4.8
Intercompany Allocations	$ 1.5	$ 1.8
Capitalized Pension Expense	$ 1.4	$ 1.7

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	3.30% — 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: Yankee 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 Yankee Gas in the Eversource single-employer PBOP Plan benefit obligations, fair values of plan assets, and funded status:

PBOP	**As of December 31,**	
(Millions of Dollars)	**2017**	**2016**
Benefit Obligation	$ (28.4)	$ (25.0)
Fair Value of Plan Assets	17.7	16.3
Funded Status	$ (10.7)	$ (8.7)
Benefits Paid	$ 1.1	$ 1.5

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.

Yankee Gas' components of net periodic benefit expense for the PBOP Plan 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 statements of income. Capitalized amounts relate to employees working on capital projects and are included in Property, Plant and Equipment, Net on the balance sheets. PBOP expense reflected in the 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	$ 0.5	$ 0.5
Interest Cost	0.8	0.8
Expected Return on Plan Assets	(1.4)	(1.3)
Actuarial Loss	0.1	0.2
Prior Service Cost	0.3	0.1
Total Net Periodic Benefit Expense	$ 0.3	$ 0.3
Intercompany Allocations	$ (0.2)	$ —
Capitalized PBOP Expense	$ 0.1	$ 0.1

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, of which approximately $20 million will be contributed by Yankee Gas. Eversource expects to make approximately $8 million in contributions to the PBOP Plan in 2018.

B. Defined Contribution Plan

Eversource maintains a defined contribution plan on behalf of eligible participants, including, among others, employees of Yankee 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 Yankee Gas were $1.5 million and $1.4 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	$ (11.7)	$ (13.5)
State	2.0	4.1
Total Current	(9.7)	(9.4)
Deferred Income Taxes, Net:		
Federal	32.3	36.9
State	(1.6)	(3.5)
Total Deferred	30.7	33.4
Investment Tax Credits, Net	(0.3)	(0.3)
Income Tax Expense	$ 20.7	$ 23.7

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	$ 59.6	$ 68.2
Statutory Federal Income Tax Expense at 35%	20.8	23.9
Tax Effect of Differences:		
Depreciation	(0.3)	(0.1)
Investment Tax Credit Amortization	(0.3)	(0.3)
State Income Taxes, Net of Federal Impact	(5.4)	(2.0)
Excess Stock Benefit	(0.1)	(0.2)
Other, Net	6.0	2.4
Income Tax Expense	$ 20.7	$ 23.7
Effective Tax Rate	34.7%	34.7%

Yankee Gas files a consolidated federal income tax return with Eversource and also files state income tax returns. Yankee 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.

The PURA requires that the tax effect of certain property, plant and equipment related temporary differences that directly impact Yankee Gas' customers receive "flow-through" treatment. Using flow-through treatment, the deferred tax expense is included in determining customers' rates. Flow-through treatment can result in effective income tax rates that are different than statutory income tax rates and therefore are part of the income tax rate reconciliation for Yankee Gas. Recording deferred taxes on flow-through items is required by relevant accounting guidance and the offset to the deferred tax amounts is a regulatory asset or liability.

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

	As of December 31,	
(Millions of Dollars)	2017	2016
Deferred Tax Assets:		
Allowance for Uncollectible Accounts	$ 4.8	$ 7.0
Regulatory Deferrals - Liabilities	7.8	12.4
Employee Benefits	20.6	30.1
Tax Effect - Tax Regulatory Liabilities	54.7	0.4
Other	2.6	4.9
Total Deferred Tax Assets	$ 90.5	$ 54.8
Deferred Tax Liabilities:		
Accelerated Depreciation and Other Plant-Related Differences	$ 239.2	$ 342.8
Property Tax Accruals	4.4	6.5
Regulatory Amounts:		
Regulatory Deferrals - Assets	37.6	44.7
Tax Effect - Tax Regulatory Assets	16.6	14.9
Other	(6.6)	(10.1)
Total Deferred Tax Liabilities	$ 291.2	$ 398.8

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 $180 million as of December 31, 2017 and recognized as regulatory liabilities on the balance sheet.

The Company is currently working with the PURA, 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.

Carryforwards: The following tables provide the amounts and expiration dates of state tax credit carryforwards:

	As of December 31, 2017		As of December 31, 2016	
(Millions of Dollars)	Total	Expiration Range	Total	Expiration Range
State Tax Credit	$ 19.4	2017 - 2022	$ 15.5	2016 - 2021

Unrecognized Tax Benefits: A reconciliation of the activity in unrecognized tax benefits, all of which would impact the effective tax rate, if recognized, is as follows:

(Millions of Dollars)	
Balance as of January 1, 2016	$ 19.4
Gross Increases - Current Year	4.5
Lapse of Statute of Limitations	(2.7)
Balance as of December 31, 2016	21.2
Gross Increases - Current Year	4.9
Gross Decreases - Prior Year	(0.1)
Lapse of Statute of Limitations	(2.5)
Balance as of December 31, 2017	$ 23.5

Interest and Penalties: Interest on uncertain tax positions is recorded and generally classified as a component of Other Interest Expense on the statements of income. However, when resolution of uncertainties results in Yankee Gas receiving interest income, any related interest benefit is recorded in Other Income, Net on the statements of income. No penalties have been recorded. The amount of interest expense/(income) on uncertain tax positions recognized and the related accrued interest payable are as follows:

	For the Years Ended December 31,			As of December 31,	
(Millions of Dollars)	2017	2016	*(Millions of Dollars)*	2017	2016
Other Interest Income	$ —	$ —	Accrued Interest Expense	$ 0.1	$ 0.1

Tax Positions: During 2017 and 2016, Yankee Gas did not resolve any of its uncertain tax positions.

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

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

While tax audits are currently ongoing, it is reasonably possible that one or more of these open tax years could be resolved within the next twelve months. Yankee Gas does not currently estimate potential resolutions of differences of a non-timing nature.

10. COMMITMENTS AND CONTINGENCIES

A. Environmental Matters

General: Yankee Gas is subject to environmental laws and regulations intended to mitigate or remove the effect of past operations and improve or maintain the quality of the environment. These laws and regulations require the removal or the remedy of the effect on the environment of the disposal or release of certain specified hazardous substances at current and former operating sites. Yankee Gas has an active environmental auditing and training program and believes that it is substantially in compliance with all enacted laws and regulations. The environmental sites are 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 Yankee 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 Yankee 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 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	$ 26.4	$ 26.2
Additions	1.0	1.0
Payments	(2.4)	(0.8)
Balance as of End of Year	$ 25.0	$ 26.4

The Company has 15 environmental sites as of December 31, 2017. As of December 31, 2017, for three of the 15 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, $11.7 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 $13 million may be incurred in executing current remediation plans for these sites.

As of December 31, 2017, for eight environmental sites that are included in the Company's reserve for environmental costs, management cannot reasonably estimate the exposure to loss in excess of the reserve, or range of loss, as these sites are under investigation and/or there is significant uncertainty as to what remedial actions, if any, the Company may be required to undertake. As of December 31, 2017, $10.5 million has been accrued as a liability for these sites. As of December 31, 2017, for the remaining four of the 15 environmental sites that are included in the Company's reserve for environmental costs, the $2.8 million accrual represents management's best estimate of the probable liability and no additional loss is anticipated at this time.

Environmental Rate Recovery: Yankee 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 financial statements.

B. Long-Term Contractual Arrangements

The estimated future annual costs of Yankee 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	$ 130.6	$ 118.4	$ 83.8	$ 80.5	$ 75.9	$ 513.9	$ 1,003.1

In the normal course of business, Yankee 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 $199.1 million and $152.1 million in 2017 and 2016, respectively.

C. Litigation and Legal Proceedings

Yankee Gas is involved in legal, tax and regulatory proceedings regarding matters arising in the ordinary course of business, which involve management's assessment to determine the probability of whether a loss will occur and, if probable, its best estimate of probable loss. The Company records and discloses losses when these losses are probable and reasonably estimable, and discloses matters when losses are probable but not estimable or when losses are reasonably possible. Legal costs related to the defense of loss contingencies are expensed as incurred.

11. LEASES

Yankee Gas has entered into operating lease agreements for the use of data processing and office equipment, vehicles, service centers, and office space. In addition, Yankee 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 commercial paper rate plus a credit spread or the consumer price index.

Operating lease rental payments charged to expense were $1.1 million for both of the years ended December 31, 2017 and 2016.

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

(Millions of Dollars)	
2018	$ 0.2
2019	0.2
2020	0.2
2021	0.2
2022	0.2
Thereafter	0.1
Future Minimum Lease Payments	$ 1.1

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The carrying amount of Yankee Gas' long-term debt was $518.6 million and $443.9 million as of December 31, 2017 and 2016, respectively. The estimated fair values of these financial instruments were $554.8 million and $473.4 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/(LOSS)

The changes in accumulated other comprehensive income/(loss) by component, net of tax, was as follows:

	For the Year Ended December 31, 2017			For the Year Ended December 31, 2016		
(Millions of Dollars)	Qualified Cash Flow Hedging Instruments	SERP Plan	Total	Qualified Cash Flow Hedging Instruments	SERP Plan	Total
Balance as of Beginning of Year	$ (0.6)	$ (0.8)	$ (1.4)	$ (0.7)	$ (0.3)	$ (1.0)
OCI Before Reclassifications	—	0.1	0.1	—	(0.6)	(0.6)
Amounts Reclassified from AOCL	0.1	0.2	0.3	0.1	0.1	0.2
Net OCI	0.1	0.3	0.4	0.1	(0.5)	(0.4)
Balance as of End of Year	$ (0.5)	$ (0.5)	$ (1.0)	$ (0.6)	$ (0.8)	$ (1.4)

Qualified cash flow hedging instruments represent interest rate swap agreements on debt issuances that were settled in prior years. The settlement amount was recorded in Accumulated Other Comprehensive Loss ("AOCL") and is being amortized into Net Income over the term of the underlying debt instrument.

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

As of December 31, 2017, it was estimated that a pre-tax amount of $0.1 million will be reclassified from AOCL as a decrease to Net Income over the next 12 months as a result of the amortization of interest rate swap agreements, which have been settled, and a pre-tax amount of $0.2 million will be reclassified from AOCL as a decrease to Net Income over the next 12 months as a result of the amortization of SERP costs.

14. COMMON STOCK

Yankee Gas had 1,000 shares of common stock authorized, issued and outstanding at a $5 per share par value as of December 31, 2017 and 2016.