

NSTAR Gas Company

Consolidated Financial Statements as of and for the
Years Ended December 31, 2016 and 2015,
Together With Independent Auditors' Reports

NSTAR Gas Company
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of NSTAR Gas Company and subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, common stockholder's equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NSTAR Gas Company and subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 30, 2017

NSTAR GAS COMPANY
CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)	As of December 31,	
	2016	2015
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 19	\$ 2,575
Receivables, Net	38,978	24,035
Accounts Receivable from Affiliated Companies	5,626	37,958
Unbilled Revenues	15,127	10,054
Taxes Receivable	—	12,017
Fuel, Materials and Supplies	19,211	21,001
Regulatory Assets	51,792	49,017
Prepayments and Other Current Assets	6,429	389
Total Current Assets	137,182	157,046
Property, Plant and Equipment, Net	939,255	827,052
Deferred Debits and Other Assets:		
Regulatory Assets	218,885	224,775
Other Long-Term Assets	31,463	13,446
Total Deferred Debits and Other Assets	250,348	238,221
Total Assets	\$ 1,326,785	\$ 1,222,319
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable to Eversource Parent	\$ 85,000	\$ —
Long-Term Debt - Current Portion	25,000	—
Accounts Payable	49,751	41,727
Accounts Payable to Affiliated Companies	20,081	18,570
Regulatory Liabilities	6,997	21,393
Other Current Liabilities	15,911	17,510
Total Current Liabilities	202,740	99,200
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	285,879	251,594
Regulatory Liabilities	100,799	73,085
Accrued Pension, SERP and PBOP	46,535	76,559
Other Long-Term Liabilities	43,923	32,359
Total Deferred Credits and Other Liabilities	477,136	433,597
Capitalization:		
Long-Term Debt	284,299	309,214
Common Stockholder's Equity:		
Common Stock	71,425	71,425
Capital Surplus, Paid In	190,358	190,358
Retained Earnings	100,511	118,120
Accumulated Other Comprehensive Income	316	405
Common Stockholder's Equity	362,610	380,308
Total Capitalization	646,909	689,522
Total Liabilities and Capitalization	\$ 1,326,785	\$ 1,222,319

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,	
	2016	2015
Operating Revenues	\$ 412,443	\$ 516,094
Operating Expenses:		
Cost of Natural Gas	173,544	276,017
Operations and Maintenance	89,209	85,794
Depreciation	32,092	33,507
Amortization of Regulatory (Liabilities)/Assets, Net	(2,760)	3,520
Energy Efficiency Programs	26,788	41,296
Taxes Other Than Income Taxes	22,699	17,749
Total Operating Expenses	<u>341,572</u>	<u>457,883</u>
Operating Income	70,871	58,211
Interest Expense	16,733	13,121
Other Income, Net	595	823
Income Before Income Tax Expense	<u>54,733</u>	<u>45,913</u>
Income Tax Expense	21,542	18,261
Net Income	<u>\$ 33,191</u>	<u>\$ 27,652</u>

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,	
	2016	2015
Net Income	\$ 33,191	\$ 27,652
Other Comprehensive (Loss)/Income, Net of Tax:		
Changes in Funded Status of SERP Benefit Plan	(89)	9
Other Comprehensive (Loss)/Income, Net of Tax	(89)	9
Comprehensive Income	<u>\$ 33,102</u>	<u>\$ 27,661</u>

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, 2015	2,857,000	\$ 71,425	\$ 178,072	\$ 106,468	\$ 396	\$ 356,361
Net Income				27,652		27,652
Dividends on Common Stock				(16,000)		(16,000)
Capital Contributions from Parent			12,000			12,000
Allocation of Benefits - ESOP			286			286
Other Comprehensive Income					9	9
Balance as of December 31, 2015	2,857,000	71,425	190,358	118,120	405	380,308
Net Income				33,191		33,191
Dividends on Common Stock				(50,800)		(50,800)
Other Comprehensive Loss					(89)	(89)
Balance as of December 31, 2016	2,857,000	\$ 71,425	\$ 190,358	\$ 100,511	\$ 316	\$ 362,610

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,	
	2016	2015
Operating Activities:		
Net Income	\$ 33,191	\$ 27,652
Adjustments to Reconcile Net Income to Net Cash Flows		
Provided by Operating Activities:		
Depreciation	32,092	33,507
Deferred Income Taxes	34,252	12,687
Amortization of Regulatory (Liabilities)/Assets, Net	(2,760)	3,520
Pension, SERP and PBOP Expense	901	5,870
Pension and PBOP Contributions	(12,673)	(5,861)
Regulatory (Under)/Over Recoveries, Net	(11,481)	31,243
Bad Debt Expense	7,767	6,066
Other	(15,578)	(8,695)
Changes in Current Assets and Liabilities:		
Receivables and Unbilled Revenues, Net	(28,315)	11,552
Fuel, Materials and Supplies	1,790	3,942
Taxes Receivable/Accrued, Net	13,619	11,350
Accounts Payable	7,217	(13,362)
Accounts Receivable from/Payable to Affiliates, Net	33,843	(35,751)
Other Current Assets and Liabilities, Net	2,634	607
Net Cash Flows Provided by Operating Activities	<u>96,499</u>	<u>84,327</u>
Investing Activities:		
Investments in Property, Plant and Equipment	(133,255)	(85,589)
Net Cash Flows Used in Investing Activities	<u>(133,255)</u>	<u>(85,589)</u>
Financing Activities:		
Cash Dividends on Common Stock	(50,800)	(16,000)
Capital Contributions from Parent	—	12,000
Issuance of Long-Term Debt	—	100,000
Increase/(Decrease) in Notes Payable to Eversource Parent	85,000	(94,950)
Other Financing Activities	—	(282)
Net Cash Flows Provided by Financing Activities	<u>34,200</u>	<u>768</u>
Net Decrease in Cash and Cash Equivalents	(2,556)	(494)
Cash and Cash Equivalents - Beginning of Year	2,575	3,069
Cash and Cash Equivalents - End of Year	<u>\$ 19</u>	<u>\$ 2,575</u>

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

NSTAR GAS COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. About NSTAR Gas Company

NSTAR Gas Company ("NSTAR Gas" or the "Company") is a regulated public utility company engaged in the distribution and sale of natural gas to customers in parts of Massachusetts. NSTAR Gas distributes natural gas to approximately 289,000 customers in 51 communities in central and eastern Massachusetts covering 1,067 square miles. The Company is subject to regulation of the rates it charges its customers, accounting and other matters, by the Massachusetts Department of Public Utilities ("DPU"). NSTAR Gas is a wholly-owned subsidiary of Yankee Energy System, Inc., a holding company that is a wholly-owned subsidiary of Eversource Energy ("Eversource"). NSTAR Gas is doing business as Eversource Energy.

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.

B. Basis of Presentation

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

NSTAR Gas has an exclusive service agreement with Hopkinton. NSTAR Gas is the sole customer of Hopkinton, bears the risk of financial losses to which Hopkinton could be exposed, and is the primary beneficiary of Hopkinton and consolidates Hopkinton in its consolidated financial statements. Intercompany transactions between NSTAR Gas and Hopkinton have been eliminated in consolidation. For further information, see Note 14, "Consolidation of Variable Interest Entity," to the consolidated financial statements.

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

NSTAR Gas evaluates events and transactions that occur after the balance sheet date but before financial statements are issued and recognizes in the consolidated financial statements the effects of all subsequent events that provide additional information about conditions that existed as of the balance sheet date and discloses, but does not recognize, in the consolidated financial statements subsequent events that provide information about the conditions that arose after the balance sheet date but before the financial statements are issued. In preparing the consolidated financial statements, NSTAR Gas has evaluated events subsequent to December 31, 2016 through the issuance of the consolidated financial statements on March 30, 2017 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 an Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, which amends existing revenue recognition guidance and is required to be applied retrospectively (either to each reporting period presented or cumulatively at the date of initial application). The Company is evaluating the requirements and potential impacts of ASU 2014-09 and will implement the standard in the first quarter of 2018 cumulatively at the date of initial application. The guidance continues to be interpreted on an industry specific level, including the timing of recognizing revenues from billings to protected customers that may not meet the collectibility threshold for revenue recognition. Therefore, while the effects of implementing the ASU on results of operations are not expected to be material, there may be changes in the timing of revenue recognition on the consolidated financial statements of NSTAR Gas.

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 is required to be implemented for leases beginning on the date of initial application. For prior periods presented, leases 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 operating leases, and expects to implement the ASU in the first quarter of 2019.

D. Cash and Cash Equivalents

Cash and Cash Equivalents include cash on hand and short-term cash investments that are highly liquid in nature and have original maturities of three months or less. At the end of each reporting period, any overdraft amounts are reclassified from Cash and Cash Equivalents to Accounts Payable on the consolidated balance sheets.

E. Provision for Uncollectible Accounts

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

The DPU allows NSTAR Gas to recover in rates amounts associated with accounts receivable balances attributable to certain customers under hardship (uncollectible hardship accounts receivable). As of December 31, 2016 and 2015, NSTAR Gas had an uncollectible hardship accounts receivable reserve of \$5.6 million and \$5.0 million, respectively. These uncollectible customer account balances, which are expected to be recovered in rates, are included in Regulatory Assets or Other Long-Term Assets on the consolidated balance sheets and are reflected in the total provision for uncollectible accounts.

The total provision for uncollectible accounts, which includes uncollectible hardship accounts, is included in Receivables, Net on the consolidated balance sheets, and was \$16.4 million and \$15.8 million as of December 31, 2016 and 2015, 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 consolidated balance sheets as of December 31, 2016 and 2015 were \$14.9 million and \$18.2 million, respectively, of natural gas inventory, and \$4.3 million and \$2.8 million, respectively, of materials and supplies. Inventory is valued at the lower of cost or net realizable value.

G. Fair Value Measurements

Fair value measurement guidance is applied to derivative contracts that are not elected or designated as "normal purchases or normal sales" ("normal"). Fair value measurement guidance is also applied to valuations of the investments used to calculate the funded status of pension and postretirement benefits other than pensions ("PBOP") plans, the nonrecurring fair value measurements of non-financial assets such as asset retirement obligations ("AROs"), and the estimated fair value of long-term debt.

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

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

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

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

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

H. Derivative Accounting

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

NSTAR Gas also has natural gas supply contracts that are derivatives and meet the definition of, and are designated as normal and therefore qualify for accrual accounting under the applicable accounting guidance. The judgment applied in the election of a contract as normal (and resulting accrual accounting) includes the conclusion that it is probable at the inception of the contract and throughout its term that it will result in physical delivery of the underlying product and that the quantities will be used or sold by the business in the normal course of business. If facts and circumstances change and management can no longer support this conclusion, then a contract cannot be considered normal and accrual accounting is terminated, and fair value accounting is applied prospectively. The costs and benefits of these derivative contracts that meet the definition of normal are recognized in Operating Expenses or Operating Revenues on the consolidated statements of income, as applicable, as natural gas is delivered.

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

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

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

I. Revenues

NSTAR Gas' revenues are based on rates approved by the DPU. In general, rates can only be changed through formal proceedings with the DPU. The rates are designed to recover the costs to provide service to its customers, and include a return on investment. NSTAR Gas also utilizes DPU-approved tracking mechanisms 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.

Effective January 1, 2016, NSTAR Gas has a DPU-approved revenue decoupling mechanism. Distribution revenues are decoupled from customer sales volumes, where applicable, which breaks the relationship between sales volumes and revenues recognized. NSTAR Gas reconciles its annual base distribution rate recovery to a pre-established level of baseline distribution delivery service revenues. Any difference between the allowed level of distribution revenue and the actual amount incurred during each 6-month seasonal period is adjusted through rates in the subsequent corresponding seasonal period.

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

Because customers are billed throughout the month based on pre-determined cycles rather than on a calendar month basis, an estimate of natural gas delivered to customers for which the customers have not yet been billed is calculated as of the balance sheet date. Unbilled revenues are included in Operating Revenues on the consolidated statements of income and in Current Assets on the consolidated balance sheets. Actual amounts billed to customers when meter readings become available may vary from the estimated amount.

NSTAR Gas estimates unbilled sales volumes by first allocating billed sales volumes to the current calendar month based on the daily send-out for each billing cycle. The billed sales volumes are then subtracted from total month send-out, net of delivery losses, to estimate unbilled sales volumes. Unbilled revenues are estimated by first allocating unbilled sales volumes to the respective customer and rate classes, then applying an estimated rate by customer and rate class to those sales volumes. NSTAR Gas records a regulatory deferral to reflect the actual allowed amount of revenue associated with its decoupled distribution rate design.

J. Allowance for Funds Used During Construction

Allowance for funds used during construction ("AFUDC") represents the cost of borrowed and equity funds used to finance construction and is included in the cost of plant on the 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, 2016, AFUDC costs included borrowed funds of \$0.6 million and equity funds of \$0.4 million. For the year ended December 31, 2015, AFUDC costs included borrowed funds of \$0.1 million.

NSTAR Gas' average AFUDC rate is based on a Federal Energy Regulatory Commission prescribed formula using the cost of a company's short-term financings and capitalization (long-term debt and common equity), as appropriate. The average rate is applied to average eligible construction work in progress amounts to calculate AFUDC. Average AFUDC rates for the years ended December 31, 2016 and 2015 were 3.2 percent and 0.5 percent, respectively.

K. Supplemental Cash Flow Information

<i>(Millions of Dollars)</i>	As of and for the Years Ended December 31,	
	2016	2015
Cash Paid/(Received) During the Year For:		
Interest, Net of Amounts Capitalized	\$ 17.5	\$ 13.1
Income Taxes	(26.0)	(6.0)
Non-Cash Investing Activities:		
Plant Additions Included in Accounts Payable (As of)	10.3	9.5

L. Related Parties

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

Included in the consolidated balance sheets as of December 31, 2016 and 2015 were Accounts Receivable from Affiliated Companies and Accounts Payable to Affiliated Companies related to transactions between NSTAR Gas and other subsidiaries that are wholly-owned by Eversource, primarily Eversource Service.

2. REGULATORY ACCOUNTING

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

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

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

<i>(Millions of Dollars)</i>	As of December 31,	
	2016	2015
Benefit Costs	\$ 108.4	\$ 122.8
Goodwill-related	65.7	68.6
Regulatory Tracker Mechanisms	41.7	34.6
Environmental Remediation Costs	33.2	19.6
Asset Retirement Obligations	9.7	9.4
Derivative Liabilities	—	5.8
Other Regulatory Assets	12.0	13.0
Total Regulatory Assets	270.7	273.8
Less: Current Portion	51.8	49.0
Total Long-Term Regulatory Assets	\$ 218.9	\$ 224.8

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

Goodwill-related: The goodwill regulatory asset originated from a 1999 merger transaction and the DPU allowed its recovery in NSTAR Gas' rates. This regulatory asset is currently being amortized and recovered from customers in rates without a carrying charge over a 40-year period, and, as of December 31, 2016, there were 23 years of amortization remaining.

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

Environmental Remediation Costs: Recoverable costs associated with the remediation of environmental sites are recorded as regulatory assets in accordance with DPU regulation. These costs do not earn a return. For further information, see Note 10A, "Commitments and Contingencies - Environmental Matters," to the consolidated financial statements.

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

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

Regulatory Costs in Other Long-Term Assets: NSTAR Gas had \$14.4 million and \$12.5 million of additional regulatory costs as of December 31, 2016 and 2015, respectively, that were included in Other Long-Term Assets on the consolidated balance sheets. These amounts represent incurred costs for which recovery has not yet been specifically approved by the DPU. However, based on regulatory policies or past precedent on similar costs, management believes it is probable that these costs will ultimately be approved and recovered from customers in rates.

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

(Millions of Dollars)	As of December 31,	
	2016	2015
Cost of Removal	\$ 68.4	\$ 66.4
Regulatory Tracker Mechanisms	7.0	21.4
Benefit Costs	20.9	—
Other Regulatory Liabilities	11.5	6.7
Total Regulatory Liabilities	107.8	94.5
Less: Current Portion	7.0	21.4
Total Long-Term Regulatory Liabilities	\$ 100.8	\$ 73.1

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.

2015 Regulatory Development:

NSTAR Gas Distribution Rates: On October 30, 2015, the DPU issued its order in the NSTAR Gas distribution rate case, which approved an annualized base rate increase of \$15.8 million, plus other increases of approximately \$11.5 million, mostly related to the recovery of pension and PBOP expenses and a Hopkinton Gas Service Agreement, effective January 1, 2016. In the order, the DPU also approved an authorized regulatory ROE of 9.8 percent, the establishment of a revenue decoupling mechanism, the recovery of certain bad debt expenses, and a 52.1 percent equity component of its capital structure. On November 19, 2015, NSTAR Gas filed a motion for reconsideration of the order with the DPU seeking the correction of mathematical errors and other plant and cost of service items.

As a result of this order, NSTAR Gas recorded regulatory deferrals for costs that have been approved for recovery or are expected to be approved for recovery in future rate proceedings, which resulted in the recognition of a \$2.2 million pre-tax benefit in 2015.

3. PROPERTY, PLANT AND EQUIPMENT AND ACCUMULATED DEPRECIATION

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

The following table summarizes the investments in property, plant and equipment:

(Millions of Dollars)	As of December 31,	
	2016	2015
Property, Plant and Equipment, Gross	\$ 1,300.8	\$ 1,154.1
Less: Accumulated Depreciation	(385.1)	(363.3)
Property, Plant and Equipment, Net	915.7	790.8
Construction Work in Progress	23.6	36.3
Total Property, Plant and Equipment, Net	\$ 939.3	\$ 827.1

Depreciation of assets is calculated on a straight-line basis using composite rates based on the estimated remaining useful lives of the various classes of property. The composite rates, which are subject to approval by the DPU, include a cost of removal component, which is collected from customers over the lives of the plant assets and is recognized as a regulatory liability. Depreciation rates are applied to property from the time it is placed in service. Upon retirement from service, the cost of the asset is charged to the accumulated provision for depreciation. The actual incurred removal costs are applied against the related regulatory liability. The depreciation rates for the various classes of property, plant and equipment aggregate to a composite rate of 2.9 percent in 2016 and 2.8 percent in 2015. As of December 31, 2016, the average remaining useful life of NSTAR Gas' depreciable assets was 37.3 years.

4. ASSET RETIREMENT OBLIGATIONS

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

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

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

<i>(Millions of Dollars)</i>	As of December 31,	
	2016	2015
Balance as of Beginning of Year	\$ 10.7	\$ 8.7
Liabilities Incurred During the Year	0.2	—
Liabilities Settled During the Year	(0.4)	—
Accretion	0.6	0.5
Revisions in Estimated Cash Flows	—	1.5
Balance as of End of Year	\$ 11.1	\$ 10.7

5. DERIVATIVE INSTRUMENTS

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

<i>(Millions of Dollars)</i>	As of December 31, 2016			As of December 31, 2015		
	Commodity Supply & Price Risk Management	Netting ⁽¹⁾	Net Amount Recorded as a Derivative	Commodity Supply & Price Risk Management	Netting ⁽¹⁾	Net Amount Recorded as a Derivative
Current Derivative Assets	\$ 6.0	\$ —	\$ 6.0	\$ —	\$ —	\$ —
Long-Term Derivative Assets	0.3	(0.1)	0.2	0.1	—	0.1
Current Derivative Liabilities	—	—	—	(5.8)	—	(5.8)

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

Derivative assets are included in Prepayments and Other Current Assets and Other Long-Term Assets on the consolidated balance sheet. Derivative liabilities are included in Other Current Liabilities on the consolidated balance sheets.

NSTAR Gas' derivative contracts reflected on the consolidated balance sheets relate to NYMEX natural gas futures that are entered into in order to reduce cash flow variability associated with the purchase price of a portion of its natural gas purchases during the winter heating season. These natural gas futures are financial instruments that do not procure natural gas supply and qualify as derivative instruments. As of December 31, 2016 and 2015, NSTAR Gas had NYMEX financial contracts for natural gas futures in order to reduce variability associated with the purchase price of 9.2 million and 9.1 million MMBtu of natural gas, respectively.

For the years ended December 31, 2016 and 2015, there were gains of \$5.2 million and losses of \$8.1 million, respectively, deferred as regulatory costs, which reflect the change in fair value associated with these derivative contracts.

Credit Risk

NSTAR Gas' derivative contracts contain credit risk contingent provisions. These provisions require NSTAR Gas to maintain investment grade credit ratings from the major rating agencies and to post collateral for contracts in a net liability position over specified credit limits. As of December 31, 2015, NSTAR Gas had \$5.8 million of derivative contracts in a net liability position that were subject to credit risk contingent provisions and would have been required to post additional collateral of \$5.8 million if NSTAR Gas' unsecured debt credit ratings had been downgraded to below investment grade. As of December 31, 2016, NSTAR Gas had no derivative contracts in a net liability position that were subject to credit risk contingent provisions.

Fair Value Measurements of Derivative Instruments

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

6. SHORT-TERM DEBT

Credit Agreement and Notes Payable: The Eversource Energy holding company ("Eversource parent") and certain of its subsidiaries, including NSTAR Gas, are parties to a five-year \$1.45 billion revolving credit facility. Effective September 26, 2016, the revolving credit facility's termination date was extended for one additional year to September 4, 2021. Under the revolving credit facility, NSTAR Gas has a borrowing sublimit of \$200 million. The revolving credit facility serves to backstop Eversource parent's \$1.45 billion commercial paper program. The commercial paper program allows Eversource parent to issue commercial paper as a form of short-term debt. There were no borrowings outstanding on the revolving credit facility as of December 31, 2016 or 2015.

As of December 31, 2016, there were intercompany loans from Eversource parent to NSTAR Gas of \$85.0 million 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. As of December 31, 2015, there were no intercompany loans from Eversource parent. The weighted-average interest rate on borrowings as of December 31, 2016 and 2015 was 0.88 percent and 0.72 percent, respectively.

Under the credit facility, NSTAR Gas must comply with certain financial and non-financial covenants, including a debt to total capitalization ratio. As of December 31, 2016 and 2015, NSTAR Gas was in compliance with these covenants. If NSTAR Gas was not in compliance with these covenants, an event of default would occur requiring all outstanding borrowings by NSTAR Gas to be repaid, and additional borrowings would not be permitted under the credit facility.

7. LONG-TERM DEBT

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

<i>(Millions of Dollars)</i>	As of December 31,	
	2016	2015
First Mortgage Bonds:		
9.95% Series J due 2020	\$ 25.0	\$ 25.0
7.11% Series K due 2033	35.0	35.0
7.04% Series M due 2017	25.0	25.0
4.46% Series N due 2020	125.0	125.0
4.35% Series O due 2045	100.0	100.0
Total First Mortgage Bonds	310.0	310.0
Less Amounts due Within One Year	(25.0)	—
Unamortized Debt Issuance Costs	(0.7)	(0.8)
NSTAR Gas Long-Term Debt	\$ 284.3	\$ 309.2

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 a minimum 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, 2016 and 2015.

8. PENSION BENEFITS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Eversource Service sponsors a defined benefit retirement plan (the "Pension Plan") that covers eligible employees, including, among others, employees of NSTAR Gas. The Pension Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended by the Pension Protection Act of 2006. Eversource Service's Employer Identification Number is 06-0810627. Eversource's policy is to fund the Pension Plan annually in an amount at least equal to the 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 sponsored a defined benefit postretirement plan ("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 2016 Annual Report on Form 10-K filed on February 23, 2017 with the Securities Exchange Commission.

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

Because NSTAR Gas recovers the pension and PBOP benefit costs from customers through rates, regulatory assets are recorded in lieu of recording an adjustment to Accumulated Other Comprehensive Income for the funded status of the Pension and PBOP Plans. Adjustments to the SERP Plans funded status are recorded on an after-tax basis to Accumulated Other Comprehensive Income on the consolidated balance sheets. For further information, see Note 2, "Regulatory Accounting," and Note 13, "Accumulated Other Comprehensive Income," to the consolidated financial statements.

The difference between the actual return and calculated expected return on plan assets for the Pension and PBOP Plans is reflected as a component of unrecognized actuarial gains or losses, which are recorded in Regulatory Assets or Accumulated Other Comprehensive Income/(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: NSTAR Gas participates in the overall Eversource single-employer Pension Plan and SERP Plans and accounts for the Pension and SERP Plans under the multiple-employer approach, with its share of the funded status of the plans reflected on its balance sheet. Although Eversource maintains marketable securities in a benefit trust, the SERP Plans do not contain any assets. The following table provides information on the portions attributable to NSTAR Gas in the Eversource single-employer Pension and SERP Plan benefit obligations, fair values of Pension Plan assets, and funded status:

<i>(Millions of Dollars)</i>	Pension and SERP	
	As of December 31,	
	2016	2015
Benefit Obligation as of End of Year	\$ (245.6)	\$ (244.5)
Fair Value of Pension Plan Assets as of End of Year	199.0	189.3
Funded Status as of December 31st	\$ (46.6)	\$ (55.2)
Employer Contributions	\$ 11.1	\$ 5.0
Benefits Paid	14.4	12.3
Benefits Paid - SERP	0.1	0.1

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

NSTAR Gas' accumulated benefit obligation for the Pension and SERP Plans was \$234.8 million and \$232.9 million as of December 31, 2016 and 2015, respectively.

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

	Pension and SERP			
	As of December 31,			
	2016		2015	
Discount Rate	4.01%	— 4.33%	4.21%	— 4.60%
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.

Effective January 1, 2016, Eversource refined its method of estimating the discount rate for the service and interest cost components of Pension expense from the yield-curve approach to the spot rate methodology, which provides a more precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve. Historically, these components were estimated using the same weighted-average discount rate as for the funded status.

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

<i>(Millions of Dollars)</i>	Pension and SERP	
	For the Years Ended December 31,	
	2016	2015
Service Cost	\$ 3.1	\$ 3.6
Interest Cost	8.7	10.4
Expected Return on Pension Plan Assets	(15.8)	(15.7)
Actuarial Loss	7.9	9.6
Prior Service Cost	—	—
Total Net Periodic Benefit Expense	\$ 3.9	\$ 7.9
Intercompany Allocations	\$ 2.0	\$ 2.8
Capitalized Pension Expense	\$ 1.9	\$ 3.1

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

	Pension and SERP	
	For the Years Ended December 31,	
	2016	2015
Discount Rate	3.27% — 4.89%	4.20%
Expected Long-Term Rate of Return	8.25%	8.25%
Compensation/Progression Rate	3.50%	3.50%

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

<i>(Millions of Dollars)</i>	PBOP	
	As of December 31,	
	2016	2015
Benefit Obligation as of End of Year	\$ (44.8)	\$ (80.0)
Fair Value of Plan Assets as of End of Year	60.9	58.5
Funded Status as of December 31 st	\$ 16.1	\$ (21.5)
Employer Contributions	\$ 1.6	\$ 0.9
Benefits Paid	3.5	3.3

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

	PBOP	
	As of December 31,	
	2016	2015
Discount Rate	4.21%	4.62%
Health Care Cost Trend Rate	N/A	6.25%

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.

Effective January 1, 2016, Eversource refined its method of estimating the discount rate for the service and interest cost components of PBOP expense from the yield-curve methodology to the spot rate methodology, which provides a more precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve. Historically these components were estimated using the same weighted-average discount rate as for the funded status.

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

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

<i>(Millions of Dollars)</i>	PBOP	
	For the Years Ended December 31,	
	2016	2015
Service Cost	\$ 0.8	\$ 1.5
Interest Cost	2.4	3.7
Expected Return on Plan Assets	(4.7)	(5.0)
Actuarial Loss	0.7	0.7
Prior Service Credit	(1.4)	—
Total Net Periodic Benefit (Income)/Expense	\$ (2.2)	\$ 0.9
Intercompany Allocations	\$ —	\$ 0.2
Capitalized PBOP (Income)/Expense	\$ (1.0)	\$ 0.3

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

	PBOP			
	For the Years Ended December 31,			
	2016		2015	
Discount Rate	2.88%	—	4.09%	4.22%
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 and 6.5 percent for the years ended December 31, 2016 and 2015, respectively. 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 2017, of which approximately \$10.4 million will be contributed by NSTAR Gas. Eversource expects to make \$7.6 million in contributions to the PBOP Plan in 2017, of which approximately \$1 million will be contributed by NSTAR Gas.

9. INCOME TAXES

The components of income tax expense were as follows:

<i>(Millions of Dollars)</i>	For the Years Ended December 31,	
	2016	2015
Current Income Taxes:		
Federal	\$ (14.1)	\$ 3.6
State	1.5	2.2
Total Current	(12.6)	5.8
Deferred Income Taxes, Net:		
Federal	31.4	11.2
State	2.9	1.5
Total Deferred	34.3	12.7
Investment Tax Credit Amortization	(0.2)	(0.2)
Income Tax Expense	\$ 21.5	\$ 18.3

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

<i>(Millions of Dollars, except percentages)</i>	For the Years Ended December 31,	
	2016	2015
Income Before Income Tax Expense	\$ 54.7	\$ 45.9
Statutory Federal Income Tax Expense at 35%	19.2	16.1
Tax Effect of Differences:		
Depreciation	(0.1)	—
State Income Taxes, Net of Federal Impact	2.8	2.4
Investment Tax Credit Amortization	(0.2)	(0.2)
Excess Stock Benefit	(0.1)	—
Other, Net	(0.1)	—
Income Tax Expense	\$ 21.5	\$ 18.3
Effective Tax Rate	39.4%	39.8%

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. The amount of current and deferred federal income tax expense or benefit is calculated based on NSTAR Gas' stand-alone taxable income and reflects the impact of both temporary and permanent book to tax differences.

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:

<i>(Millions of Dollars)</i>	As of December 31,	
	2016	2015
Deferred Tax Assets:		
Regulatory Deferrals - Liabilities	\$ 40.0	\$ 41.5
Other	42.6	23.2
Total Deferred Tax Assets	\$ 82.6	\$ 64.7
Deferred Tax Liabilities:		
Accelerated Depreciation and Other Plant-Related Differences	\$ 255.2	\$ 225.7
Regulatory Amounts:		
Regulatory Deferrals - Assets	72.3	45.5
Goodwill Regulatory Asset - 1999 Merger	26.4	27.6
Employee Benefits	7.2	7.1
Other	7.4	10.4
Total Deferred Tax Liabilities	\$ 368.5	\$ 316.3

Accumulated deferred income taxes of \$4 million are offset by corresponding regulatory assets as of both December 31, 2016 and 2015. The regulatory assets represent future revenues to be collected from customers for deferred income taxes.

Uncertain Tax Benefits: As of December 31, 2016 and 2015, there were no unrecognized tax benefits of a permanent nature that if recognized would have an impact on the Company's effective tax rate. The Company did not have a reserve for uncertain tax positions as of December 31, 2016 and 2015.

Open Tax Years: The following table summarizes NSTAR Gas' tax years that remain subject to examination by major tax jurisdictions as of December 31, 2016:

Description	Tax Years
Federal (Eversource consolidated)	2016
Massachusetts	2013 - 2016

2015 Federal Legislation: On December 18, 2015, the "Protecting Americans from Tax Hikes" Act became law, which extended the accelerated deduction of depreciation to businesses from 2015 through 2019. This extended stimulus provided NSTAR Gas with cash flow benefits in 2016 of approximately \$14 million due to a refund of taxes paid in 2015 and lower tax payments in 2016 of approximately \$20 million.

10. COMMITMENTS AND CONTINGENCIES

A. Environmental Matters

General: NSTAR Gas is subject to environmental laws and regulations intended to mitigate or remove the effect of past operations and improve or maintain the quality of the environment. These laws and regulations require the removal or the remedy of the effect on the environment of the disposal or release of certain specified hazardous substances at current and former operating sites. NSTAR Gas has an active environmental auditing and training program, and believes that it is substantially in compliance with all enacted laws and regulations. The environmental sites are comprised of former manufactured gas plant ("MGP") sites that were operated several decades ago and manufactured gas from coal and other processes, which resulted in certain by-products remaining in the environment that may pose a potential risk to human health and the environment, for which NSTAR Gas may have potential liability.

Environmental reserves are accrued when assessments indicate it is probable that a liability has been incurred and an amount can be reasonably estimated. The approach used estimates the liability based on the most likely action plan from a variety of available remediation options, including no action required or several different remedies ranging from establishing institutional controls to full site remediation and monitoring. These liabilities are estimated on an undiscounted basis and do not assume that the amounts are recoverable from insurance companies or other third parties. The environmental reserves include sites at different stages of discovery and remediation and do not include any unasserted claims.

These reserve estimates are subjective in nature as they take into consideration several different remediation options at each specific site. The reliability and precision of these estimates can be affected by several factors, including new information concerning either the level of contamination at the site, the extent of NSTAR Gas' responsibility for remediation or the extent of remediation required, recently enacted laws and regulations or changes in cost estimates due to certain economic factors. It is possible that new information or future developments could require a reassessment of the potential exposure to related environmental matters. As this information becomes available, management will continue to assess the potential exposure and adjust the reserves accordingly.

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

<i>(Millions of Dollars)</i>	As of December 31,	
	2016	2015
Balance as of Beginning of Year	\$ 11.1	\$ 6.5
Additions	15.7	5.6
Payments	(2.9)	(1.0)
Balance as of End of Year	\$ 23.9	\$ 11.1

The increase in the reserve balance is due to the completion of site assessments and revised estimates for certain MGP sites.

The Company has seven environmental sites as of December 31, 2016. As of December 31, 2016, for two of the seven environmental sites that are included in the Company's reserve for environmental costs, the information known and the nature of the remediation options allow for the Company to estimate the range of losses for environmental costs. As of December 31, 2016, \$21.3 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 \$4 million may be incurred in executing current remediation plans for these sites.

As of December 31, 2016, for the remaining five of the seven environmental sites that are included in the Company's reserve for environmental costs, the \$2.6 million accrual represents management's best estimate of the probable liability and no additional loss is anticipated at this time.

Comprehensive Environmental Response, Compensation and Liability Act of 1980: Of the total environmental sites, three sites are superfund sites under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") and its amendments or state equivalents for which the Company has been notified that it is a potentially responsible party but for which the site assessment and remediation are not being managed by the Company. As of December 31, 2016, a liability of \$0.1 million accrued on these sites represents management's best estimate of its potential remediation costs with respect to these superfund sites.

Environmental Rate Recovery: NSTAR Gas has a rate recovery mechanism for MGP related environmental costs, therefore, changes in environmental reserves do not impact Net Income. For further information, see Note 2, "Regulatory Accounting," to the consolidated financial statements.

B. Long-Term Contractual Arrangements

The estimated future annual costs of NSTAR Gas' significant long-term contractual arrangements as of December 31, 2016 are as follows:

<i>(Millions of Dollars)</i>	2017	2018	2019	2020	2021	Thereafter	Total
Natural Gas Procurement	\$ 70.7	\$ 68.2	\$ 52.4	\$ 38.0	\$ 35.3	\$ 171.0	\$ 435.6

In the normal course of business, NSTAR Gas has long-term contracts for the purchase, transportation and storage of natural gas as part of its portfolio of supplies. These contracts extend through 2031. The total cost incurred under these agreements was \$171.8 million and \$259.8 million in 2016 and 2015, respectively.

C. Litigation and Legal Proceedings

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

11. LEASES

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

Operating lease rental payments charged to expense were \$2.2 million and \$1.7 million for the years ended December 31, 2016 and 2015, respectively.

Future minimum rental payments, excluding executory costs, such as property taxes, state use taxes, insurance, and maintenance, under long-term noncancelable leases, as of December 31, 2016 are as follows:

<i>(Millions of Dollars)</i>	
2017	\$ 1.5
2018	1.2
2019	1.0
2020	0.8
2021	0.7
Thereafter	0.9
Future Minimum Lease Payments	<u>\$ 6.1</u>

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The carrying amount of NSTAR Gas' long-term debt was \$309.3 million and \$309.2 million as of December 31, 2016 and 2015, respectively. The estimated fair values of these financial instruments were \$324.1 million and \$330.1 million as of December 31, 2016 and 2015, respectively. These fair values were classified as Level 2 in the fair value hierarchy. See Note 1G, "Summary of Significant Accounting Policies - Fair Value Measurements," for the fair value measurement policy and the fair value hierarchy.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

<i>(Millions of Dollars)</i>	As of December 31,	
	2016	2015
Balance as of Beginning of Year	\$ 0.4	\$ 0.4
OCI Before Reclassifications	(0.1)	0.1
Amounts Reclassified from AOCI	—	(0.1)
Net OCI	<u>(0.1)</u>	<u>—</u>
Balance as of End of Year	<u>\$ 0.3</u>	<u>\$ 0.4</u>

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

As of December 31, 2016, it was estimated that a pre-tax amount of \$0.1 million will be reclassified from AOCI as an increase to Net Income over the next 12 months as a result of the amortization of SERP actuarial gains.

14. CONSOLIDATION OF VARIABLE INTEREST ENTITY

A company is required to consolidate a variable interest entity ("VIE") if the company is the primary beneficiary of a VIE's activities. NSTAR Gas has an exclusive service agreement with Hopkinton and is Hopkinton's sole customer. Hopkinton is an affiliated company and is also a wholly-owned subsidiary of Yankee Energy System, Inc. Hopkinton owns several facilities, including a natural gas liquefaction and vaporization plant, a satellite vaporization plant and storage tanks. Hopkinton provides a portion of the storage of natural gas supply for NSTAR Gas during the winter heating season. NSTAR Gas approves Hopkinton's operating budget and controls the use of its facilities. Accordingly, NSTAR Gas has the power to direct the activities of Hopkinton that most significantly impact its economic performance and is the primary beneficiary of Hopkinton. NSTAR Gas has consolidated Hopkinton in the consolidated financial statements. All significant intercompany transactions have been eliminated in consolidation. Creditors of Hopkinton have no recourse to NSTAR Gas.

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

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

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

Condensed consolidating balance sheet as of December 31, 2016:

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

Condensed consolidating statement of income for the year ended December 31, 2015:

<i>(Millions of Dollars)</i>	NSTAR Gas	Hopkinton	Intercompany Eliminations	Consolidated Total
Operating Revenues	\$ 516.1	\$ 13.3	\$ (13.3)	\$ 516.1
Operating Expenses	458.9	12.4	(13.4)	457.9
Operating Income	57.2	0.9	0.1	58.2
Interest Expense	13.1	—	—	13.1
Other Income, Net	0.9	—	(0.1)	0.8
Income Before Income Tax Expense	45.0	0.9	—	45.9
Income Tax Expense	17.8	0.4	—	18.2
Net Income	\$ 27.2	\$ 0.5	\$ —	\$ 27.7

Condensed consolidating balance sheet as of December 31, 2015:

<i>(Millions of Dollars)</i>	NSTAR Gas	Hopkinton	Intercompany Eliminations	Consolidated Total
Total Current Assets	\$ 154.2	\$ 4.2	\$ (1.4)	\$ 157.0
Property, Plant and Equipment	1,086.1	68.0	—	1,154.1
Accumulated Depreciation	(308.2)	(55.1)	—	(363.3)
Construction Work in Progress	28.4	7.9	—	36.3
Property, Plant and Equipment, Net	806.3	20.8	—	827.1
Total Deferred Debits and Other Assets	238.2	—	—	238.2
Total Assets	\$ 1,198.7	\$ 25.0	\$ (1.4)	\$ 1,222.3
Total Current Liabilities	\$ 98.0	\$ 2.6	\$ (1.4)	\$ 99.2
Total Deferred Credits and Other Liabilities	433.4	0.2	—	433.6
Long-Term Debt	309.2	—	—	309.2
Common Stockholder's Equity	358.1	22.2	—	380.3
Total Liabilities and Capitalization	\$ 1,198.7	\$ 25.0	\$ (1.4)	\$ 1,222.3

15. COMMON STOCK

NSTAR Gas had 2,857,000 shares of common stock authorized, issued and outstanding at a \$25 per share par value as of December 31, 2016 and 2015.