NSTAR Gas Company

Consolidated Financial Statements as of and for the
Years Ended December 31, 2018 and 2017,
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, 2018 and 2017, and the related consolidated statements of income, comprehensive income, common stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NSTAR Gas Company and subsidiary as of December 31, 2018 and 2017, 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 28, 2019

NSTAR GAS COMPANY
CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars)	As of December 31, 2018	2017
ASSETS		
Current Assets:		
Cash	$ 205	$ 45
Receivables, Net	49,026	45,636
Accounts Receivable from Affiliated Companies	15,662	16,360
Unbilled Revenues	13,331	20,117
Fuel, Materials and Supplies	13,425	15,921
Regulatory Assets	36,159	55,364
Prepayments and Other Current Assets	4,833	2,060
Total Current Assets	132,641	155,503
Property, Plant and Equipment, Net	1,275,892	1,085,061
Deferred Debits and Other Assets:		
Regulatory Assets	198,540	191,828
Other Long-Term Assets	40,677	37,259
Total Deferred Debits and Other Assets	239,217	229,087
Total Assets	$ 1,647,750	$ 1,469,651
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable to Eversource Parent	$ 142,100	$ 227,000
Accounts Payable	97,065	66,686
Accounts Payable to Affiliated Companies	29,108	31,012
Regulatory Liabilities	15,016	7,448
Other Current Liabilities	11,853	24,095
Total Current Liabilities	295,142	356,241
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	170,565	163,475
Regulatory Liabilities	221,603	230,582
Accrued Pension and SERP	42,595	38,127
Other Long-Term Liabilities	43,290	37,259
Total Deferred Credits and Other Liabilities	478,053	469,443
Long Term Debt	384,159	284,409
Common Stockholder's Equity:		
Common Stock	71,425	71,425
Capital Surplus, Paid In	372,334	262,134
Retained Earnings	46,249	25,673
Accumulated Other Comprehensive Income	388	326
Common Stockholder's Equity	490,396	359,558
Total Liabilities and Capitalization	$ 1,647,750	$ 1,469,651

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

NSTAR GAS COMPANY
CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,	
(Thousands of Dollars)	2018	2017
Operating Revenues	$ 506,570	$ 441,064
Operating Expenses:		
Cost of Natural Gas	225,763	179,000
Operations and Maintenance	97,131	90,596
Depreciation	38,367	35,970
Amortization of Regulatory (Liabilities)/Assets, Net	(58)	176
Energy Efficiency Programs	48,134	42,063
Taxes Other Than Income Taxes	26,053	23,708
Total Operating Expenses	435,390	371,513
Operating Income	71,180	69,551
Interest Expense	20,082	17,671
Other Income, Net	4,419	3,302
Income Before Income Tax Expense	55,517	55,182
Income Tax Expense	15,741	21,920
Net Income	$ 39,776	$ 33,262

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended December 31,	
(Thousands of Dollars)	2018	2017
Net Income	$ 39,776	$ 33,262
Other Comprehensive Income, Net of Tax:		
Changes in Funded Status of SERP Benefit Plans	62	10
Other Comprehensive Income, Net of Tax	62	10
Comprehensive Income	$ 39,838	$ 33,272

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

NSTAR GAS COMPANY
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

	Common Stock		Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Income	Total
(Thousands of Dollars, Except Stock Information)	Stock	Amount				
Balance as of January 1, 2017	2,857,000	$ 71,425	$ 190,358	$ 100,511	$ 316	$ 362,610
Net Income				33,262		33,262
Dividends on Common Stock				(108,100)		(108,100)
Capital Contributions from Parent			71,775			71,775
Other Comprehensive Income					10	10
Other			1			1
Balance as of December 31, 2017	2,857,000	71,425	262,134	25,673	326	359,558
Net Income				39,776		39,776
Dividends on Common Stock				(19,200)		(19,200)
Capital Contributions from Parent			110,200			110,200
Other Comprehensive Income					62	62
Balance as of December 31, 2018	2,857,000	$ 71,425	$ 372,334	$ 46,249	$ 388	$ 490,396

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, 2018	2017
Operating Activities:		
Net Income	$ 39,776	$ 33,262
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:		
Depreciation	38,367	35,970
Deferred Income Taxes	8,547	22,378
Amortization of Regulatory (Liabilities)/Assets, Net	(58)	176
Pension, SERP and PBOP Income, Net	(1,785)	(1,394)
Pension and PBOP Contributions	(813)	(11,324)
Regulatory Overrecoveries, Net	13,742	16,683
Uncollectible Expense	9,571	6,500
Other	(10,120)	(15,334)
Changes in Current Assets and Liabilities:		
Receivables and Unbilled Revenues, Net	(6,023)	(15,947)
Fuel, Materials and Supplies	2,496	3,290
Taxes Receivable/Accrued, Net	(5,900)	641
Accounts Payable	9,374	(3,853)
Accounts Receivable from/Payable to Affiliates, Net	(1,206)	197
Other Current Assets and Liabilities, Net	(5,027)	2,446
Net Cash Flows Provided by Operating Activities	90,941	73,691
Investing Activities:		
Investments in Property, Plant and Equipment	(196,547)	(154,340)
Net Cash Flows Used in Investing Activities	(196,547)	(154,340)
Financing Activities:		
Cash Dividends on Common Stock	(19,200)	(108,100)
Capital Contributions from Parent	110,200	71,775
Issuance of Long-Term Debt	100,000	—
Retirement of Long-Term Debt	—	(25,000)
(Decrease)/Increase in Notes Payable to Eversource Parent	(84,900)	142,000
Other Financing Activities	(334)	—
Net Cash Flows Provided by Financing Activities	105,766	80,675
Net Increase in Cash	160	26
Cash - Beginning of Year	45	19
Cash - End of Year	$ 205	$ 45

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

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 296,000 customers in 51 communities in central and eastern Massachusetts covering 1,067 square miles. The Company is subject to regulation of the rates it charges its customers, accounting and other matters, by the Massachusetts Department of Public Utilities ("DPU"). NSTAR Gas is a wholly-owned subsidiary of Yankee Energy System, Inc., a holding company that is a wholly-owned subsidiary of Eversource Energy ("Eversource"). NSTAR Gas is doing business as Eversource Energy.

NSTAR Gas' natural gas business provides firm natural gas sales and transportation service to eligible retail customers who require a continuous natural gas supply throughout the year, as well as commercial and industrial customers who choose to purchase natural gas from NSTAR Gas. NSTAR Gas offers firm transportation service to all customers who purchase natural gas from sources other than NSTAR Gas. In addition, NSTAR Gas offers interruptible transportation and interruptible natural gas sales service to high volume commercial and industrial customers that have the ability to switch from natural gas to an alternate fuel on short notice. NSTAR Gas can interrupt service to these customers during peak demand periods or at any other time to maintain distribution system integrity.

A portion of the storage of natural gas supply for NSTAR Gas during the winter heating season is provided by Hopkinton LNG Corp. ("Hopkinton"), another wholly-owned subsidiary of Yankee Energy System, Inc.

B. Basis of Presentation

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

NSTAR Gas has 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 $168 million, and are expected to be placed in service in late 2020. As of December 31, 2018, $71.0 million in costs associated with the Hopkinton LNG facility upgrade were capitalized.

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.

Certain reclassifications of prior year data were made in the accompanying consolidated financial statements to conform to the current year presentation.

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, 2018 through the issuance of the consolidated financial statements on March 28, 2019 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 February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, which changes existing lease accounting guidance and is required to be applied in the first quarter of 2019. The requirements of the new leases standard include balance sheet recognition of leases deemed to be operating leases and additional disclosure requirements. The recognition, measurement and presentation of expenses and cash flows are not significantly changed. The Company implemented the new leases standard in the first quarter of 2019 and applied the Topic 842 lease criteria to new leases and lease renewals entered into effective on or after January 1, 2019.

In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842) - Targeted Improvements*, allowing a transition method to adopt the new leases standard on a prospective basis as of the adoption date, with prior periods presented in the financial statements continuing to follow existing lease accounting guidance under Topic 840 (Leases) in the accounting literature. The Company adopted the prospective transition method allowed in ASU 2018-11.

The Company has decided to elect the practical expedient package whereby it does not need to reassess whether or not an existing contract is or contains a lease or whether a lease is an operating or capital lease, and it does not need to reassess initial direct costs for leases. The Company has also elected the practical expedient to not reevaluate land easements existing at adoption if they were not previously accounted for as leases.

The Company determined the impact the ASUs will have on its financial statements by reviewing its lease population and identifying lease data needed for the disclosure requirements. The Company implemented a new lease accounting system in 2019 to ensure ongoing compliance with the ASU's requirements. There were no operating lease liabilities and right-of-use assets identified upon transition at January 1, 2019. Therefore, implementation of the new guidance did not have an impact on its results of operations, financial position and cash flows.

Accounting Standards Recently Adopted: On January 1, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers*, which amended existing revenue recognition guidance, using the modified retrospective method (cumulatively at the date of initial application) applying it only to contracts that were not complete at January 1, 2018. Under this method of adoption, prior year reported results were not restated. Implementation of the ASU did not have a material effect on the results of operations, financial position or cash flows of NSTAR Gas. See Note 16, "Revenues," for further information.

On January 1, 2018, the Company adopted ASU 2017-07, *Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The ASU required separate presentation of service cost from other components of net pension, SERP and PBOP costs, with the other components presented as non-operating income and not subject to capitalization. The ASU has been 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. As of December 31, 2018, the non-service cost components of net pension, SERP and PBOP costs that were not capitalized in plant were recorded as an increase to regulatory liabilities of $3.2 million, as these amounts continue to be included in rates. For the year ended December 31, 2017, $3.1 million, which was previously presented as a credit within Operations and Maintenance expense on the statement of income, has been retrospectively presented within Other Income, Net. For the year ended December 31, 2018, the non-service cost components of net pension, SERP and PBOP costs of $4.5 million is included as a credit within Other Income, Net on the statement of income.

D. Cash

Cash consists of cash on hand. At the end of each reporting period, any overdraft amounts are reclassified from Cash to Accounts Payable on the consolidated balance sheets. There are no restricted cash balances.

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, 2018 and 2017, NSTAR Gas had an uncollectible hardship accounts receivable reserve of $6.4 million and $6.2 million, respectively. These uncollectible hardship customer account balances, which are expected to be recovered in rates, are included in Regulatory Assets or Other Long-Term Assets on the consolidated balance sheets and are reflected in the total provision for uncollectible accounts.

The total provision for uncollectible accounts is included in Receivables, Net on the consolidated balance sheets, and was $17.0 million and $16.4 million as of December 31, 2018 and 2017, respectively. Uncollectible expense associated with customers' accounts receivable is included in Operations and Maintenance expense on the consolidated statements of income and was $9.6 million and $6.5 million for the years ended December 31, 2018 and 2017, 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, 2018 and 2017 were $9.9 million and $11.4 million, respectively, of natural gas inventory, and $3.5 million and $4.5 million, respectively, of materials and supplies. Inventory is valued at the lower of cost or net realizable value.

G. Fair Value Measurements

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

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

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

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

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

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

Determination of Fair Value: The valuation techniques and inputs used in the Company's fair value measurements are described in Note 4, "Asset Retirement Obligations," Note 5, "Derivative Instruments," and Note 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, accrual accounting is terminated, and fair value accounting is applied prospectively. The costs and benefits of these derivative contracts that meet the definition of normal are recognized in Operating Expenses on the consolidated statements of income, as applicable, as natural gas is delivered.

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

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

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

I. Allowance for Funds Used During Construction

Allowance for funds used during construction ("AFUDC") represents the cost of borrowed and equity funds used to finance construction and is included in the cost of plant on the consolidated balance sheets. The portion of AFUDC attributable to borrowed funds is recorded as a reduction of Interest Expense, and the AFUDC related to equity funds is recorded as Other Income, Net on the consolidated statements of income. AFUDC costs are recovered from customers over the service life of the related plant in the form of increased revenue collected as a result of higher depreciation expense. For the years ended December 31, 2018 and 2017, AFUDC costs included borrowed funds of $1.4 million and $0.4 million, respectively.

NSTAR Gas' average AFUDC rate is based on a Federal Energy Regulatory Commission prescribed formula using the cost of a company's short-term financings and capitalization (long-term debt and common equity), as appropriate. The average rate is applied to average eligible construction work in progress amounts to calculate AFUDC. Average AFUDC rates for the years ended December 31, 2018 and 2017 were 1.8 percent and 1.4 percent, respectively.

J. Other Income, Net
Items included within Other Income, Net on the consolidated statements of income primarily consist of the non-service related components of pension, SERP and PBOP benefit costs. As a result of the adoption of new accounting guidance, the non-service related components of pension, SERP and PBOP benefit costs are presented as non-operating income and recorded in Other Income, Net on the consolidated statements of income for the years ended December 31, 2018 and 2017, respectively. The 2017 amount, which was previously presented within Operations and Maintenance expense on the consolidated statement of income, has been retrospectively presented within Other Income, Net. The Company elected the practical expedient in the accounting guidance that allows it to use the amounts disclosed in its Pension Benefits and Postretirement Benefits Other Than Pension footnote for the prior period presentation as the estimation basis for applying the retrospective presentation requirement.

K. Supplemental Cash Flow Information

	As of and For the Years Ended December 31,	
(Millions of Dollars)	2018	2017
Cash Paid/(Received) During the Year For:		
Interest, Net of Amounts Capitalized	$ 21.5	$ 18.6
Income Taxes	13.5	(0.9)
Non-Cash Investing Activities:		
Plant Additions Included in Accounts Payable (As of)	48.8	28.2

L. Related Parties
Eversource Energy Service Company ("Eversource Service"), a service company subsidiary of Eversource, provides centralized accounting, administrative, engineering, financial, information technology, legal, operational, planning, purchasing, and other services to NSTAR Gas. In addition, NSTAR Gas incurs costs associated with leases entered into with certain subsidiaries of Eversource.

Included in the consolidated balance sheets as of December 31, 2018 and 2017 were Accounts Receivable from Affiliated Companies and Accounts Payable to Affiliated Companies related to transactions between NSTAR Gas and other subsidiaries that are wholly-owned by Eversource, primarily Eversource Service.

2. REGULATORY ACCOUNTING

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

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

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

	As of December 31,	
(Millions of Dollars)	2018	2017
Benefit Costs	$ 108.9	$ 107.4
Goodwill-related	49.3	51.7
Regulatory Tracker Mechanisms	29.4	36.3
Environmental Remediation Costs	26.8	27.4
Asset Retirement Obligations	11.1	10.4
Income Taxes, Net	3.6	3.8
Other Regulatory Assets	5.6	10.2
Total Regulatory Assets	234.7	247.2
Less: Current Portion	36.2	55.4
Total Long-Term Regulatory Assets	$ 198.5	$ 191.8

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 (or refund to) customers through rates. The regulatory asset or regulatory liability is amortized as actuarial gains and losses and prior service cost are amortized to net periodic benefit cost for the pension and PBOP plans. All amounts are remeasured annually. As these regulatory assets or regulatory liabilities do not represent a cash outlay for NSTAR Gas, no carrying charge is recovered from customers.

NSTAR Gas recovers qualified pension and PBOP expenses related to its operations through a rate reconciling mechanism that fully tracks the change in net pension and PBOP expenses each year.

Goodwill-related: The goodwill-related regulatory asset originated from a 1999 transaction, and the DPU allowed its recovery in NSTAR Gas' rates. This regulatory asset is currently being amortized and recovered from customers in rates without a carrying charge over a 40-year period, and, as of December 31, 2018, there were 21 years of amortization remaining.

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

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

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

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

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

Regulatory Costs in Other Long-Term Assets: NSTAR Gas had $15.8 million and $15.0 million of additional regulatory costs as of December 31, 2018 and 2017, respectively, that were included in Other Long-Term Assets on the consolidated balance sheets. These amounts represent incurred costs for which recovery has not yet been specifically approved by the DPU. However, based on regulatory policies or past precedent on similar costs, management believes it is probable that these costs will ultimately be approved and recovered from customers in rates.

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

	As of December 31,	
(Millions of Dollars)	**2018**	**2017**
EDIT Due to Tax Cuts and Jobs Act	$ 134.7	$ 133.3
Cost of Removal	73.4	73.6
Benefit Costs	14.3	19.7
Regulatory Tracker Mechanisms	7.7	7.4
Other Regulatory Liabilities	6.5	4.0
Total Regulatory Liabilities	236.6	238.0
Less: Current Portion	15.0	7.4
Total Long-Term Regulatory Liabilities	$ 221.6	$ 230.6

EDIT due to Tax Cuts and Jobs Act: Pursuant to the Tax Cuts and Jobs Act, which became law on December 22, 2017, NSTAR Gas remeasured its existing deferred federal income tax balances 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 (excess ADIT or EDIT) liabilities that will benefit our customers in future periods and were recognized as regulatory liabilities on the consolidated balance sheet. We estimate that approximately 85 percent of the provisional regulated EDIT liabilities relate to property, plant, and equipment with remaining useful lives estimated to be in excess of 35 years. These amounts are subject to IRS normalization rules and will be returned to customers using the same timing as the remaining useful lives of the underlying assets that gave rise to the ADIT liabilities. Effective February 1, 2019, refunds related to EDIT will occur in rates through a new reconciling factor.

Additionally, a December 21, 2018 DPU order indicated that the DPU will not require a revision to base rates for any potential refunds associated with the higher federal corporate income tax rate billed to customers in the period between January 1, 2018 to June 30, 2018. Effective July 1, 2018, NSTAR Gas' distribution rates charged to customers began to reflect the lower federal income tax rate. Therefore, as of December 31, 2018, there is no reserve for the reduction in the federal corporate income tax rate in customer billings from January 1, 2018 to June 30, 2018.

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

3. PROPERTY, PLANT AND EQUIPMENT AND ACCUMULATED DEPRECIATION

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

The following table summarizes property, plant and equipment:

	As of December 31,	
(Millions of Dollars)	2018	2017
Natural Gas Distribution, Gross	$ 1,583.7	$ 1,426.1
Less: Accumulated Depreciation	(431.1)	(406.7)
Property, Plant and Equipment, Net	1,152.6	1,019.4
Construction Work in Progress	123.3	65.7
Total Property, Plant and Equipment, Net	$ 1,275.9	$ 1,085.1

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 2.7 percent in 2018 and 2.8 percent in 2017. As of December 31, 2018, the average remaining useful life of NSTAR Gas' depreciable assets was 39.2 years.

4. ASSET RETIREMENT OBLIGATIONS

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

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

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

	As of December 31,	
(Millions of Dollars)	2018	2017
Balance as of Beginning of Year	$ 11.8	$ 11.1
Accretion	0.6	0.7
Balance as of End of Year	$ 12.4	$ 11.8

5. DERIVATIVE INSTRUMENTS

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

	As of December 31, 2018			As of December 31, 2017		
(Millions of Dollars)	Commodity Supply & Price Risk Management	Netting [(1)]	Net Amount Recorded as a Derivative	Commodity Supply & Price Risk Management	Netting [(1)]	Net Amount Recorded as a Derivative
Current Derivative Assets	$ 1.5	$ (0.9)	$ 0.6	$ —	$ —	$ —
Current Derivative Liabilities	—	—	—	(3.4)	—	(3.4)

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

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

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, 2018 and 2017, NSTAR Gas had NYMEX financial contracts for natural gas futures in order to reduce variability associated with the price of 12.5 million and 9.5 million MMBtu of natural gas, respectively.

For the years ended December 31, 2018 and 2017, there were gains of $6.5 million and losses of $17.7 million, respectively, deferred as regulatory costs, which reflect the change in fair value associated with these derivative contracts.

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

6. SHORT-TERM DEBT

The Eversource Energy holding company ("Eversource parent") has a $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 NSTAR Gas, are also parties to a five-year $1.45 billion revolving credit facility. Effective December 10, 2018, the revolving credit facility's termination date was extended for one additional year to December 8, 2023. The revolving credit facility 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, 2018 or 2017.

As of December 31, 2018 and 2017, there were intercompany loans from Eversource parent to NSTAR Gas of $142.1 million and $227.0 million, respectively, recorded as Notes Payable to Eversource Parent and classified in current liabilities on the consolidated balance sheets as all borrowings are outstanding for no more than 364 days at one time. The weighted-average interest rate on these borrowings as of December 31, 2018 and 2017 was 2.77 percent and 1.86 percent, respectively.

Under the credit facility, NSTAR Gas must comply with certain financial and non-financial covenants, including a consolidated debt to total capitalization ratio. As of December 31, 2018 and 2017, NSTAR Gas was in compliance with these covenants. If NSTAR Gas was not in compliance with these covenants, an event of default would occur requiring all outstanding borrowings by NSTAR Gas to be repaid, and additional borrowings would not be permitted under the credit facility.

7. LONG-TERM DEBT

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

	As of December 31,	
(Millions of Dollars)	2018	2017
First Mortgage Bonds:		
9.95% Series J due 2020	25.0	25.0
4.46% Series N due 2020	125.0	125.0
7.11% Series K due 2033	35.0	35.0
4.35% Series O due 2045	100.0	100.0
4.09% Series P due 2048	100.0	—
Total First Mortgage Bonds	385.0	285.0
Unamortized Debt Issuance Costs	(0.8)	(0.6)
NSTAR Gas Long-Term Debt	$ 384.2	$ 284.4

Long-Term Debt Issuance Authorization: On August 1, 2018, the DPU approved NSTAR Gas' request for authorization to issue up to $200 million in long-term debt through December 31, 2019.

Long-Term Debt Provisions: The utility plant of NSTAR Gas is subject to the lien of its first mortgage bond indenture. Additionally, NSTAR Gas' long-term debt agreements provide that it must comply with certain covenants as are customarily included in such agreements, including an equity requirement. Under the equity requirement, the outstanding long-term debt of NSTAR Gas must not exceed equity. NSTAR Gas was in compliance with these covenants as of December 31, 2018 and 2017.

8. EMPLOYEE BENEFITS

A. Pension Benefits and Postretirement Benefits Other Than Pension

Eversource Service sponsors a defined benefit retirement plan ("Pension Plan") that covers eligible employees and is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended by the Pension Protection Act of 2006. Eversource Service's Employer Identification Number is 06-0810627. Eversource's policy is to annually fund the Pension Plan in an amount at least equal to an amount that will satisfy all federal funding requirements. In addition to the Pension Plan, Eversource Service sponsors non-qualified defined benefit retirement plans ("SERP Plans"), which provide benefits in excess of Internal Revenue Code limitations to eligible participants consisting of current and retired employees.

Eversource Service also sponsors a defined benefit postretirement plan ("PBOP Plan") that provides life insurance and a health reimbursement arrangement created for the purpose of reimbursing retirees and dependents for health insurance premiums and certain medical expenses to eligible employees that met certain age and service eligibility requirements. The benefits provided under the PBOP Plan are not vested and Eversource has the right to modify any benefit provision subject to applicable laws at that time. Eversource annually funds postretirement costs through tax deductible contributions to external trusts.

Plan sponsor information is included in the Eversource 2018 Annual Report on Form 10-K filed on February 26, 2019 with the U.S. Securities and Exchange Commission ("SEC").

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

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

The difference between the actual return and calculated expected return on plan assets for the Pension and PBOP Plans is reflected as a component of unamortized actuarial gains or losses, which are recorded in Regulatory Assets or Accumulated Other Comprehensive Income. Unamortized 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 consolidated balance sheet. Although Eversource maintains marketable securities in a benefit trust, the SERP Plans do not contain any assets. The following table provides information on the portions attributable to NSTAR Gas in the Eversource single-employer Pension and SERP Plans:

Pension and SERP	**As of December 31,**	
(Millions of Dollars)	**2018**	**2017**
Benefit Obligation	$ (244.4)	$ (260.1)
Fair Value of Pension Plan Assets	201.7	221.9
Funded Status	$ (42.7)	$ (38.2)
Employer Contributions	$ —	$ 10.4
Benefits Paid	13.0	14.8
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 $235.8 million and $249.3 million as of December 31, 2018 and 2017, 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	**2018**	**2017**
Discount Rate	4.22% — 4.43%	3.58% — 3.75%
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. Eversource utilizes the spot rate methodology to estimate the discount rate for the service and interest cost components of pension expense, which provides a more precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve.

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

Pension and SERP	**For the Years Ended December 31,**	
(Millions of Dollars)	**2018**	**2017**
Service Cost	$ 3.2	$ 2.8
Interest Cost	8.6	8.5
Expected Return on Pension Plan Assets	(17.5)	(16.3)
Actuarial Loss	8.7	8.0
Prior Service Cost	0.1	0.1
Total Net Periodic Benefit Expense	$ 3.1	$ 3.1
Intercompany Allocations	$ 1.3	$ 1.7

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

	For the Years Ended December 31,	
Pension and SERP	**2018**	**2017**
Discount Rate	3.85% — 4.61%	3.20% — 3.90%
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 consolidated balance sheet. The following table provides information on the portions attributable to NSTAR Gas in the Eversource single-employer PBOP Plan:

PBOP	**As of December 31,**	
(Millions of Dollars)	**2018**	**2017**
Benefit Obligation	$ (40.6)	$ (47.1)
Fair Value of Plan Assets	63.9	68.6
Funded Status	$ 23.3	$ 21.5
Employer Contributions	$ 0.8	$ 0.9
Benefits Paid	2.2	1.9

The discount rate actuarial assumption used in calculating the PBOP Plan's year end funded status was 4.38 percent and 3.70 percent as of December 31, 2018 and 2017, respectively.

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. Eversource utilizes the spot rate methodology to estimate the discount rate for the service and interest cost components of PBOP expense, which provides a more precise measurement by matching projected cash flows to the corresponding spot rates on the yield curve.

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

PBOP	**For the Years Ended December 31,**	
(Millions of Dollars)	**2018**	**2017**
Service Cost	$ 0.5	$ 0.4
Interest Cost	1.5	1.5
Expected Return on Plan Assets	(5.5)	(4.9)
Actuarial Loss	0.5	0.8
Prior Service Credit	(3.4)	(3.4)
Total Net Periodic Benefit Income	$ (6.4)	$ (5.6)
Intercompany Allocations	$ (0.3)	$ (0.2)

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

	For the Years Ended December 31,	
PBOP	**2018**	**2017**
Discount Rate	3.28% — 3.94%	3.48% — 4.64%
Expected Long-Term Rate of Return	8.25%	8.25%

Contributions: Based on the current status of the Pension Plan and federal pension funding requirements, Eversource currently expects to make contributions of approximately $112 million in 2019, of which $0.8 million will be contributed by NSTAR Gas. Eversource expects to make approximately $11 million in contributions to the PBOP Plan in 2019, of which $0.8 million will be contributed by NSTAR Gas.

B. Defined Contribution Plans

Eversource maintains defined contribution plans on behalf of eligible participants, including, among others, employees of NSTAR Gas. The Eversource 401k Plan provides for employee and employer contributions up to statutory limits. For eligible employees, the Eversource 401k Plan provides employer matching contributions of either 100 percent up to a maximum of three percent of eligible compensation or 50 percent up to a maximum of eight percent of eligible compensation. The Eversource 401k Plan also contains a K-Vantage feature for the benefit of eligible participants, which provides an additional annual employer contribution based on age and years of service. K-Vantage participants are not eligible to actively participate in the Eversource Pension Plan.

The total Eversource 401k Plan employer matching contributions, including the K-Vantage contributions, for NSTAR Gas were $2.1 million and $1.9 million for the years ended December 31, 2018 and 2017, respectively.

9. INCOME TAXES

The components of income tax expense were as follows:

(Millions of Dollars)	For the Years Ended December 31, 2018	2017
Current Income Taxes:		
Federal	$ 6.2	$ (1.1)
State	1.2	0.8
Total Current	7.4	(0.3)
Deferred Income Taxes, Net:		
Federal	5.2	18.6
State	3.3	3.8
Total Deferred	8.5	22.4
Investment Tax Credit Amortization	(0.2)	(0.2)
Income Tax Expense	$ 15.7	$ 21.9

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

(Millions of Dollars, except percentages)	For the Years Ended December 31, 2018	2017
Income Before Income Tax Expense	$ 55.5	$ 55.2
Statutory Federal Income Tax Expense at 21% in 2018 and 35% in 2017	11.7	19.3
Tax Effect of Differences:		
State Income Taxes, Net of Federal Impact	3.7	3.0
Investment Tax Credit Amortization	(0.2)	(0.2)
Excess Stock Benefit	—	(0.1)
Other, Net	0.5	(0.1)
Income Tax Expense	$ 15.7	$ 21.9
Effective Tax Rate	28.3%	39.7%

NSTAR Gas files a consolidated federal income tax return with Eversource and also files state income tax returns. NSTAR Gas is party to a tax allocation agreement with Eversource under which taxable subsidiaries do not pay any more taxes than they would have otherwise paid had they filed a separate company tax return, and subsidiaries generating tax losses, if any, are paid for their losses when utilized.

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

(Millions of Dollars)	As of December 31, 2018	2017
Deferred Tax Assets:		
Regulatory Deferrals - Liabilities	$ 26.9	$ 28.1
Other	62.3	61.2
Total Deferred Tax Assets	$ 89.2	$ 89.3
Deferred Tax Liabilities:		
Accelerated Depreciation and Other Plant-Related Differences	$ 189.2	$ 174.9
Regulatory Amounts:		
Regulatory Deferrals - Assets	44.7	47.3
Goodwill Regulatory Asset - 1999 Merger	13.5	14.1
Employee Benefits	6.6	5.3
Other	5.8	11.2
Total Deferred Tax Liabilities	$ 259.8	$ 252.8

2017 Federal Legislation: On December 22, 2017, the Tax Cuts and Jobs 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. For the Company, the most significant changes are (1) the benefit of incurring a lower federal income tax expense and (2) the reduction in ADIT liabilities (now excess ADIT or EDIT), which were estimated to be approximately $135 million and included in regulatory liabilities as of December 31, 2018. See Note 2, "Regulatory Accounting," to the consolidated financial statements for further information.

The Company assessed the applicable provisions in the act and recorded the associated impacts as of December 31, 2017. The Company recorded the provisional income tax amounts as of December 31, 2017 in accordance with SEC Staff Accounting Bulletin No. 118 ("SAB 118") issued by the SEC in December 2017, for changes pursuant to the act because the impacts could not be finalized upon issuance of the consolidated financial statements, but for which reasonable estimates could be determined. The Company has completed its evaluation of the impacts of the act as of December 31, 2018. The ultimate outcome was not materially different from the provisional estimates recorded as of December 31, 2017. While the Company has recorded the impacts of the act based on interpretation of the provisions as enacted, it is expected the U.S. Department of Treasury and the IRS will issue additional interpretative guidance in the future that could result in changes to previously finalized provisions.

Unrecognized Tax Benefits: As of December 31, 2018 and 2017, 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, 2018 and 2017.

Open Tax Years: The following table summarizes NSTAR Gas' tax years that remain subject to examination by major tax jurisdictions as of December 31, 2018:

Description	**Tax Years**
Federal (Eversource consolidated)	2018
Massachusetts	2015 - 2018

10. COMMITMENTS AND CONTINGENCIES

A. Environmental Matters

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

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

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

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

	As of December 31,	
(Millions of Dollars)	**2018**	**2017**
Balance as of Beginning of Year	$ 16.2	$ 23.9
Additions	2.3	1.8
Payments/Reductions	(5.4)	(9.5)
Balance as of End of Year	$ 13.1	$ 16.2

The Company has seven environmental sites as of December 31, 2018. As of December 31, 2018, for one 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 loss for environmental costs. As of December 31, 2018, $10.0 million had been accrued as a liability for this site, which represents the low end of the range of the liability for environmental costs. Management believes that additional losses of up to approximately $5 million may be incurred in executing current remediation plans for this site.

As of December 31, 2018, for the remaining six environmental sites that are included in the Company's reserve for environmental costs, the $3.1 million accrual represents management's best estimate of the probable liability and no additional loss is anticipated at this time.

Environmental Rate Recovery: NSTAR Gas has a rate recovery mechanism for MGP related environmental costs, therefore, changes in environmental reserves do not impact Net Income. 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 executed, non-cancelable, long-term contractual arrangements in effect as of December 31, 2018 are as follows:

(Millions of Dollars)	2019	2020	2021	2022	2023	Thereafter	Total
Natural Gas Procurement	$ 106.7	$ 104.0	$ 84.6	$ 57.2	$ 56.1	$ 459.7	$ 868.3

In the normal course of business, NSTAR Gas has long-term contracts for the purchase, transportation and storage of natural gas as part of its portfolio of supplies. These contracts extend through 2034. The total cost incurred under these agreements was $219.1 million and $177.9 million in 2018 and 2017, 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 incurs costs associated with leases entered into by affiliated Eversource subsidiaries, including Eversource Service, The Rocky River Realty Company and NSTAR Electric, for the use of office space, service centers, vehicles, information technology and office equipment, and are included below in operating lease rental expense and future minimum rental payments.

Operating lease rental payments charged to expense were $2.0 million and $2.5 million for the years ended December 31, 2018 and 2017, respectively.

Future minimum rental payments, excluding executory costs, such as property taxes, state use taxes, insurance, and maintenance, under long-term non-cancelable leases, as of December 31, 2018 are as follows:

(Millions of Dollars)	
2019	$ 1.8
2020	1.5
2021	1.3
2022	1.0
2023	0.7
Thereafter	2.3
Future Minimum Lease Payments	$ 8.6

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 $384.2 million and $284.4 million as of December 31, 2018 and 2017, respectively. The estimated fair values of these financial instruments were $375.9 million and $301.7 million as of December 31, 2018 and 2017, respectively. These fair values were classified as Level 2 within the fair value hierarchy. See Note 1G, "Summary of Significant Accounting Policies - Fair Value Measurements," for the fair value measurement policy and the fair value hierarchy.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income, net of tax, as a result of activity within the SERP Plans, was as follows:

	For the Years Ended December 31,	
(Millions of Dollars)	2018	2017
Balance as of Beginning of Year	$ 0.3	$ 0.3
OCI Before Reclassifications	0.1	—
Amounts Reclassified from AOCI	—	—
Net OCI	0.1	—
Balance as of End of Year	$ 0.4	$ 0.3

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

14. CONSOLIDATION OF VARIABLE INTEREST ENTITY

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

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

Condensed consolidating statement of income for the year ended December 31, 2018:

(Millions of Dollars)	NSTAR Gas	Hopkinton	Intercompany Eliminations	Consolidated Total
Operating Revenues	$ 506.7	$ 16.5	$ (16.6)	$ 506.6
Operating Expenses	436.7	15.4	(16.7)	435.4
Operating Income	70.0	1.1	0.1	71.2
Interest Expense/(Income)	20.3	(0.2)	—	20.1
Other Income, Net	4.5	—	(0.1)	4.4
Income Before Income Tax Expense	54.2	1.3	—	55.5
Income Tax Expense	15.3	0.4	—	15.7
Net Income	$ 38.9	$ 0.9	$ —	$ 39.8

Condensed consolidating balance sheet as of December 31, 2018:

(Millions of Dollars)	NSTAR Gas	Hopkinton	Intercompany Eliminations	Consolidated Total
Total Current Assets	$ 133.0	$ 1.8	$ (2.1)	$ 132.7
Property, Plant and Equipment	1,482.9	100.8	—	1,583.7
Accumulated Depreciation	(368.5)	(62.6)	—	(431.1)
Construction Work in Progress	29.7	93.6	—	123.3
Property, Plant and Equipment, Net	1,144.1	131.8	—	1,275.9
Total Deferred Debits and Other Assets	239.2	—	—	239.2
Total Assets	$ 1,516.3	$ 133.6	$ (2.1)	$ 1,647.8
Total Current Liabilities	$ 210.9	$ 86.3	$ (2.1)	$ 295.1
Total Deferred Credits and Other Liabilities	475.2	2.9	—	478.1
Long-Term Debt	384.2	—	—	384.2
Common Stockholder's Equity	446.0	44.4	—	490.4
Total Liabilities and Capitalization	$ 1,516.3	$ 133.6	$ (2.1)	$ 1,647.8

Condensed consolidating statement of income for the year ended December 31, 2017:

(Millions of Dollars)	NSTAR Gas [(1)]	Hopkinton	Intercompany Eliminations	Consolidated Total [(1)]
Operating Revenues	$ 441.1	$ 15.3	$ (15.3)	$ 441.1
Operating Expenses	372.2	14.7	(15.4)	371.5
Operating Income	68.9	0.6	0.1	69.6
Interest Expense	17.6	0.1	—	17.7
Other Income, Net	3.4	—	(0.1)	3.3
Income Before Income Tax Expense	54.7	0.5	—	55.2
Income Tax Expense	21.7	0.2	—	21.9
Net Income	$ 33.0	$ 0.3	$ —	$ 33.3

(1) As a result of the adoption of new accounting guidance, the non-service related components of pension, SERP and PBOP benefit costs are presented as non-operating income and recorded in Other Income, Net on the consolidated statements of income. The 2017 amounts, which were previously presented within Operations and Maintenance expense on the consolidated statements of income, have been retrospectively presented within Other Income, Net for the year ended December 31, 2017. See Note 1C, "Summary of Significant Accounting Policies - Accounting Standards" and Note 1J, "Summary of Significant Accounting Policies - Other Income, Net," to the consolidated financial statements for further information.

Condensed consolidating balance sheet as of December 31, 2017:

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

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, 2018 and 2017.

16. REVENUES

On January 1, 2018, NSTAR Gas adopted ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*" using the modified retrospective approach. The core principle of this accounting guidance is that revenue is recognized when promised goods or services (referred to as performance obligations) are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The new standard uses a five-step model for recognizing and measuring revenue from contracts with customers, which includes identifying the contract with the customer, identifying the performance obligations promised within the contract, determining the transaction price (the amount of consideration to which the Company expects to be entitled), allocating the transaction price to the performance obligations and recognizing revenue when (or as) the performance obligation is satisfied.

The following table presents operating revenues disaggregated by revenue source:

(Millions of Dollars)	For the Year Ended December 31, 2018
Revenue from Contracts with Customers	
Retail Tariff Sales	
Residential	$ 295.0
Commercial	145.7
Industrial	21.1
Total Retail Tariff Sales Revenue	461.8
Wholesale Market Sales Revenue	48.5
Other Revenue from Contracts with Customers	1.5
Total Revenue from Contracts with Customers	511.8
Alternative Revenue Programs	(5.8)
Other Revenue	0.6
Total Operating Revenues	$ 506.6

Retail Tariff Sales: NSTAR Gas provides products and services to its regulated customers under rates, pricing, payment terms and conditions of service, regulated by the DPU. The arrangement whereby a utility provides commodity service to a customer for a price approved by its state regulatory commission is referred to as a tariff sale contract, and the tariff governs all aspects of the provision of regulated services by the utility. The majority of revenue for NSTAR Gas is derived from regulated retail tariff sales for the sale and distribution of natural gas to residential, commercial and industrial retail customers.

The utility's performance obligation for the regulated tariff sales is to provide natural gas to the customer as demanded. The promise to provide the commodity represents a single performance obligation, as it is a promise to transfer a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by the utility, and the utility satisfies its performance obligation. Revenue is recognized based on the output method as there is a directly observable output to the customer (natural gas units delivered to the customer and immediately consumed). NSTAR Gas is entitled to be compensated for performance completed to date (service taken by the customer) until service is terminated.

In regulated tariff sales, the transaction prices are the rates approved by the state regulatory commission. In general, rates can only be changed through formal proceedings with the state regulatory commission. These rates are designed to recover the costs to provide service to customers and include a return on investment. Regulatory commission-approved tracking mechanisms are included in these rates and are also used to recover, on a fully-reconciling basis, certain costs, such as the procurement of natural gas, energy efficiency programs, and qualified pension and PBOP expenses. These tracking mechanisms result in rates being changed periodically to ensure recovery of actual costs incurred.

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

Wholesale Market Sales Revenues: Wholesale market sales transactions include sales of natural gas to third party marketers. For sales of natural gas, transportation, and natural gas pipeline capacity to third party marketers, revenue is recognized when the performance obligation is satisfied at the point in time the sale occurs and the natural gas or related product is transferred to the marketer.

Other Revenue from Contracts with Customers: Other revenue from contracts with customers primarily includes property rentals that are not leases. These revenues are generally recognized on a straight-line basis over time as the service is provided to the customer. Other revenues also includes certain fees charged to customers.

Alternative Revenue Programs: In accordance with accounting guidance for rate-regulated operations, certain rate making mechanisms qualify as alternative revenue programs ("ARPs") if they meet specified criteria, in which case revenues may be recognized prior to billing based on allowed levels of collection in rates. NSTAR Gas recognizes revenue and records a regulatory asset or liability once the condition or event allowing for the automatic adjustment of future rates occurs. ARP revenues include both the recognition of the deferral adjustment to ARP revenues, when the regulator-specified condition or event allowing for additional billing or refund has occurred, and an equal and offsetting reversal of the ARP deferral to revenues as those amounts are reflected in the price of service in subsequent periods.

NSTAR Gas' ARPs include the revenue decoupling mechanism. Decoupled distribution revenues are not directly based on sales volumes. NSTAR Gas reconciles its annual base distribution rate recovery to a pre-established level of baseline distribution delivery service revenues, with any difference between the allowed level of distribution revenue and the actual amount realized adjusted through subsequent rates.

Other Revenues: Other Revenues include certain fees charged to customers and lease revenue that are not considered revenue from contracts with customers.

Receivables: Receivables, Net on the balance sheet include trade receivables from retail customers, sales of natural gas and capacity to marketers, and property rentals. In general, retail tariff customers are billed monthly and the payment terms are generally due and payable upon receipt of the bill.

Unbilled Revenues: Unbilled Revenues on the balance sheet represent estimated amounts due from retail customers for natural gas delivered to customers but not yet billed. The Company has satisfied its performance obligation and the customer has received and consumed the commodity as of the balance sheet date, and therefore, the Company records revenue for those services in the period the services were provided. Only the passage of time is required before the Company is entitled to payment for the satisfaction of the performance obligation. Payment from customers is due monthly as services are rendered and amounts are billed. Actual amounts billed to customers when meter readings become available may vary from the estimated amount.

Unbilled revenues are recognized by allocating estimated unbilled sales volumes to the respective customer classes, and then applying an estimated rate by customer class to those sales volumes. Unbilled revenue estimates reflect seasonality, weather, customer usage patterns, customer rates in effect for customer classes, and the timing of customer billing. NSTAR Gas records a regulatory deferral to reflect the actual allowed amount of revenue associated with its decoupled distribution rate design.

Practical Expedients: NSTAR Gas has elected practical expedients in the accounting guidance that allow the Company to record revenue in the amount that the Company has a right to invoice, if that amount corresponds directly with the value to the customer of the Company's performance to date, and not to disclose related unsatisfied performance obligations. Retail tariff sales fall into this category, as these sales are recognized as revenue in the period the utility provides the service and completes the performance obligation, which is the same as the monthly amount billed to customers. There are no other material revenue streams for which NSTAR Gas has unsatisfied performance obligations.