Yankee Gas Services Company

Financial Statements as of and for the
Years Ended December 31, 2018 and 2017,
Together With Independent Auditors' Report

Yankee Gas Services Company

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Yankee Gas Services Company (the "Company"), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income, comprehensive income, common stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yankee Gas Services Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 28, 2019

YANKEE GAS SERVICES COMPANY
BALANCE SHEETS

(Thousands of Dollars)	As of December 31, 2018	2017
ASSETS		
Current Assets:		
Cash	$ 1,973	$ 8,153
Receivables, Net	57,519	54,612
Accounts Receivable from Affiliated Companies	4,443	24,820
Unbilled Revenues	13,031	18,100
Fuel, Materials and Supplies	26,290	21,050
Regulatory Assets	33,218	17,355
Prepaid Property Taxes	7,463	7,383
Other Current Assets	1,214	1,517
Total Current Assets	145,151	152,990
Property, Plant and Equipment, Net	1,560,262	1,428,012
Deferred Debits and Other Assets:		
Regulatory Assets	145,732	137,179
Goodwill	287,591	287,591
Other Long-Term Assets	6,309	4,534
Total Deferred Debits and Other Assets	439,632	429,304
Total Assets	$ 2,145,045	$ 2,010,306
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes Payable to Eversource Parent	$ 171,200	$ —
Long-Term Debt - Current Portion	50,000	100,000
Accounts Payable	67,798	48,843
Accounts Payable to Affiliated Companies	23,228	17,243
Regulatory Liabilities	13,743	5,298
Other Current Liabilities	25,868	28,404
Total Current Liabilities	351,837	199,788
Deferred Credits and Other Liabilities:		
Accumulated Deferred Income Taxes	214,438	200,665
Regulatory Liabilities	211,611	225,698
Accrued Pension, SERP and PBOP	49,147	68,181
Other Long-Term Liabilities	44,957	38,961
Total Deferred Credits and Other Liabilities	520,153	533,505
Long-Term Debt	418,452	418,620
Common Stockholder's Equity:		
Common Stock	5	5
Capital Surplus, Paid In	780,962	780,962
Retained Earnings	74,285	78,438
Accumulated Other Comprehensive Loss	(649)	(1,012)
Common Stockholder's Equity	854,603	858,393
Total Liabilities and Capitalization	$ 2,145,045	$ 2,010,306

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

YANKEE GAS SERVICES COMPANY
STATEMENTS OF INCOME

(Thousands of Dollars)	For the Years Ended December 31, 2018	2017
Operating Revenues	$ 519,720	$ 502,253
Operating Expenses:		
Cost of Natural Gas	213,977	211,181
Operations and Maintenance	105,710	101,533
Depreciation	37,042	35,649
Amortization of Regulatory (Liabilities)/Assets, Net	(375)	1,134
Energy Efficiency Programs	17,875	16,218
Taxes Other Than Income Taxes	53,027	52,088
Total Operating Expenses	427,256	417,803
Operating Income	92,464	84,450
Interest Expense	24,061	25,390
Other Income, Net	2,700	490
Income Before Income Tax Expense	71,103	59,550
Income Tax Expense	15,256	20,680
Net Income	$ 55,847	$ 38,870

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

STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of Dollars)	For the Years Ended December 31, 2018	2017
Net Income	$ 55,847	$ 38,870
Other Comprehensive Income, Net of Tax:		
Qualified Cash Flow Hedging Instruments	76	93
Changes in Funded Status of SERP Benefit Plan	287	271
Other Comprehensive Income, Net of Tax	363	364
Comprehensive Income	$ 56,210	$ 39,234

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

YANKEE GAS SERVICES COMPANY
STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

(Thousands of Dollars, Except Stock Information)	Common Stock Stock	Common Stock Amount	Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance as of January 1, 2017	1,000	$ 5	$ 707,168	$ 108,167	$ (1,376)	$ 813,964
Net Income				38,870		38,870
Dividends on Common Stock				(68,600)		(68,600)
Capital Contributions from Parent			73,794			73,794
Other				1		1
Other Comprehensive Income					364	364
Balance as of December 31, 2017	1,000	5	780,962	78,438	(1,012)	858,393
Net Income				55,847		55,847
Dividends on Common Stock				(60,000)		(60,000)
Other Comprehensive Income					363	363
Balance as of December 31, 2018	1,000	$ 5	$ 780,962	$ 74,285	$ (649)	$ 854,603

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

YANKEE GAS SERVICES COMPANY

STATEMENTS OF CASH FLOWS

(Thousands of Dollars)	For the Years Ended December 31, 2018	2017
Operating Activities:		
Net Income	$ 55,847	$ 38,870
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:		
Depreciation	37,042	35,649
Deferred Income Taxes	(4,401)	30,717
Pension, SERP and PBOP Expense	2,516	3,083
Pension Contributions	(9,575)	(12,700)
Amortization of Regulatory (Liabilities)/Assets, Net	(375)	1,134
Regulatory (Under)/Over Recoveries, Net	(18,449)	12,144
Uncollectible Expense	7,160	4,685
Other	(1,468)	(6,645)
Changes in Current Assets and Liabilities:		
Receivables and Unbilled Revenues, Net	15,380	(35,775)
Fuel, Materials and Supplies	(5,240)	3,059
Taxes Receivable/Accrued, Net	3,698	15,782
Accounts Payable	9,495	(4,949)
Other Current Assets and Liabilities, Net	(3,698)	2,611
Net Cash Flows Provided by Operating Activities	87,932	87,665
Investing Activities:		
Investments in Property, Plant and Equipment	(154,974)	(143,826)
Net Cash Flows Used in Investing Activities	(154,974)	(143,826)
Financing Activities:		
Cash Dividends on Common Stock	(60,000)	(68,600)
Capital Contributions from Parent	—	73,794
Issuance of Long-Term Debt	50,000	75,000
Retirement of Long-Term Debt	(100,000)	—
Increase/(Decrease) in Notes Payable to Eversource Parent	171,200	(17,300)
Other Financing Activities	(338)	(387)
Net Cash Flows Provided by Financing Activities	60,862	62,507
Net (Decrease)/Increase in Cash	(6,180)	6,346
Cash - Beginning of Year	8,153	1,807
Cash - End of Year	$ 1,973	$ 8,153

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

YANKEE GAS SERVICES COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. About Yankee Gas Services Company

Yankee Gas Services Company ("Yankee Gas" or the "Company") is a regulated public utility company engaged in the distribution and sale of natural gas to customers in parts of Connecticut. Yankee Gas distributes natural gas to approximately 237,000 customers in 72 cities and towns in Connecticut covering 2,187 square miles. The Company is subject to regulation of the rates it charges its customers, accounting and other matters, by the Connecticut Public Utility Regulatory Authority ("PURA"). Yankee Gas is a wholly-owned subsidiary of Yankee Energy System, Inc., a holding company that is a wholly-owned subsidiary of Eversource Energy ("Eversource"). Yankee Gas is doing business as Eversource Energy.

Yankee Gas' natural gas business provides firm natural gas sales 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 Yankee Gas. Yankee Gas offers firm transportation service to its commercial and industrial customers who purchase natural gas from sources other than Yankee Gas. In addition, Yankee Gas offers interruptible transportation and interruptible natural gas sales service to commercial and industrial customers that have the ability to switch from natural gas to an alternate fuel on short notice. Yankee Gas can interrupt service to these customers during peak demand periods or at any other time to maintain distribution system integrity.

B. Basis of Presentation

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

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

As of both December 31, 2018 and 2017, Yankee Gas' carrying amount of goodwill was $287.6 million. Yankee Gas performs an assessment for possible impairment of its goodwill at least annually. Yankee Gas completed its annual goodwill impairment test as of October 1, 2018 and determined that no impairment exists. See Note 5, "Goodwill," for further information.

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

Yankee Gas evaluates events and transactions that occur after the balance sheet date but before financial statements are issued and recognizes in the financial statements the effects of all subsequent events that provide additional information about conditions that existed as of the balance sheet date and discloses, but does not recognize, in the 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 financial statements, Yankee Gas has evaluated events subsequent to December 31, 2018 through the issuance of the 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. The Company recognized approximately $0.3 million of operating lease liabilities and right-of-use assets on its balance sheet upon transition at January 1, 2019. Implementation of the new guidance will not have an impact on its results of operations 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 Yankee Gas. See Note 15, "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 $0.4 million, as these amounts continue to be included in rates. For the year ended December 31, 2017, $0.2 million, which was previously presented as an expense within Operations and Maintenance expense on the statement of income, has been retrospectively presented as a loss within Other Income, Net. For the year ended December 31, 2018, the non-service cost components of net pension, SERP and PBOP costs of $1.1 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 balance sheets. There are no restricted cash balances.

E. Provision for Uncollectible Accounts

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

The PURA allows Yankee Gas to accelerate the recovery of accounts receivable balances attributable to qualified customers under financial or medical duress (uncollectible hardship accounts receivable) outstanding for greater than 90 days. As of December 31, 2018 and 2017, Yankee Gas had an uncollectible hardship accounts receivable reserve of $10.7 million and $10.4 million, respectively. These uncollectible hardship customer account balances, which are expected to be recovered in rates, are included in Regulatory Assets on the balance sheets and are reflected in the total provision for uncollectible accounts.

The total provision for uncollectible accounts is included in Receivables, Net on the balance sheets, and was $19.1 million and $17.2 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 statements of income and was $7.2 million and $4.7 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 balance sheets as of December 31, 2018 and 2017 were $23.2 million and $18.3 million, respectively, of natural gas inventory, and $3.1 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 valuations of the investments used to calculate the funded status of pension and postretirement benefits other than pension ("PBOP") plans, the nonrecurring fair value measurements of nonfinancial assets such as goodwill and asset retirement obligations ("AROs"), and the estimated fair value of long-term debt.

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

> Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
>
> Level 2 - Inputs are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs are observable.

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

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 Yankee Gas' fair value measurements are described in Note 4, "Asset Retirement Obligations," Note 5, "Goodwill," and Note 12, "Fair Value of Financial Instruments," to the financial statements.

H. Allowance for Funds Used During Construction

Allowance for funds used during construction ("AFUDC") represents the cost of borrowed and equity funds used to finance construction and is included in the cost of plant on the balance sheets. The portion of AFUDC attributable to borrowed funds is recorded as a reduction of Interest Expense, and the AFUDC related to equity funds is recorded as Other Income, Net on the statements of income. AFUDC costs are recovered from customers over the service life of the related plant in the form of increased revenue collected as a result of higher depreciation expense. For the year ended December 31, 2018, AFUDC costs included borrowed funds of $1.4 million and equity funds of $1.6 million. For the year ended December 31, 2017, AFUDC costs included borrowed funds of $0.8 million and equity funds of $0.9 million.

Yankee Gas' average AFUDC rate is based on a Federal Energy Regulatory Commission prescribed formula using the cost of a company's short-term financings and capitalization (long-term debt and common equity), as appropriate. The average rate is applied to average eligible construction work in progress amounts to calculate AFUDC. Average AFUDC rates for the years ended December 31, 2018 and 2017 were 5.1 percent and 5.0 percent, respectively.

I. Other Income, Net

Items included within Other Income, Net on the statements of income primarily consist of the non-service related components of pension, SERP and PBOP benefit costs and AFUDC related to equity funds. 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 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 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. For further information on AFUDC related to equity funds, see Note 1H, "Summary of Significant Accounting Policies – Allowance for Funds Used During Construction," to the financial statements.

J. Other Taxes

Gross receipts taxes levied by the state of Connecticut are collected by Yankee Gas from its customers. These gross receipts taxes are recorded separately with collections in Operating Revenues and with payments in Taxes Other Than Income Taxes on the statements of income. For the years ended December 31, 2018 and 2017, gross receipts taxes were $20.5 million and $19.9 million, respectively. As an agent for the state and local governments, Yankee Gas collects certain sales taxes that are recorded on a net basis with no impact on the statements of income.

K. Supplemental Cash Flow Information

	As of and For the Years Ended December 31,	
(Millions of Dollars)	**2018**	**2017**
Cash Paid/(Received) During the Year For:		
Interest, Net of Amounts Capitalized	$ 27.0	$ 24.3
Income Taxes	13.6	(25.0)
Non-Cash Investing Activities:		
Plant Additions Included in Accounts Payable (As of)	28.4	20.6

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 Yankee Gas. In addition, Yankee Gas incurs costs associated with leases entered into with certain subsidiaries of Eversource.

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

2. REGULATORY ACCOUNTING

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

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

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

	As of December 31,	
(Millions of Dollars)	**2018**	**2017**
Benefit Costs	$ 58.1	$ 70.7
Income Taxes, Net	48.1	41.1
Environmental Remediation Costs	30.2	25.2
Regulatory Tracker Mechanisms	25.9	4.3
Merger-related Costs	7.6	—
Hardship Customer Receivables	6.2	8.4
Other Regulatory Assets	2.8	4.9
Total Regulatory Assets	178.9	154.6
Less: Current Portion	33.2	17.4
Total Long-Term Regulatory Assets	$ 145.7	$ 137.2

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

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

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

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

Effective November 15, 2018 as a result of a PURA-approved rate case settlement agreement, Yankee Gas has a revenue decoupling mechanism. Distribution revenues are decoupled from customer sales volumes, which breaks the relationship between sales volumes and revenues recognized. Yankee Gas reconciles its base distribution rate recovery amounts to the pre-established level of baseline distribution revenues. Any difference between the allowed level of distribution revenue and the actual amount realized during the reconciliation period is adjusted through rates in the following period.

Merger-related Costs: In connection with the 2018 PURA-approved Yankee Gas distribution rate case settlement agreement, Yankee Gas was permitted the recovery of $7.7 million in previously expensed merger-related costs associated with the Northeast Utilities and NSTAR merger in 2012, over a 10-year period in distribution rates. Yankee Gas established a liability to pay Eversource Parent for the amounts to be collected from customers.

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

Regulatory Costs in Other Long-Term Assets: Yankee Gas had $3.5 million and $2.7 million of additional regulatory costs as of December 31, 2018 and 2017, respectively, that were included in Other Long-Term Assets on the balance sheets. These amounts represent incurred costs for which recovery has not yet been specifically approved by the PURA. However, based on regulatory policies or past precedent on similar costs, management believes it is probable that these costs will ultimately be approved and recovered from customers in rates.

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

	As of December 31,	
(Millions of Dollars)	2018	2017
EDIT Due to Tax Cuts and Jobs Act	$ 176.6	$ 182.8
Cost of Removal	23.8	25.0
Regulatory Tracker Mechanisms	13.6	21.3
Revenue Subject to Refund due to Tax Cuts and Jobs Act	8.2	—
Other Regulatory Liabilities	3.1	1.9
Total Regulatory Liabilities	225.3	231.0
Less: Current Portion	13.7	5.3
Total Long-Term Regulatory Liabilities	$ 211.6	$ 225.7

EDIT due to Tax Cuts and Jobs Act: Pursuant to the Tax Cuts and Jobs Act, which became law on December 22, 2017, Yankee 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 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 November 15, 2018, Yankee Gas' distribution rates charged to customers began to reflect the refund of EDIT.

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

Revenue Subject to Refund due to Tax Cuts and Jobs Act: Yankee Gas established a regulatory liability, recorded as a reduction to revenue, to reflect the difference between the 35 percent federal corporate income tax rate included in rates charged to customers and the 21 percent federal corporate income tax rate, effective January 1, 2018 as a result of the Tax Cuts and Jobs Act, until rates billed to customers reflect the lower federal tax rate. Effective November 15, 2018, Yankee Gas adjusted distribution rates to reflect the lower federal income tax rate prospectively and to refund its regulatory liability associated with the higher federal corporate income tax rate billed to customers in the period between January 1, 2018 through November 14, 2018. Although Yankee Gas' new rates were effective January 1, 2019, the provisions of the settlement agreement took effect November 15, 2018.

Recent Regulatory Developments:

Yankee Gas Rate Case Settlement: On December 12, 2018, PURA approved the distribution rate case settlement agreement that was reached by Yankee Gas, the prosecutorial division of the PURA, and the OCC. The distribution rate case settlement agreement included, among other things, rate increases of $1.4 million, $15.8 million and $13.0 million, for rate years beginning November 15, 2018, January 1, 2020, and January 1, 2021, respectively, and for Yankee Gas to implement a Distribution Integrity Management Program ("DIMP") cost recovery mechanism to further invest capital to replace aging infrastructure. The DIMP mechanism allows for recovery of costs associated with capital additions of approximately $26 million to $37 million annually, which is incremental to the $150 million included in base distribution rate base per year. The settlement agreement also provides Yankee Gas the opportunity to seek recovery of additional capital spending above these levels with PURA approval. PURA ordered an accelerated replacement program for Yankee Gas to fully replace its cast iron and bare steel facilities in 11 years and fully replace copper services and certain steel mains and services in 14 years. In addition, Yankee Gas was authorized to continue its ongoing natural gas system expansion program, implement a revenue decoupling rate mechanism, and recover certain merger-related costs. The settlement agreement included a regulatory ROE of 9.3 percent. In addition, the distribution rates charged to customers were adjusted to reflect the prospective impacts of the lower federal corporate income tax rate, the overcollection of the lower income tax rate from January 1, 2018, and the EDIT from the Tax Cuts and Jobs Act. Although new rates were effective January 1, 2019, the provisions of the settlement agreement took effect November 15, 2018. The settlement agreement resulted in a $4.0 million pre-tax benefit to earnings in 2018 primarily for DIMP costs allowed for recovery.

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	$ 1,962.5	$ 1,818.1
Less: Accumulated Depreciation	(441.2)	(433.8)
Property, Plant and Equipment, Net	1,521.3	1,384.3
Construction Work in Progress	39.0	43.7
Total Property, Plant and Equipment, Net	$ 1,560.3	$ 1,428.0

Depreciation of assets is calculated on a straight-line basis using composite rates based on the estimated remaining useful lives of the various classes of property. The composite rates, which are subject to approval by the PURA, include a cost of removal component, which is collected from customers over the lives of the plant assets and is recognized as a regulatory liability. Depreciation rates are applied to property from the time it is placed in service. Upon retirement from service, the cost of the asset is charged to the accumulated provision for depreciation. The actual incurred removal costs are applied against the related regulatory liability. The depreciation rates for the various classes of property, plant and equipment aggregate to a composite rate of 2.2 percent in both 2018 and 2017. As of December 31, 2018, the average remaining useful life of Yankee Gas' depreciable assets was 48.3 years.

4. ASSET RETIREMENT OBLIGATIONS

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

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

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

	As of December 31,	
(Millions of Dollars)	2018	2017
Balance as of Beginning of Year	$ 4.8	$ 4.6
Accretion	0.2	0.2
Revisions in Estimated Cash Flows	(1.0)	—
Balance as of End of Year	$ 4.0	$ 4.8

5. GOODWILL

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

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

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

The annual goodwill assessment included an evaluation of credit ratings, financial performance, cost and risk factors, long-term strategy, growth and future projections, as well as macroeconomic, industry and market conditions. Yankee Gas completed its annual goodwill impairment test as of October 1, 2018 and determined that no impairment existed. There were no events subsequent to October 1, 2018 that indicated impairment of goodwill.

6. SHORT-TERM DEBT

The Eversource Energy holding company ("Eversource parent") has a $1.45 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt. Eversource parent and certain of its subsidiaries, including Yankee Gas, are also parties to a five-year $1.45 billion revolving credit facility. 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, there were intercompany loans from Eversource parent to Yankee Gas of $171.2 million recorded as Notes Payable to Eversource Parent and classified in current liabilities on the balance sheet as all borrowings are outstanding for no more than 364 days at one time. As of December 31, 2017, there were no intercompany loans from Eversource parent to Yankee Gas. The weighted-average interest rate on borrowings as of December 31, 2018 was 2.77 percent.

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

7. LONG-TERM DEBT

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

	As of December 31,	
(Millions of Dollars)	**2018**	**2017**
First Mortgage Bonds:		
6.90% Series J due 2018	$ —	$ 100.0
5.26% Series H due 2019	50.0	50.0
4.87% Series K due 2020	50.0	50.0
8.48% Series B due 2022	20.0	20.0
3.35% Series M due 2025	75.0	75.0
3.02% Series N due 2027	75.0	75.0
5.35% Series I due 2035	50.0	50.0
4.82% Series L due 2044	100.0	100.0
4.13% Series O due 2048	50.0	—
Total First Mortgage Bonds	470.0	520.0
Less Amounts due Within One Year	(50.0)	(100.0)
Unamortized Premium - Fair Value Adjustment	0.2	0.3
Unamortized Debt Issuance Costs	(1.7)	(1.7)
Yankee Gas Long-Term Debt	$ 418.5	$ 418.6

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

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 a non-qualified defined benefit retirement plan ("SERP Plan"), which provides 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").

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

The difference between the actual return and calculated expected return on plan assets for the Pension and PBOP Plans is reflected as a component of unamortized actuarial gains or losses, which are recorded in Regulatory Assets or Accumulated Other Comprehensive Income/(Loss). 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: Yankee Gas participates in the overall Eversource single-employer Pension Plan and SERP Plan 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 Plan does not contain any assets. The following table provides information on the portions attributable to Yankee Gas in the Eversource single-employer Pension and SERP Plans:

Pension and SERP	**As of December 31,**	
(Millions of Dollars)	**2018**	**2017**
Benefit Obligation	$ (180.2)	$ (200.5)
Fair Value of Pension Plan Assets	140.4	142.9
Funded Status	$ (39.8)	$ (57.6)
Employer Contributions	$ 9.6	$ 12.7
Benefits Paid	8.0	8.3
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 balance sheets.

Yankee Gas' accumulated benefit obligation for the Pension and SERP Plans was $159.4 million and $183.4 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	4.37% — 4.43%	3.68% — 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.

Yankee 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 statements of income. The remaining components of net periodic benefit costs are included in Other Income, Net on the statements of income. Pension and SERP expense reflected in the 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	$ 4.0	$ 3.5
Interest Cost	6.6	6.6
Expected Return on Pension Plan Assets	(12.0)	(10.2)
Actuarial Loss	4.1	4.1
Prior Service Cost	0.4	0.1
Total Net Periodic Benefit Expense	$ 3.1	$ 4.1
Intercompany Allocations	$ 1.1	$ 1.5

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	3.99% — 4.61%	3.30% — 3.90%
Expected Long-Term Rate of Return	8.25%	8.25%
Compensation/Progression Rate	3.50%	3.50%

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

PBOP	**As of December 31,**	
(Millions of Dollars)	**2018**	**2017**
Benefit Obligation	$ (25.4)	$ (28.4)
Fair Value of Plan Assets	15.9	17.7
Funded Status	$ (9.5)	$ (10.7)
Benefits Paid	$ 1.2	$ 1.1

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.

Yankee Gas' components of net periodic benefit expense 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 and the intercompany allocations, less the capitalized portion, are included in Operations and Maintenance expense on the statements of income. The remaining components of net periodic benefit costs are included in Other Income, Net on the statements of income. PBOP expense reflected in the statements of cash flows does not include the intercompany allocations or the corresponding capitalized portion, as these amounts are cash settled on a short-term basis.

PBOP	**For the Years Ended December 31,**	
(Millions of Dollars)	**2018**	**2017**
Service Cost	$ 0.6	$ 0.5
Interest Cost	1.0	0.8
Expected Return on Plan Assets	(1.5)	(1.4)
Actuarial Loss	0.2	0.1
Prior Service Cost	0.3	0.3
Total Net Periodic Benefit Expense	$ 0.6	$ 0.3
Intercompany Allocations	$ (0.2)	$ (0.2)

The following actuarial assumptions were used to calculate PBOP expense 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 $7.6 million will be contributed by Yankee Gas. Eversource expects to make approximately $11 million in contributions to the PBOP Plan in 2019.

B. Defined Contribution Plans

Eversource maintains defined contribution plans on behalf of eligible participants, including, among others, employees of Yankee Gas. The Eversource 401k Plan provides for employee and employer contributions up to statutory limits. For eligible employees, the Eversource 401k Plan provides employer matching contributions of either 100 percent up to a maximum of three percent of eligible compensation or 50 percent up to a maximum of eight percent of eligible compensation. 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 Yankee Gas were $1.5 million for both of the years ended December 31, 2018 and 2017.

9. INCOME TAXES

The components of income tax expense were as follows:

	For the Years Ended December 31,	
(Millions of Dollars)	**2018**	**2017**
Current Income Taxes:		
Federal	$ 13.7	$ (11.7)
State	6.1	2.0
Total Current	19.8	(9.7)
Deferred Income Taxes, Net:		
Federal	0.6	32.3
State	(5.0)	(1.6)
Total Deferred	(4.4)	30.7
Investment Tax Credits, Net	(0.1)	(0.3)
Income Tax Expense	$ 15.3	$ 20.7

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

	For the Years Ended December 31,	
(Millions of Dollars, except percentages)	**2018**	**2017**
Income Before Income Tax Expense	$ 71.1	$ 59.6
Statutory Federal Income Tax Expense at 21% in 2018 and 35% in 2017	14.9	20.8
Tax Effect of Differences:		
Depreciation	(0.5)	(0.3)
Investment Tax Credit Amortization	(0.1)	(0.3)
State Income Taxes, Net of Federal Impact	(3.0)	(5.4)
Excess Stock Benefit	—	(0.1)
Other, Net	4.0	6.0
Income Tax Expense	$ 15.3	$ 20.7
Effective Tax Rate	21.5%	34.7%

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

The PURA requires that the tax effect of certain property, plant and equipment related temporary differences that directly impact Yankee Gas' customers receive "flow-through" treatment. Using flow-through treatment, the deferred tax expense is included in determining customers' rates.

Flow-through treatment can result in effective income tax rates that are different than statutory income tax rates and therefore are part of the income tax rate reconciliation for Yankee Gas. Recording deferred taxes on flow-through items is required by relevant accounting guidance and the offset to the deferred tax amounts is a regulatory asset or liability.

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

	As of December 31,	
(Millions of Dollars)	2018	2017
Deferred Tax Assets:		
Allowance for Uncollectible Accounts	$ 5.3	$ 4.8
Regulatory Deferrals - Liabilities	7.4	7.8
Employee Benefits	15.8	20.6
Tax Effect - Tax Regulatory Liabilities	53.2	54.7
Other	4.0	2.6
Total Deferred Tax Assets	$ 85.7	$ 90.5
Deferred Tax Liabilities:		
Accelerated Depreciation and Other Plant-Related Differences	$ 249.1	$ 239.2
Property Tax Accruals	4.3	4.4
Regulatory Amounts:		
Regulatory Deferrals - Assets	33.6	37.6
Tax Effect - Tax Regulatory Assets	18.6	16.6
Other	(5.5)	(6.6)
Total Deferred Tax Liabilities	$ 300.1	$ 291.2

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 $177 million and included in regulatory liabilities as of December 31, 2018. The Company refunded $0.6 million to customers in 2018. See Note 2, "Regulatory Accounting," to the 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 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.

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

	As of December 31, 2018		As of December 31, 2017	
(Millions of Dollars)	Total	Expiration Range	Total	Expiration Range
State Tax Credit	$ 24.0	2018 - 2023	$ 19.4	2017 - 2022

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

(Millions of Dollars)	
Balance as of January 1, 2017	$ 21.2
Gross Increases - Current Year	4.9
Gross Decreases - Prior Year	(0.1)
Lapse of Statute of Limitations	(2.5)
Balance as of December 31, 2017	23.5
Gross Increases - Current Year	5.5
Gross Increases - Prior Year	0.2
Lapse of Statute of Limitations	(3.4)
Balance as of December 31, 2018	$ 25.8

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

	For the Years Ended December 31,			As of December 31,	
(Millions of Dollars)	2018	2017	*(Millions of Dollars)*	2018	2017
Other Interest Income	$ —	$ —	Accrued Interest Expense	$ 0.1	$ 0.1

Tax Positions: During 2018 and 2017, Yankee Gas did not resolve any of its uncertain tax positions.

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

Description	Tax Years
Federal (Eversource consolidated)	2018
Connecticut	2015 - 2018

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

10. COMMITMENTS AND CONTINGENCIES

A. Environmental Matters

General: Yankee Gas is subject to environmental laws and regulations intended to mitigate or remove the effect of past operations and improve or maintain the quality of the environment. These laws and regulations require the removal or the remedy of the effect on the environment of the disposal or release of certain specified hazardous substances at current and former operating sites. Yankee Gas has an active environmental auditing and training program and believes that it is substantially in compliance with all enacted laws and regulations. The environmental sites are 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 Yankee Gas may have potential liability.

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

These reserve estimates are subjective in nature as they take into consideration several different remediation options at each specific site. The reliability and precision of these estimates can be affected by several factors, including new information concerning the level of contamination at the site, the extent of Yankee Gas' responsibility for remediation or the extent of remediation required, recently enacted laws and regulations or changes in cost estimates due to certain economic factors. It is possible that new information or future developments could require a reassessment of the potential exposure to 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 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	$ 25.0	$ 26.4
Additions	9.5	1.0
Payments/Reductions	(4.8)	(2.4)
Balance as of End of Year	$ 29.7	$ 25.0

The Company has 15 environmental sites as of December 31, 2018. As of December 31, 2018, for four of the 15 environmental sites that are included in the Company's reserve for environmental costs, the information known and the nature of the remediation options allow for the Company to estimate the range of losses for environmental costs. As of December 31, 2018, $13.1 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 $14 million may be incurred in executing current remediation plans for these sites.

As of December 31, 2018, for six environmental sites that are included in the Company's reserve for environmental costs, management cannot reasonably estimate the exposure to loss in excess of the reserve, or range of loss, as these sites are under investigation and/or there is significant uncertainty as to what remedial actions, if any, the Company may be required to undertake. As of December 31, 2018, $7.3 million has been accrued as a liability for these sites. As of December 31, 2018, for the remaining five environmental sites that are included in the Company's reserve for environmental costs, the $9.3 million accrual represents management's best estimate of the probable liability and no additional loss is anticipated at this time.

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

B. Long-Term Contractual Arrangements

The estimated future annual costs of Yankee Gas' significant 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	$ 137.1	$ 123.7	$ 99.0	$ 92.0	$ 79.0	$ 580.0	$ 1,110.8

In the normal course of business, Yankee Gas has long-term contracts for the purchase, transportation and storage of natural gas as part of its portfolio of supplies. These contracts extend through 2033. The total cost incurred under these agreements was $229.9 million and $199.1 million in 2018 and 2017, respectively.

C. Litigation and Legal Proceedings

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

11. LEASES

Yankee Gas incurs costs associated with leases entered into by affiliated Eversource subsidiaries, including Eversource Service, The Rocky River Realty Company and CL&P, for the use of office space, service centers, 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 $1.2 million and $1.1 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 operating leases, as of December 31, 2018 are as follows:

(Millions of Dollars)	
2019	$ 0.3
2020	0.3
2021	0.3
2022	0.2
2023	0.1
Thereafter	—
Future Minimum Lease Payments	$ 1.2

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The carrying amount of Yankee Gas' long-term debt was $468.5 million and $518.6 million as of December 31, 2018 and 2017, respectively. The estimated fair values of these financial instruments were $481.8 million and $554.8 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/(LOSS)

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

	For the Year Ended December 31, 2018			For the Year Ended December 31, 2017		
(Millions of Dollars)	Qualified Cash Flow Hedging Instruments	SERP Plan	Total	Qualified Cash Flow Hedging Instruments	SERP Plan	Total
Balance as of Beginning of Year	$ (0.5)	$ (0.5)	$ (1.0)	$ (0.6)	$ (0.8)	$ (1.4)
OCI Before Reclassifications	—	0.2	0.2	—	0.1	0.1
Amounts Reclassified from AOCL	0.1	0.1	0.2	0.1	0.2	0.3
Net OCI	0.1	0.3	0.4	0.1	0.3	0.4
Balance as of End of Year	$ (0.4)	$ (0.2)	$ (0.6)	$ (0.5)	$ (0.5)	$ (1.0)

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

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

As of December 31, 2018, it was estimated that a pre-tax amount of $0.1 million will be reclassified from AOCL as a decrease to Net Income over the next 12 months as a result of the amortization of interest rate swap agreements, which have been settled, and a pre-tax amount of $0.1 million will be reclassified from AOCL as a decrease to Net Income over the next 12 months as a result of the amortization of SERP costs.

14. COMMON STOCK

Yankee Gas had 1,000 shares of common stock authorized, issued and outstanding at a $5 per share par value as of December 31, 2018 and 2017.

15. REVENUES

On January 1, 2018, Yankee 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	$ 247.5
Commercial	189.1
Industrial	74.9
Total Retail Tariff Sales Revenue	511.5
Wholesale Market Sales Revenue	9.0
Other Revenue from Contracts with Customers	0.9
Reserve for Revenue Subject to Refund	(8.2)
Total Revenue from Contracts with Customers	513.2
Alternative Revenue Programs	4.6
Other Revenue	1.9
Total Operating Revenues	$ 519.7

Retail Tariff Sales: Yankee Gas provides products and services to its regulated customers under rates, pricing, payment terms and conditions of service, regulated by the PURA. 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 Yankee 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). Yankee 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, system expansion costs and conservation costs. These tracking mechanisms result in rates being changed periodically to ensure recovery of actual costs incurred.

A significant portion of Yankee 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 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.

Reserve for Revenue Subject to Refund: Current base rates include an estimate of income taxes, which was based on the U.S. federal corporate income tax rate in effect at the time of the rate proceeding. Yankee Gas established a regulatory liability, recorded as a reduction to revenue, to reflect the difference between the 35 percent federal corporate income tax rate included in rates charged to customers and the 21 percent federal corporate income tax rate, effective January 1, 2018 as a result of the Tax Cuts and Jobs Act, until rates billed to customers reflect the lower federal tax rate. Effective November 15, 2018, Yankee Gas adjusted distribution rates to reflect the lower federal income tax rate prospectively and to refund its regulatory liability associated with the higher federal corporate income tax rate billed to customers in the period between January 1, 2018 through November 14, 2018. Although Yankee Gas' new rates were effective January 1, 2019, the provisions of the settlement agreement took effect November 15, 2018.

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. Yankee 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.

Yankee Gas' ARPs include a revenue decoupling mechanism and a capital tracker mechanism to invest capital to replace aging infrastructure, both of which were approved by PURA, effective November 15, 2018, as part of the Yankee Gas rate case settlement agreement. Decoupled distribution revenues are not directly based on sales volumes. Yankee 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. Effective November 15, 2018, Yankee Gas records a regulatory deferral to reflect the actual allowed amount of revenue associated with its decoupled distribution rate design.

Practical Expedients: Yankee 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 Yankee Gas has unsatisfied performance obligations.