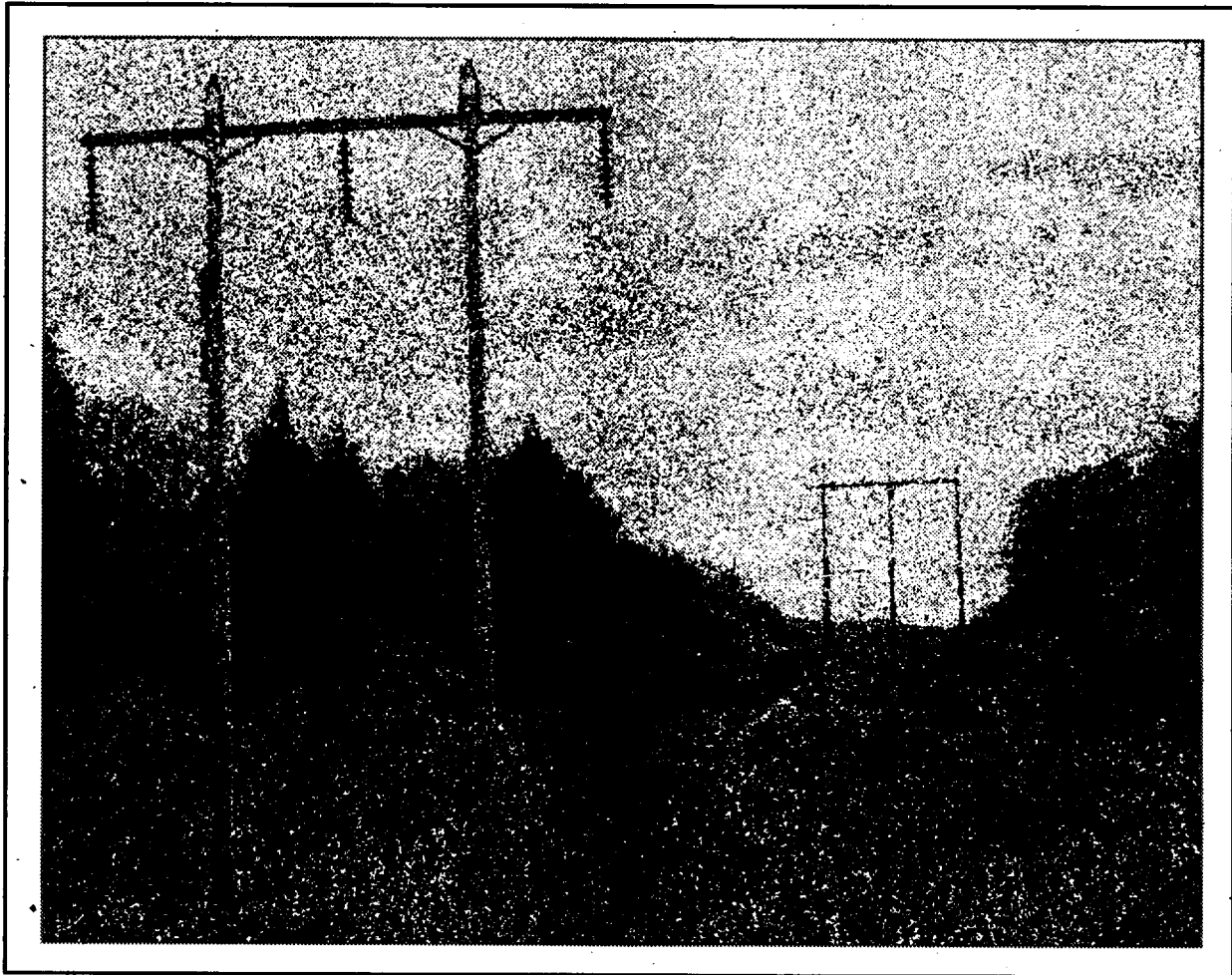


# 2000 Annual Report



**Western Massachusetts  
Electric**

**The Northeast Utilities System**

## **Directors**

David H. Boguslawski  
Vice President—Energy Delivery  
Western Massachusetts Electric  
Company

James E. Byrne  
Partner  
Finneran, Byrne & Drechsler, LLP

John H. Forsgren  
Executive Vice President and  
Chief Financial Officer  
Northeast Utilities

Kerry J. Kuhlman  
President and  
Chief Operating Officer  
Western Massachusetts Electric  
Company

Paul J. McDonald  
Advisor to the Board of  
Directors of Friendly Ice Cream  
Corporation

Michael G. Morris  
Chairman of the Board,  
President and  
Chief Executive Officer  
Northeast Utilities

Melinda M. Phelps  
Partner  
Keyes and Donnellan, PC

## **Executive Committee of the Board of Directors**

Michael G. Morris  
Chairman

David H. Boguslawski

John H. Forsgren

Kerry J. Kuhlman

## **Officers**

Michael G. Morris  
Chairman and Chief  
Executive Officer

Kerry J. Kuhlman  
President and Chief  
Operating Officer

David H. Boguslawski  
Vice President—  
Energy Delivery

David R. McHale  
Vice President and Treasurer

John J. Roman  
Vice President and Controller

Roger C. Zaklukiewicz  
Vice President—  
Transmission and Distribution

John P. Stack  
Executive Director—Corporate  
Accounting and Taxes

Patricia A. Wood  
Clerk

O. Kay Comendul  
Assistant Clerk

William J. Quinlan  
Assistant Clerk

Deborah L. Canyock  
Assistant Controller—  
Management Information and  
Budgeting Services

Lori A. Mahler  
Assistant Controller—  
Accounting Services

William J. Starr  
Assistant Controller—Taxes

Thomas V. Foley  
Assistant Secretary

Margaret L. Morton  
Assistant Secretary

Randy A. Shoop  
Assistant Treasurer—Finance

2000 Annual Report  
Western Massachusetts Electric Company and Subsidiary  
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## **Western Massachusetts Electric Company and Subsidiary**

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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#### **FINANCIAL CONDITION**

##### **Overview**

The Western Massachusetts Electric Company's (WMECO or the company) earnings totaled \$35.3 million in 2000, compared with \$2.9 million in 1999 and a loss of \$9.6 million in 1998. WMECO is an operating company in the Northeast Utilities system (NU system) and is wholly owned by Northeast Utilities (NU). WMECO benefited from the return to service of the Millstone 2 unit in May 1999, the strong performance of the Millstone 2 and 3 units in 2000 and the absence of restructuring charges in 2000. Millstone 2 operated at a capacity factor of 82 percent in 2000, while Millstone 3 operated at a capacity factor of virtually 100 percent in 2000. In 2000, WMECO's revenues increased to \$513.7 million, up 24 percent from \$414.2 million in 1999, primarily due to higher wholesale and retail revenues. Revenues were \$393.3 million in 1998.

##### **Consolidated Edison, Inc. Merger**

In 2000, NU and Consolidated Edison, Inc. (Con Edison) received most of the approvals needed to complete the merger announced in October 1999. Shareholders from both companies approved the merger in April 2000, and all state regulatory approvals were granted by the end of the year. Additionally, the Federal Energy Regulatory Commission (FERC) approved the merger in May 2000, the Nuclear Regulatory Commission approved the transaction in August 2000, and the United States Department of Justice approved the merger in February 2001. Necessary approval from the Securities and Exchange Commission (SEC) was expected to be received in mid-March 2001.

On February 28, 2001, NU's Board of Trustees requested that Con Edison provide reasonable assurance, in writing, that it intended to comply with the terms of the definitive merger agreement between the two companies. This included assurances that Con Edison would consummate the pending merger at the price set forth in the agreement promptly following the receipt of SEC approval. The original request for assurance was to be received by March 2, 2001, however, that date was later extended to March 5, 2001. On March 5, 2001, Con Edison advised NU that it was not willing to close the merger on the agreed terms. NU notified Con Edison that it was treating its refusal to proceed on the terms set forth in the merger agreement as a repudiation and breach of the merger agreement, and that NU would file suit to obtain the benefits of the transaction as negotiated for NU shareholders. On March 6, 2001, Con Edison filed suit in the U.S. District Court for the Southern District of New York (Southern District), seeking declaratory judgment that NU failed to satisfy conditions precedent under the merger agreement. On March 12, 2001, NU filed suit against Con Edison in the Southern District seeking damages in excess of \$1

billion arising from Con Edison's breach of the merger agreement. NU cannot predict the outcome of this matter nor its effect on NU.

### **Liquidity**

WMECO's net cash flows provided by operating activities from operations increased to \$71.5 million in 2000 compared to \$2.1 million in 1999 and \$27.6 million in 1998. The increase in cash flows from operations is primarily attributable to increased earnings and higher amortization of regulatory assets, a noncash expense. Cash flows from operations were more than adequate to meet the payment of WMECO's common and preferred dividends (\$14.8 million) and investments in electric utility plant, nuclear fuel and nuclear decommissioning trusts (\$38.6 million). The level of common dividends totaled \$12 million in 2000, as compared to no common dividends paid in 1999 and 1998. WMECO currently forecasts construction expenditures of \$26.6 million for the year 2001.

The transfer of 1,289 megawatts (MW) of hydroelectric generation assets to Northeast Generation Company, an affiliated company, from WMECO and The Connecticut Light and Power Company (CL&P) in March 2000, produced a significant source of cash for WMECO and CL&P. WMECO used this cash primarily to retire long-term debt and to return equity capital to the parent company. During 2000, \$94.2 million of long-term debt was retired compared to \$100.9 million in 1999 and \$9.8 million in 1998.

In November 2000, WMECO and CL&P reduced their revolving credit agreement to \$350 million from \$500 million to reflect lower borrowing needs post-restructuring. This agreement was renewed with more favorable terms as a result of the NU system's improving credit profile. In January 2001, Moody's Investors Service and Standard and Poor's upgraded their credit ratings for WMECO primarily as a result of the anticipated sale of the Millstone units and NU's general financial recovery. In February 2001, Fitch IBCA upgraded its credit ratings for WMECO. These upgrades return WMECO's unsecured debt to investment grade ratings for the first time in five years and will save the NU system in excess of \$4.7 million annually in financing costs.

For further information regarding the WMECO's borrowing facilities, see Note 2, "Short-Term Debt," to the consolidated financial statements.

In 2001, NU expects to reduce the capitalization of its regulated electric operating companies significantly as a result of continued asset sales and securitization of stranded costs. WMECO expects to receive gross proceeds of \$196.2 million as a result of the sale of its ownership interest in the Millstone units to Dominion Resources, Inc. (Dominion). This sale is expected to close as early as the end of March 2001. The cash proceeds are expected to be used to repay subsidiary debt and capital lease obligations and to return equity capital to the parent company.

During February 2001, the Massachusetts Department of Telecommunications and Energy (DTE) approved the securitization of \$155 million of stranded costs by WMECO. A significant portion of those proceeds will be used to buyout a purchased-power contract with the remainder used to retire WMECO's debt and to return equity capital to the parent company. Securitization for WMECO is expected to take place early in the second quarter of 2001.

### **Restructuring**

As a result of industry restructuring, WMECO stopped supplying power directly to customers in 2000. Instead, WMECO became an energy delivery company, delivering electricity to customers that is produced by other companies and sometimes bought by customers through intermediaries. In 2000, customers in Massachusetts had the option of choosing alternative power suppliers or relying on WMECO to acquire the power for them through standard offer service.

WMECO continues to generate power through either direct ownership of generating plants, such as Millstone 2 and 3, or through purchased-power contracts. WMECO sold its share of the capacity associated with Millstone 2 and 3 to Select Energy, Inc. and five unaffiliated companies. These contracts will expire on December 31, 2001. The revenues generated from these contracts are expected to recover WMECO's share of the nuclear operating costs through the divestiture of the Millstone units.

In 2000, WMECO supplied power to standard offer customers at a rate of slightly more than \$0.045 per kilowatt-hour. As a result of new one-year standard offer supply contracts signed in December 2000, that rate will increase significantly in 2001 to approximately \$0.073 per kilowatt-hour. In January 2001, the DTE approved an average overall rate increase of approximately 17.4 percent for WMECO standard offer customers, allowing WMECO to fully recover these increased power procurement costs. A higher rate was also approved for customers who take default service from WMECO. Under the new standard offer contracts, three unaffiliated companies provide up to 630 MW of power to WMECO's standard offer customers and one unaffiliated company serves WMECO's default load of up to 70 MW through December 31, 2001. WMECO renegotiates its standard offer supply contracts on an annual basis.

For further information regarding commitments and contingencies related to restructuring, see Note 9A, "Commitments and Contingencies - Restructuring," to the consolidated financial statements.

## **Regional Transmission Organization**

Pursuant to FERC Order 888 (issued in April 1996), the NU system companies, including WMECO, operate their transmission system under an open access, nondiscriminatory transmission tariff.

In December 1999, the FERC issued an order calling on all transmission owners to voluntarily join Regional Transmission Organizations (RTOs) in order to boost competition in electric markets. In general, each of these organizations would be an independent operator over all transmission facilities, and would perform, among other functions, tariff administration, construction planning and reliability management for the particular regional transmission system. NU's active voting interest in such an organization would be limited to 5 percent under the proposal.

The NU system companies, including WMECO, and other parties have appealed this order. Of primary concern to NU is the ratemaking authority granted to RTOs and its impact on the ability of transmission owners to earn appropriate returns on their transmission investment under the organizational structure and the minimum functions proposed in the order. The NU system companies, including WMECO, were required to participate in a collaborative process established by the FERC beginning in March of 2000. On January 16, 2001, NU along with the Independent System Operator and five other New England transmission owning utilities filed a proposal to establish a New England RTO.

## **Nuclear Plant Performance And Divestiture**

### **Millstone**

The Millstone units completed one of their best years ever in 2000. Millstone 2 operated at a capacity factor of 82 percent in 2000 and completed a refueling outage in early June more than four days ahead of schedule. The 40-day, 21-hour outage set a world record for a refueling that included a full generator rewind. Millstone 3 operated at virtually a 100 percent capacity factor in 2000 and ran for 585 consecutive days before beginning a scheduled refueling outage on February 3, 2001. Millstone 3 is expected to return to service by the end of the first quarter of 2001.

On August 7, 2000, WMECO and certain other joint owners reached an agreement to sell substantially all of the Millstone units, located in Waterford, Connecticut, to Dominion, for approximately \$1.3 billion, including approximately \$105 million for nuclear fuel. Dominion has also agreed to assume responsibility for decommissioning the three units and NU will transfer to Dominion all funds in the Millstone decommissioning trust. Additionally, NU is obligated to top-off the decommissioning trust if its value does not equal an agreed upon amount at closing. That amount is pursuant to the purchase and sale agreement (PSA) with Dominion, subject to adjustment for delays in the closing of the sale and Millstone 1 not meeting the "cold and dark" condition specified in the PSA.



If the transaction is consummated as proposed, WMECO would receive gross proceeds of approximately \$196.2 million on a pretax basis for its respective ownership interest. The proceeds from the sale of this interest will be used to reduce the company's stranded costs under restructuring and the cash proceeds will be used to repay subsidiary debt and capital lease obligations and to return equity capital to the parent company.

In preparation for the divestiture of the Millstone units, it was discovered that two full-length irradiated fuel rods are missing. NU believes that the two rods remain stored in the Millstone 1 spent fuel pool or were shipped in a shielded cask to a facility licensed to accept radioactive material. NU's investigation into the location of the two rods is ongoing. NU is responsible for any potential liabilities, which are not determinable at this time, related to these missing fuel rods.

NU currently expects to close on the sale of Millstone as early as the end of March 2001.

#### **Yankee Companies**

In 1999, the Vermont Yankee Nuclear Power Corporation (VYNPC) agreed to sell its nuclear generating unit for \$22 million to an unaffiliated company. Among other commitments, the acquiring company agreed to assume the obligation to decommission the unit after it is taken out of service, and the owners of VYNPC (including WMECO) agreed to fund their shares of the decommissioning costs up to a negotiated amount. Subsequent to the time that agreement was executed, the original proposed acquiring company increased its purchase price and three other unaffiliated companies have indicated their interest in buying VYNPC's generating unit on terms that have not been disclosed. On February 14, 2001, the Vermont Public Service Board dismissed the acquiring company's petition for approval and VYNPC agreed to work with the Vermont regulators to develop an auction process for the sale of the unit. At present, WMECO expects that the unit will be sold, but the identity of the owner and the terms of sale, including price, future decommissioning obligations and future power purchase obligations, are not known.

#### **Nuclear Decommissioning**

In connection with the aforementioned sale of the Millstone units, Dominion has agreed to assume responsibility for decommissioning the Millstone units.

For further information regarding nuclear decommissioning, see Note 10, "Nuclear Decommissioning and Plant Closure Costs," to the consolidated financial statements.

#### **Spent Nuclear Fuel Disposal Costs**

The United States Department of Energy (DOE) originally was scheduled to begin accepting delivery of spent nuclear fuel in 1998. However, delays in confirming the suitability of a permanent storage site continually have postponed plans for the DOE's long-term storage and disposal site. Extended delays or a default by the DOE could lead to consideration of costly alternatives. WMECO has the primary

responsibility for the interim storage of its spent nuclear fuel prior to divestiture of its nuclear units.

For further information regarding spent nuclear fuel disposal costs, see Note 9D, "Commitments and Contingencies - Spent Nuclear Fuel Disposal Costs," to the consolidated financial statements.

## **Other Matters**

### **Environmental Matters**

WMECO is subject to environmental laws and regulations structured to mitigate or remove the effect of past operations and to improve or maintain the quality of the environment. For further information regarding environmental matters, see Note 9C, "Commitments and Contingencies - Environmental Matters," to the consolidated financial statements.

### **Other Commitments and Contingencies**

For further information regarding other commitments and contingencies, see Note 9, "Commitments and Contingencies," to the consolidated financial statements.

### **Forward Looking Statements**

This discussion and analysis includes forward looking statements, which are statements of future expectations and not facts including, but not limited to, statements regarding future earnings, refinancings, the use of proceeds from restructuring, and the recovery of operating costs. Words such as *estimates*, *expects*, *anticipates*, *intends*, *plans*, and similar expressions identify forward looking statements. Actual results or outcomes could differ materially as a result of further actions by state and federal regulatory bodies, competition and industry restructuring, changes in economic conditions, changes in historical weather patterns, changes in laws, developments in legal or public policy doctrines, technological developments, and other presently unknown or unforeseen factors.

## **RESULTS OF OPERATIONS**

The components of significant income statement variances for the past two years are provided in the table below.

### Income Statement Variances (Millions of Dollars)

	<u>2000 over/(under) 1999</u>		<u>1999 over/(under) 1998</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Operating Revenues	\$ 99	24%	\$21	5%
Operating Expenses:				
Fuel, purchased and net interchange power	95	62	21	16
Other operation	(26)	(25)	(16)	(13)
Maintenance	(14)	(30)	(9)	(16)
Depreciation	(10)	(36)	(13)	(32)
Amortization of regulatory assets, net	21	80	20	(a)
Federal and state income taxes	2	12	17	(a)
Taxes other than income taxes	(3)	(14)	1	5
Gain on sale of utility plant	<u>22</u>	<u>100</u>	<u>(22)</u>	<u>-</u>
Total operating expenses	<u>87</u>	<u>23</u>	<u>(1)</u>	<u>-</u>
Operating income	<u>12</u>	<u>30</u>	<u>22</u>	<u>(a)</u>
Other Income:				
Equity in earnings of regional nuclear generating and transmission companies	2	(a)	(1)	(76)
Nuclear related costs	15	84	(18)	-
Other, net	5	(a)	(2)	(90)
Other income taxes	<u>(4)</u>	<u>(39)</u>	<u>8</u>	<u>(a)</u>
Net other income	18	(a)	(13)	(a)
Interest charges, net	<u>(2)</u>	<u>(7)</u>	<u>(4)</u>	<u>(12)</u>
Net income/(loss)	<u>\$ 32</u>	<u>(a)</u>	<u>\$13</u>	<u>(a)</u>

(a) Percent greater than 100.

**Operating Revenues**

Operating revenues increased by \$99 million or 24 percent in 2000, primarily due to higher wholesale and retail revenues. Wholesale revenues increased (\$82 million) as a result of the sale of output from Millstone 2 and 3, and the amortization of the gain on the transfer of certain hydroelectric generation assets (\$6 million). Retail revenues increased by \$11 million due to retail rate increases in late 1999 and early 2000. Retail sales compared to 1999 were flat.

Operating revenues increased by \$21 million or 5 percent in 1999, primarily due to higher wholesale and retail revenues. Wholesale revenues increased (\$17 million) due to higher energy sales and related capacity and transmission revenues. Retail revenues increased by \$4 million due to the retail kilowatt-hour sales increase of 3.6 percent which increased revenues by \$16 million and was partially offset by the retail rate decrease in 1998 (\$12 million).

**Fuel, Purchased and Net Interchange Power**

Fuel, purchased and net interchange power expense increased in 2000, primarily due to the transition, under industry restructuring, of purchasing full requirements for customers from standard offer suppliers, in addition to the remaining fuel costs of the nuclear units and cogenerators.

Fuel, purchased and net interchange power expense increased in 1999, primarily due to a reversal of fuel expense deferrals which were recorded in other operation and maintenance (O&M) expenses as a result of the WMECO restructuring order, partially offset by lower replacement power costs.

**Other Operation and Maintenance**

Other O&M expenses decreased in 2000, primarily due to lower spending at the nuclear units (\$17 million), the decommissioning status of Millstone 1 (\$7 million), lower administrative and general expenses (\$14 million), lower fossil and hydroelectric expenses due to the sale of certain fossil generation assets and transfer of certain hydroelectric generation assets (\$6 million), partially offset by higher transmission expenses (\$4 million).

Other O&M expenses decreased in 1999, primarily due to lower costs at the Millstone units (\$17 million), deferrals associated with the restructuring order (\$5 million), and lower fossil and hydroelectric O&M costs (\$4 million), partially offset by higher transmission expenses (\$4 million).

**Depreciation**

Depreciation decreased in 2000, primarily due to the effect of discontinuing Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," for the generation portion of the business and the resulting reclassification of depreciable nuclear plant balances to regulatory assets (\$14 million), the sale of certain fossil generation assets and the transfer of certain hydroelectric generation assets.

Depreciation decreased in 1999, primarily due to lower rates utilized in 1999 as a result of the 1999 restructuring orders and the retirement of Millstone 1.

#### **Amortization of Regulatory Assets, Net**

Amortization of regulatory assets, net increased in 2000, primarily due to changes in amortization levels as a result of industry restructuring (\$24 million) and higher amortization associated with the reclassified nuclear plant balances (\$14 million), partially offset by the amortization in 1999 of the gain on the sale of the fossil plants (\$12 million).

Amortization of regulatory assets, net increased in 1999, primarily due to increased amortization associated with the gain on the sale of fossil and hydroelectric generation assets (\$13 million), the amortization of the Millstone 1 investment (\$5 million) and the reclassification of the depreciation on the nuclear plants transferred to regulatory assets (\$4 million).

#### **Federal and State Income Taxes**

Federal and state income taxes increased in 2000 and 1999, primarily due to higher book taxable income.

#### **Taxes Other Than Income Taxes**

Taxes other than income taxes decreased in 2000, primarily due to a decrease in local property taxes.

#### **Gain on Sale of Utility Plant**

WMECO recorded a gain on the sale of its fossil and hydroelectric generation assets in 1999. A corresponding amount of amortization expense was recorded.

#### **Nuclear Related Costs**

Nuclear related costs in 2000 are comprised of a settlement of Millstone 3 joint owner litigation, net of insurance proceeds (\$2 million), and a regulatory settlement (\$1 million).

In comparison, costs in 1999 are comprised of one-time charges related to the return disallowed on Millstone 1 unrecovered plant from March 1998 forward (\$11 million), the settlement of Millstone 3 owner litigation, net of insurance proceeds (\$5 million) and the disallowed Millstone 1 plant per the Massachusetts restructuring order (\$2 million).

#### **Other, Net**

Other, net, increased in 2000, primarily due to an environmental reserve recorded in 1999 (\$3 million).

#### **Interest Charges, Net**

Interest charges, net, decreased in 2000 and 1999, primarily due to reacquisitions and retirements of long-term debt, partially offset by an increase in interest charges related to short-term borrowings.

**Western Massachusetts Electric Company and Subsidiary**

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

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To the Board of Directors  
of Western Massachusetts Electric Company:

We have audited the accompanying consolidated balance sheets of Western Massachusetts Electric Company (a Massachusetts corporation and a wholly owned subsidiary of Northeast Utilities) and subsidiary as of December 31, 2000 and 1999, and the related consolidated statements of income, comprehensive income, common stockholder's equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the company's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Massachusetts Electric Company and subsidiary as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP  
ARTHUR ANDERSEN LLP

Hartford, Connecticut  
January 23, 2001 (except with  
respect to the matter discussed  
in Note 14, as to which the  
date is March 13, 2001)

WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31,	2000	1999	1998
(Thousands of Dollars)			
Operating Revenues.....	\$ 513,678	\$ 414,231	\$ 393,322
Operating Expenses:			
Operation -			
Fuel, purchased and net interchange power.	246,130	151,714	130,401
Other.....	75,940	101,842	117,663
Maintenance.....	33,111	47,586	56,622
Depreciation.....	17,693	27,771	40,901
Amortization of regulatory assets.....	47,775	26,488	6,016
Federal and state income taxes.....	21,174	18,849	2,109
Taxes other than income taxes.....	17,759	20,677	19,756
Gain on sale of utility plant.....	-	(22,437)	-
Total operating expenses.....	459,582	372,490	373,468
Operating Income.....	54,096	41,741	19,854
Other Income/(Loss):			
Equity in earnings of regional nuclear generating companies.....	2,251	407	1,699
Nuclear related costs.....	(2,808)	(18,035)	-
Other, net.....	1,242	(3,618)	(1,905)
Income taxes.....	6,029	9,906	2,198
Other income/(loss), net.....	6,714	(11,340)	1,992
Income before interest charges.....	60,810	30,401	21,846
Interest Charges:			
Interest on long-term debt.....	14,051	24,255	28,027
Other interest.....	11,491	3,259	3,398
Interest charges, net.....	25,542	27,514	31,425
Net Income/(Loss).....	\$ 35,268	\$ 2,887	\$ (9,579)
=====			
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME			
Net Income/(Loss).....	\$ 35,268	\$ 2,887	\$ (9,579)
Other comprehensive income, net of tax:			
Unrealized gains on securities.....	22	10	183
Minimum pension liability adjustments.....	-	-	(33)
Other comprehensive income, net of tax.	22	10	150
Comprehensive Income/(Loss)	\$ 35,290	\$ 2,897	\$ (9,429)
=====			

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

WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31,	2000	1999
	(Thousands of Dollars)	
ASSETS		
Utility Plant, at original cost:		
Electric.....	\$ 1,112,405	\$ 1,175,954
Less: Accumulated provision for depreciation.....	792,923	813,978
	319,482	361,976
Construction work in progress.....	22,813	21,181
Nuclear fuel, net.....	18,296	18,880
Total net utility plant.....	360,591	402,037
Other Property and Investments:		
Nuclear decommissioning trusts, at market.....	144,921	144,567
Investments in regional nuclear generating companies, at equity.....	11,117	14,723
Other, at cost.....	6,249	6,232
	162,287	165,522
Current Assets:		
Cash.....	985	950
Receivables less the accumulated provision for uncollectible accounts of \$1,886 in 2000 and \$1,640 in 1999.....	36,364	31,692
Accounts receivable from affiliated companies.....	16,146	3,918
Taxes receivable.....	-	1,912
Accrued utility revenues.....	21,222	13,485
Fuel, materials and supplies, at average cost.....	1,606	3,097
Prepayments and other.....	4,817	3,640
	81,140	58,694
Deferred Charges:		
Regulatory assets.....	392,247	594,800
Unamortized debt expense.....	1,822	1,926
Prepaid pension.....	45,473	26,479
Other.....	4,258	4,146
	443,800	627,351
Total Assets.....	\$ 1,047,818	\$ 1,253,604

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



WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31,	2000	1999
	(Thousands of Dollars)	
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, \$25 par value - authorized 1,072,471 shares; 590,093 shares outstanding in 2000 and 1,072,471 shares outstanding in 1999.....	\$ 14,752	\$ 26,812
Capital surplus, paid in.....	94,010	171,691
Retained earnings.....	62,952	38,712
Accumulated other comprehensive income.....	182	160
Total common stockholder's equity.....	171,896	237,375
Preferred stock not subject to mandatory redemption.....	20,000	20,000
Preferred stock subject to mandatory redemption.....	15,000	16,500
Long-term debt.....	139,425	290,279
Total capitalization.....	346,321	564,154
Obligations Under Capital Leases.....	5,935	8,106
Current Liabilities:		
Notes payable to banks.....	110,000	123,000
Notes payable to affiliated company.....	600	9,400
Long-term debt and preferred stock - current portion....	61,500	1,500
Obligations under capital leases - current portion.....	20,986	21,866
Accounts payable.....	25,298	12,974
Accounts payable to affiliated companies.....	8,611	3,208
Accrued taxes.....	8,471	589
Accrued interest.....	4,703	6,046
Other.....	7,671	14,384
	247,840	192,967
Deferred Credits and Other Long-term Liabilities:		
Accumulated deferred income taxes.....	224,711	242,942
Accumulated deferred investment tax credits.....	17,580	19,765
Decommissioning obligation - Millstone 1.....	136,130	136,130
Deferred contractual obligations.....	42,519	63,701
Other.....	26,782	25,839
	447,722	488,377

Commitments and Contingencies (Note 9)

Total Capitalization and Liabilities.....	\$ 1,047,818	\$ 1,253,604
	=====	=====

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

WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

	Common Stock	Capital Surplus, Paid In	Retained Earnings (a)	Accumulated Other Comprehensive Income	Total
(Thousands of Dollars)					
Balance at January 1, 1998.....	\$ 26,812	\$151,171	\$ 58,608	\$ -	\$236,591
Net loss for 1998.....			(9,579)		(9,579)
Cash dividends on preferred stock....			(3,026)		(3,026)
Capital stock expenses, net.....		260			260
Other comprehensive income.....				150	150
Balance at December 31, 1998.....	26,812	151,431	46,003	150	224,396
Net income for 1999.....			2,887		2,887
Cash dividends on preferred stock....			(3,298)		(3,298)
Capital stock expenses, net.....		260			260
Allocation of benefits - ESOP.....			(6,880)		(6,880)
Capital contribution from Northeast Utilities.....		20,000			20,000
Other comprehensive income.....				10	10
Balance at December 31, 1999.....	26,812	171,691	38,712	160	237,375
Net income for 2000.....			35,268		35,268
Cash dividends on preferred stock....			(2,798)		(2,798)
Cash dividends on common stock.....			(12,002)		(12,002)
Repurchase of common stock.....	(12,060)	(77,940)			(90,000)
Capital stock expenses, net.....		259			259
Tax benefit for 1993-1999 from reduction of NU parent losses(b)...			3,824		3,824
Allocation of benefits - ESOP.....			(52)		(52)
Other comprehensive income.....				22	22
Balance at December 31, 2000.....	\$ 14,752	\$ 94,010	\$ 62,952	\$ 182	\$171,896
	=====	=====	=====	=====	=====

(a) The company has no dividend restrictions. However, the company has a 30% common equity test to meet and therefore, at December 31, 2000, cannot pay out approximately \$31.5 million in equity.

(b) In June 1999, WMECO paid NU parent \$6.9 million for NU shares issued from 1992 through 1998 on behalf of its employees in accordance with NU's 401(k) plan. This transaction resulted in a reduction of the NU parent loss and a tax benefit to WMECO. The amount in 2000 represents the remaining previously unallocated 1993 through 1999 NU parent losses.

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

## WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Dollars)	For the Years Ended December 31,		
	2000	1999	1998
<b>Operating Activities:</b>			
Net income/(loss).....	\$ 35,268	\$ 2,887	\$ (9,579)
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation.....	17,693	27,771	40,901
Deferred income taxes and investment tax credits, net.....	(11,549)	(6,544)	7,405
Amortization of recoverable energy costs, net.....	9,386	-	-
Amortization of regulatory assets, net.....	47,775	26,488	6,016
Tax benefit for 1993-1999 from reduction of NU parent losses.....	3,824	-	-
Nuclear related costs.....	2,808	18,035	-
Allocation of ESOP benefits.....	(52)	(6,880)	-
Gain on sale of utility plant.....	-	(22,437)	-
Other uses of cash.....	(28,834)	(24,096)	(6,553)
Changes in working capital:			
Receivables and accrued utility revenues.....	(24,637)	(44,045)	1,622
Fuel, materials and supplies.....	1,491	1,956	807
Accounts payable.....	17,727	(14,636)	(20,962)
Investments in securitizable assets.....	-	21,865	3,415
Accrued taxes.....	7,882	(675)	742
Other working capital (excludes cash).....	(7,321)	22,368	3,748
Net cash flows provided by operating activities.....	71,461	2,057	27,562
<b>Investing Activities:</b>			
Investments in plant:			
Electric utility plant.....	(27,267)	(30,192)	(19,895)
Nuclear fuel.....	(7,848)	(5,817)	(1,801)
Net cash flows used for investments in plant.....	(35,115)	(36,009)	(21,696)
Investments in nuclear decommissioning trusts.....	(3,437)	(11,387)	(12,918)
Other investment activities, net.....	3,589	1,807	(171)
Net proceeds from the transfer/sale of utility plant.....	185,787	48,524	-
Capital contributions from Northeast Utilities.....	-	20,000	-
Net cash flows provided by/(used in) investing activities.....	150,824	22,935	(34,785)
<b>Financing Activities:</b>			
Net (decrease)/increase in short-term debt.....	(21,800)	81,500	21,550
Reacquisitions and retirements of long-term debt.....	(94,150)	(100,850)	(9,800)
Reacquisitions and retirements of preferred stock.....	(1,500)	(1,500)	(1,500)
Repurchase of common shares.....	(90,000)	-	-
Cash dividends on preferred stock.....	(2,798)	(3,298)	(3,026)
Cash dividends on common stock.....	(12,002)	-	-
Net cash flows (used in)/provided by financing activities.....	(222,250)	(24,148)	7,224
Net increase in cash for the period.....	35	844	1
Cash - beginning of period.....	950	106	105
Cash - end of period.....	\$ 985	\$ 950	\$ 106
<b>Supplemental Cash Flow Information:</b>			
Cash paid/(refunded) during the year for:			
Interest, net of amounts capitalized.....	\$ 26,055	\$ 30,958	\$ 22,902
Income taxes.....	\$ 18,554	\$ (6,296)	\$ (2,624)
<b>Increase in obligations:</b>			
Niantic Bay Fuel Trust.....	\$ 1,532	\$ 1,112	\$ 2,375

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

## **Western Massachusetts Electric Company and Subsidiary**

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **A. About Western Massachusetts Electric Company**

Western Massachusetts Electric Company (WMECO or the company) along with The Connecticut Light and Power Company (CL&P), Public Service Company of New Hampshire (PSNH), North Atlantic Energy Corporation (NAEC), and Holyoke Water Power Company (HWP) are the operating companies comprising the Northeast Utilities system (NU system) and are wholly owned by Northeast Utilities (NU). The NU system serves in excess of 30 percent of New England's electric needs and is one of the 25 largest electric utility systems in the country as measured by revenues. The NU system furnishes franchised retail electric service in western Massachusetts, Connecticut and New Hampshire through WMECO, CL&P and PSNH. NAEC sells all of its entitlement to the capacity and output of the Seabrook Station nuclear unit (Seabrook) to PSNH under the terms of two life-of-unit, full cost recovery contracts. HWP, also is engaged in the production and distribution of electric power.

On March 1, 2000, NU completed its acquisition of Yankee Energy System, Inc., the parent company of Yankee Gas Services Company, Connecticut's largest natural gas distribution system.

NU is registered with the Securities and Exchange Commission (SEC) as a holding company under the Public Utility Holding Company Act of 1935 (1935 Act) and the NU system, including WMECO, is subject to provisions of the 1935 Act. Arrangements among the NU system companies, outside agencies and other utilities covering interconnections, interchange of electric power and sales of utility property are subject to regulation by the Federal Energy Regulatory Commission (FERC) and/or the SEC. WMECO is subject to further regulation for rates, accounting and other matters by the FERC and the Massachusetts Department of Telecommunications and Energy (DTE).

Several wholly owned subsidiaries of NU provide support services for the NU system companies, including WMECO, and, in some cases, for other New England utilities. Northeast Utilities Service Company (NUSCO) provides centralized accounting, administrative, information resources, engineering, financial, legal, operational, planning, purchasing, and other services to the NU system companies, including WMECO. Northeast Nuclear Energy Company acts as agent for the NU system companies and other New England utilities in operating the Millstone nuclear units. North Atlantic Energy Service Corporation has operational responsibility for Seabrook.

## Western Massachusetts Electric Company and Subsidiary

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### **B. Presentation**

The consolidated financial statements of WMECO include the accounts of its subsidiary. Intercompany transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at 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.

Certain reclassifications of prior years' data have been made to conform with the current year's presentation.

All transactions among affiliated companies are on a recovery of cost basis which may include amounts representing a return on equity and are subject to approval by various federal and state regulatory agencies and the DTE.

#### **C. New Accounting Standards**

*Derivative Instruments:* Effective January 1, 2001, WMECO adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133 requires that derivative instruments be recorded as an asset or liability measured at its fair value and that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria are met.

In order to implement SFAS No. 133 by January 1, 2001, NU established a cross-functional project team to identify all derivative instruments, measure the fair value of those derivative instruments, designate and document various hedge relationships, and evaluate the effectiveness of those hedge relationships. NU has completed the process of identifying all derivative instruments and has established appropriate fair value measurements of those derivative instruments in place at January 1, 2001. In addition, for those derivative instruments which are hedging an identified risk, NU has designated and documented all hedging relationships anew.

Management believes the adoption of this new standard will not have a material impact on WMECO's financial position or results of operations.

*Revenue Recognition:* In December 1999, the SEC issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition." The adoption of SAB No. 101, as amended, did not have a material impact on WMECO's consolidated financial statements.

# Western Massachusetts Electric Company and Subsidiary

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### D. Investments and Jointly Owned Electric Utility Plant

*Regional Nuclear Generating Companies:* WMECO owns common stock in four regional nuclear companies (Yankee Companies). WMECO's ownership interests in the Yankee Companies at December 31, 2000 and 1999, which are accounted for on the equity method due to WMECO's ability to exercise significant influence over their operating and financial policies are 9.5 percent of the Connecticut Yankee Atomic Power Company (CYAPC), 7 percent of the Yankee Atomic Electric Company (YAEC), 3 percent of the Maine Yankee Atomic Power Company (MYAPC), and 2.5 percent of the Vermont Yankee Nuclear Power Corporation (VYNPC). WMECO's total equity investment in the Yankee Companies at December 31, 2000 and 1999, is \$11.1 million and \$14.7 million, respectively. Each Yankee Company owns a single nuclear generating unit. However, VYNPC is the only unit still in operation at December 31, 2000.

*Millstone:* WMECO has a 19 percent joint ownership in both Millstone 1, a 660 megawatt (MW) nuclear unit, which is currently in decommissioning status, and Millstone 2, an 870 MW nuclear generating unit. WMECO has a 12.24 percent joint ownership interest in Millstone 3, a 1,154 MW nuclear generating unit. On August 7, 2000, WMECO and certain other joint owners reached an agreement to sell substantially all of the Millstone units to Dominion Resources, Inc. (Dominion) for approximately \$1.3 billion, including approximately \$105 million for nuclear fuel. NU currently expects to close on the sale of Millstone as early as the end of March 2001.

Plant-in-service and the accumulated provision for depreciation for WMECO's share of Millstone 2 and 3 are as follows:

At December 31,	2000	1999
	(Millions of Dollars)	
Plant-in-service		
Millstone 2.....	\$182.3	\$180.4
Millstone 3.....	382.7	380.5
Accumulated provision for depreciation		
Millstone 2.....	\$174.5	\$166.7
Millstone 3.....	357.3	358.7

### E. Depreciation

The provision for depreciation is calculated using the straight-line method based on estimated remaining useful lives of depreciable utility plant-in-service, adjusted for salvage value and removal costs, as approved by the appropriate regulatory agency where applicable. Except for major facilities, depreciation rates are applied to the average plant-in-service during the period. Major facilities are depreciated from the time they are placed in service. When plant is retired from service, the original cost of the plant, including costs of removal less salvage, is charged to the accumulated provision for depreciation. The costs of closure and removal of nonnuclear facilities are accrued over the life

# Western Massachusetts Electric Company and Subsidiary

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

of the plant as a component of depreciation. The depreciation rates for the several classes of electric plant-in-service are equivalent to a composite rate of 2.2 percent in 2000, 2.3 percent in 1999 and 2.9 percent in 1998.

As a result of discontinuing the application of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," for WMECO's generation business in 1999, the company recorded a charge to accumulated depreciation for the nuclear plant in excess of the estimated fair market value at the time in the amount of \$330 million and a corresponding regulatory asset was created.

### F. Revenues

Revenues are based on authorized rates applied to each customer's use of electricity. In general, rates can be changed only through a formal proceeding before the DTE. Regulatory commissions also have authority over the terms and conditions of nontraditional rate-making arrangements. At the end of each accounting period, WMECO accrues a revenue estimate for the amount of energy delivered but unbilled.

### G. Regulatory Accounting and Assets

The accounting policies of WMECO and the accompanying consolidated financial statements conform to accounting principles generally accepted in the United States applicable to rate-regulated enterprises and historically reflect the effects of the rate-making process in accordance with SFAS No. 71. As a result of final restructuring orders issued in 1999, WMECO discontinued the application of SFAS No. 71 for the generation portion of its business.

WMECO's transmission and distribution business will continue to be cost-based and management believes the application of SFAS No. 71 continues to be appropriate. Management continues to believe it is probable that WMECO will recover its investments in long-lived assets, including regulatory assets through charges to their transmission and distribution customers. The majority for WMECO will be recovered through a transition charge over a 12-year period. In addition, all material regulatory assets are earning a return. The components of WMECO's regulatory assets are as follows:

At December 31,	2000	1999
	(Millions of Dollars)	
Recoverable nuclear costs.....	\$257.7	\$428.9
Income taxes, net.....	50.3	49.0
Unrecovered contractual obligations..	42.5	63.7
Recoverable energy costs, net.....	6.9	16.3
Other.....	34.8	36.9
	<u>\$392.2</u>	<u>\$594.8</u>

## Western Massachusetts Electric Company and Subsidiary

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As a result of discontinuing the application of SFAS No. 71 in 1999 for WMECO's generation business, the company reclassified nuclear plant in excess of its estimated fair market value from plant to regulatory assets. As of December 31, 2000 and 1999, excluding the impact of the transfer of generation assets to Northeast Generation Company in 2000, the unamortized balance (\$286.9 million and \$316.1 million, respectively) is classified as recoverable nuclear costs. Also included in that regulatory asset component for 2000 and 1999 are \$104.9 million and \$112.8 million, respectively, which includes Millstone 1 recoverable nuclear costs relating to the recoverable portion of the undepreciated plant and related assets (\$39.6 million and \$43.8 million, respectively) and the decommissioning and closure obligation (\$65.3 million and \$69 million, respectively).

#### H. Income Taxes

The tax effect of temporary 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) is accounted for in accordance with the rate-making treatment of the applicable regulatory commissions.

The tax effect of temporary differences, including timing differences accrued under previously approved accounting standards, that give rise to the accumulated deferred tax obligation is as follows:

At December 31,	2000	1999
	(Millions of Dollars)	
Accelerated depreciation and other plant-related differences.....	\$193.7	\$213.4
Regulatory assets - income tax gross up.....	19.5	19.0
Other.....	<u>11.5</u>	<u>10.5</u>
	<u>\$224.7</u>	<u>\$242.9</u>

#### I. Unrecovered Contractual Obligations

Under the terms of contracts with the Yankee Companies, the shareholder-sponsored companies, including WMECO, are responsible for their proportionate share of the remaining costs of the units, including decommissioning. As management expects that WMECO will be allowed to recover these costs from its customers, WMECO has recorded a regulatory asset, with a corresponding obligation, on its consolidated balance sheet.

#### J. Recoverable Energy Costs

Under the Energy Policy Act of 1992 (Energy Act), WMECO is assessed for its proportionate share of the costs of decontaminating and decommissioning uranium enrichment plants



## Western Massachusetts Electric Company and Subsidiary

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

owned by the United States Department of Energy (DOE) (D&D Assessment). The Energy Act requires that regulators treat D&D Assessments as a reasonable and necessary current cost of fuel, to be fully recovered in rates like any other fuel cost. WMECO is currently recovering these costs through rates. As of December 31, 2000 and 1999, WMECO's total D&D Assessment deferrals were \$8.6 million and \$9.6 million, respectively.

#### 2. SHORT-TERM DEBT

*Limits:* The amount of short-term borrowings that may be incurred by WMECO is subject to periodic approval by either the SEC under the 1935 Act or by state regulators. Currently, SEC authorization allows WMECO to incur total short-term borrowings up to a maximum of \$250 million. In addition, the charter of WMECO contains preferred stock provisions restricting the amount of unsecured debt the company may incur. As of December 31, 2000, WMECO's charter permits WMECO to incur \$94 million of additional unsecured debt.

*Credit Agreement:* On November 17, 2000, WMECO and CL&P entered into a 364-day revolving credit facility for \$350 million, replacing the previous \$500 million facility which was to expire on November 17, 2000. WMECO may draw up to \$150 million under the facility which, until the nuclear divestiture, is secured by second mortgages on Millstone 2 and 3. Once WMECO and CL&P receive the proceeds from securitization, the \$350 million revolving credit facility will be reduced to \$250 million, with a \$100 million limit for WMECO. Unless extended, the credit facility will expire on November 16, 2001. At December 31, 2000 and 1999, there were \$110 million and \$123 million, respectively, in borrowings under these facilities.

Under the aforementioned credit agreement, WMECO may borrow at fixed or variable rates plus an applicable margin based upon certain debt ratings, as rated by the lower of Standard and Poor's or Moody's Investors Service. The weighted average interest rate on WMECO's notes payable to banks outstanding on December 31, 2000 and 1999, was 8.05 percent and 7.70 percent, respectively. Maturities of short-term debt obligations were for periods of three months or less.

This credit agreement provides that WMECO must comply with certain financial and nonfinancial covenants as are customarily included in such agreements, including, but not limited to, common equity ratios and interest coverage ratios. WMECO currently is and expects to remain in compliance with these covenants.

*Money Pool:* Certain subsidiaries of NU, including WMECO, are members of the Northeast Utilities System Money Pool (Pool). The Pool provides a more efficient use of the cash resources of the NU system and reduces outside short-term borrowings. NUSCO administers the Pool as agent for the member companies. Short-term borrowing needs of the member companies are first met with available funds of other member companies, including funds borrowed by NU parent. NU parent may lend to the Pool but may not borrow.

## Western Massachusetts Electric Company and Subsidiary

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Funds may be withdrawn from or repaid to the Pool at any time without prior notice. Investing and borrowing subsidiaries receive or pay interest based on the average daily federal funds rate. Borrowings based on loans from NU parent, however, bear interest at NU parent's cost and must be repaid based upon the terms of NU parent's original borrowing. At December 31, 2000 and 1999, WMECO had \$0.6 million and \$9.4 million, respectively, of borrowings outstanding from the Pool. The interest rate on borrowings from the Pool at December 31, 2000 and 1999, was 5.4 percent and 4.9 percent, respectively.

### **3. LEASES**

WMECO finances its respective shares of the nuclear fuel for Millstone 2 and 3 under the Niantic Bay Fuel Trust (NBFT) capital lease agreement. This capital lease agreement has an expiration date of June 1, 2040. At December 31, 2000 and 1999, the present value of WMECO's capital lease obligation to the NBFT was \$26.6 million and \$29.8 million, respectively. In connection with the planned nuclear divestiture, the NBFT capital lease will be terminated, the nuclear fuel will be transferred to Dominion and the related \$180 million Series G Intermediate Term Note Agreement will be extinguished with the divestiture proceeds.

WMECO makes quarterly lease payments for the cost of nuclear fuel consumed in the reactors based on a units-of-production method at rates which reflect estimated kilowatt-hours of energy provided plus financing costs associated with the fuel in the reactors. Upon permanent discharge from the reactors, WMECO's ownership interest in the nuclear fuel transfers to WMECO.

WMECO also has entered into lease agreements, some of which are capital leases, for the use of data processing and office equipment, vehicles, nuclear control room simulators, and office space. The provisions of these lease agreements generally provide for renewal options.

Capital lease rental payments charged to operating expense were \$9.6 million in 2000, \$2.6 million in 1999 and \$4.1 million in 1998. Interest included in capital lease rental payments was \$2.8 million in 2000, \$3.1 million in 1999 and \$2.8 million in 1998. Operating lease rental payments charged to expense were \$3.2 million in 2000, \$4.8 million in 1999 and \$5.8 million in 1998.

# Western Massachusetts Electric Company and Subsidiary

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Future minimum rental payments, excluding annual nuclear fuel lease payments and executory costs such as property taxes, state use taxes, insurance, and maintenance, under long-term noncancelable leases, as of December 31, 2000, are as follows:

Year	Capital Leases	Operating Leases
	(Millions of Dollars)	
2001 .....	\$ 0.1	\$ 3.5
2002 .....	0.1	3.4
2003 .....	0.1	3.1
2004 .....	-	2.8
2005 .....	-	2.6
After 2005 .....	-	<u>13.1</u>
Future minimum lease payments	0.3	<u>\$28.5</u>
Present value of future nuclear fuel lease payments	<u>26.6</u>	
Present value of future minimum lease payments	<u>\$26.9</u>	

### 4. PREFERRED STOCK NOT SUBJECT TO MANDATORY REDEMPTION

Details of preferred stock not subject to mandatory redemption are as follows:

Description	December 31, 2000 Redemption Price	Shares Outstanding December 31, 2000	December 31,	
			2000	1999
			(Millions of Dollars)	
7.72% Series B of 1971	\$103.51	200,000	\$20.0	\$20.0

# Western Massachusetts Electric Company and Subsidiary

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 5. PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION

Details of preferred stock subject to mandatory redemption are as follows:

Description	December 31, 2000	Shares Outstanding December 31, 2000	December 31,	
	Redemption Price		2000	1999
			(Millions of Dollars)	
7.60% Series of 1987	\$25.26	660,000	\$16.5	\$ 18.0
Less preferred stock to be redeemed within one year		60,000	<u>1.5</u> <u>\$15.0</u>	<u>1.5</u> <u>\$16.5</u>

This series is subject to certain refunding limitations for the first five years after issuance. The redemption price reduces in future years.

The minimum sinking fund requirements of the series subject to mandatory redemption aggregate \$1.5 million per year for each year for 2001 through 2005. In case of default on sinking fund payments, no payments may be made on any junior stock by way of dividends or otherwise (other than in shares of junior stock) so long as the default continues. If WMECO is in arrears in the payment of dividends on any outstanding shares of preferred stock, WMECO is prohibited from redeeming or purchasing less than all of the outstanding preferred stock.

### 6. LONG-TERM DEBT

Details of long-term debt outstanding are as follows:

At December 31,	2000	1999
(Millions of Dollars)		
First Mortgage Bonds:		
7 3/8% Series B, due 2001 .....	\$ 60.0	\$ 60.0
7 3/4% Series V, due 2002 .....	40.0	84.2
7 3/4% Series Y, due 2024 .....	-	50.0
	<u>100.0</u>	<u>194.2</u>
Pollution Control Notes:		
Tax Exempt 1993 Series A, 5.85% due 2028 ..	53.8	53.8
Fees and interest due for spent nuclear fuel disposal costs .....	45.6	43.0
Less amounts due within one year .....	60.0	-
Unamortized premium and discount, net .....	-	(0.7)
Long-term debt, net .....	<u>\$139.4</u>	<u>\$290.3</u>

# Western Massachusetts Electric Company and Subsidiary

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Long-term debt maturities and cash sinking fund requirements, excluding fees and interest due for spent nuclear fuel disposal costs, on debt outstanding at December 31, 2000, for the years 2001 through 2005 are \$60 million, \$40 million, and no requirements for 2003, 2004 and 2005.

Essentially all utility plant of WMECO is subject to the liens of the company's first mortgage bond indenture.

WMECO has secured \$53.8 million of pollution control notes with second mortgage liens on Millstone 1, junior to the liens of its first mortgage bond indenture.

### 7. INCOME TAX EXPENSE

The components of the federal and state income tax provisions were charged/(credited) to operations as follows:

For the Years Ended December 31,	2000	1999	1998
	(Millions of Dollars)		
Current income taxes:			
Federal .....	\$15.8	\$13.5	\$(7.4)
State .....	<u>10.9</u>	<u>2.0</u>	<u>(0.1)</u>
Total current .....	<u>26.7</u>	<u>15.5</u>	<u>(7.5)</u>
Deferred income taxes, net:			
Federal .....	(0.8)	(3.5)	6.5
State .....	<u>(8.6)</u>	<u>(0.9)</u>	<u>2.4</u>
Total deferred .....	<u>(9.4)</u>	<u>(4.4)</u>	<u>8.9</u>
Investment tax credits, net ....	<u>(2.1)</u>	<u>(2.2)</u>	<u>(1.5)</u>
Total income tax expense/(credit) .....	<u>\$15.2</u>	<u>\$ 8.9</u>	<u>\$(0.1)</u>

The components of total income tax expense/(credit) are classified as follows:

For the Years Ended December 31,	2000	1999	1998
	(Millions of Dollars)		
Income taxes charged to operating expenses .....	\$21.2	\$18.8	\$ 2.1
Other income taxes .....	<u>(6.0)</u>	<u>(9.9)</u>	<u>(2.2)</u>
Total income tax expense/(credit) .....	<u>\$15.2</u>	<u>\$ 8.9</u>	<u>\$(0.1)</u>

# Western Massachusetts Electric Company and Subsidiary

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred income taxes are comprised of the tax effects of temporary differences as follows:

For the Years Ended December 31,	2000	1999	1998
	(Millions of Dollars)		
Depreciation, leased nuclear fuel, settlement credits, and disposal costs .....	\$ 0.9	\$ (2.3)	\$ 5.8
Regulatory deferral .....	(16.4)	(1.4)	1.3
Regulatory disallowance .....	-	(4.2)	-
Pension accruals .....	5.9	4.2	1.0
Other .....	0.2	(0.7)	0.8
Deferred income taxes, net .....	<u>\$ (9.4)</u>	<u>\$ (4.4)</u>	<u>\$ 8.9</u>

A reconciliation between income tax expense/(credit) and the expected tax expense/(credit) at 35 percent of pretax income/(loss) is as follows:

For the Years Ended December 31,	2000	1999	1998
	(Millions of Dollars)		
Expected federal income tax .....	\$17.6	\$4.1	\$ (3.4)
Tax effect of differences:			
Depreciation .....	(1.2)	0.2	2.2
Amortization of regulatory assets .....	1.3	6.2	0.9
Investment tax credit amortization .....	(2.1)	(2.2)	(1.5)
State income taxes, net of federal benefit .....	1.5	0.7	1.5
Dividends received deduction .....	(1.7)	(0.4)	(0.7)
Other, net .....	<u>(0.2)</u>	<u>0.3</u>	<u>0.9</u>
Total income tax expense/(credit) .....	<u>\$15.2</u>	<u>\$8.9</u>	<u>\$ (0.1)</u>

### 8. PENSION BENEFITS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The NU system companies, including WMECO, participate in a uniform noncontributory defined benefit retirement plan covering substantially all regular NU system employees. Benefits are based on years of service and the employees' highest eligible compensation during 60 consecutive months of employment. WMECO's portion of the NU system's total pension credit, part of which was credited to utility plant, was \$19 million in 2000, \$10.8 million in 1999 and \$7.4 million in 1998.

Currently, WMECO's policy is to annually fund an amount at least equal to that which will satisfy the requirements of the Employee Retirement Income Security Act and Internal Revenue Code.

The NU system companies, including WMECO, also provide certain health care benefits, primarily medical and dental, and life insurance benefits through a benefit plan to retired employees.

# Western Massachusetts Electric Company and Subsidiary

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

These benefits are available for employees retiring from WMECO who have met specified service requirements. For current employees and certain retirees, the total benefit is limited to two times the 1993 per retiree health care cost. These costs are charged to expense over the estimated work life of the employee. WMECO annually funds postretirement costs through external trusts with amounts that have been rate-recovered and which also are tax deductible.

Pension and trust assets are invested primarily in domestic and international equity securities and bonds.

The following table represents information on the plans' benefit obligation, fair value of plan assets, and the respective plans' funded status:

(Millions of Dollars)	At December 31,			
	Pension Benefits		Postretirement Benefits	
	2000	1999	2000	1999
<b>Change in benefit obligation</b>				
Benefit obligation				
at beginning of year .....	\$(118.1)	\$(118.7)	\$(29.5)	\$(30.1)
Service cost .....	(2.2)	(2.4)	(0.4)	(0.5)
Interest cost .....	(8.9)	(8.5)	(2.2)	(2.1)
Plan amendment .....	-	(7.3)	-	-
Transfers .....	0.5	0.2	-	-
Actuarial (loss)/gain .....	(3.0)	10.2	(0.5)	0.4
Benefits paid .....	8.2	7.8	2.6	2.6
Settlements and other .....	2.4	0.6	0.7	0.2
<b>Benefit obligation</b>				
at end of year .....	\$(121.1)	\$(118.1)	\$(29.3)	\$(29.5)
<b>Change in plan assets</b>				
Fair value of plan assets				
at beginning of year .....	\$ 223.9	\$ 201.6	\$ 16.6	\$ 14.6
Actual return on				
plan assets .....	(0.9)	29.9	0.8	1.7
Employer contribution .....	-	-	2.5	2.9
Benefits paid .....	(8.2)	(7.8)	(2.6)	(2.6)
Transfers .....	(0.5)	0.2	-	-
<b>Fair value of plan assets</b>				
at end of year .....	\$ 214.3	\$ 223.9	\$ 17.3	\$ 16.6
<b>Funded status</b>				
at December 31 .....	\$ 93.2	\$ 105.8	\$(12.0)	\$(12.9)
Unrecognized transition				
(asset)/obligation .....	(0.9)	(1.2)	19.1	21.2
Unrecognized prior				
service cost .....	6.6	7.6	-	-
Unrecognized net gain .....	(53.4)	(85.7)	(6.6)	(8.2)
<b>Prepaid benefit cost</b> .....	\$ 45.5	\$ 26.5	\$ 0.5	\$ 0.1

# Western Massachusetts Electric Company and Subsidiary

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following actuarial assumptions were used in calculating the plans' year end funded status:

	At December 31,			
	Pension Benefits		Postretirement Benefits	
	2000	1999	2000	1999
Discount rate.....	7.50%	7.75%	7.50%	7.75%
Compensation/progression rate.	4.50	4.75	4.50	4.75
Health care cost trend rate(a).....	N/A	N/A	5.26	5.57

(a) The annual per capita cost of covered health care benefits was assumed to decrease to 4.91 percent by 2001.

The components of net periodic benefit (credit)/cost are:

(Millions of Dollars)	For the Years Ended December 31,					
	Pension Benefits			Postretirement Benefits		
	2000	1999	1998	2000	1999	1998
Service cost .....	\$ 2.2	\$ 2.4	\$ 2.2	\$ 0.4	\$ 0.5	\$ 0.5
Interest cost .....	8.9	8.5	7.9	2.2	2.1	2.1
Expected return on plan assets.	(19.0)	(16.9)	(14.8)	(1.3)	(1.0)	(0.9)
Amortization of unrecognized net transition (asset)/obligation .....	(0.2)	(0.2)	(0.2)	1.6	1.6	1.6
Amortization of prior service cost .....	0.6	0.6	0.1	-	-	-
Amortization of actuarial gain ..	(4.9)	(3.4)	(2.6)	-	-	-
Other amortization, net .....	-	-	-	(0.4)	(0.3)	(0.4)
Settlements and other .....	(6.6)	(1.8)	-	-	-	-
<b>Net periodic benefit (credit)/cost ...</b>	<b>\$ (19.0)</b>	<b>\$ (10.8)</b>	<b>\$ (7.4)</b>	<b>\$ 2.5</b>	<b>\$ 2.9</b>	<b>\$ 2.9</b>



# Western Massachusetts Electric Company and Subsidiary

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For calculating pension and postretirement benefit costs, the following assumptions were used:

	For the Years Ended December 31,					
	Pension Benefits			Postretirement Benefits		
	2000	1999	1998	2000	1999	1998
Discount rate .....	7.75%	7.00%	7.25%	7.75%	7.00%	7.25%
Expected long-term rate of return .....	9.50	9.50	9.50	N/A	N/A	N/A
Compensation/progression rate .....	4.75	4.25	4.25	4.75	4.25	4.25
Long-term rate of return - Health assets, net of tax .....	N/A	N/A	N/A	7.50	7.50	7.75
Life assets .....	N/A	N/A	N/A	9.50	9.50	9.50

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The effect of changing the assumed health care cost trend rate by one percentage point in each year would have the following effects:

(Millions of Dollars)	One Percentage Point Increase	One Percentage Point Decrease
Effect on total service and interest cost components .....	\$0.1	\$(0.1)
Effect on postretirement benefit obligation .....	\$1.4	\$(1.3)

The trust holding the health plan assets is subject to federal income taxes.

## 9. COMMITMENTS AND CONTINGENCIES

### A. Restructuring

A settlement has been reached with the Massachusetts Attorney General finalizing a \$155 million securitization plan. WMECO expects to receive approval of its securitization plan in February 2001.

### B. Nuclear Generation Assets Divestiture

On August 7, 2000, WMECO and certain other joint owners reached an agreement to sell substantially all of the Millstone units, located in Waterford, Connecticut, to Dominion, for approximately \$1.3 billion, including approximately \$105 million for nuclear fuel. Dominion has also agreed to assume responsibility for decommissioning the three units and NU will transfer to Dominion all funds in the Millstone decommissioning trust. Additionally, NU is obligated to top-off the decommissioning trust if its value does not equal a previously agreed upon level as defined. NU expects to close on the sale of Millstone as early as the end of March 2001.

## Western Massachusetts Electric Company and Subsidiary

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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If the transaction is consummated as proposed, WMECO would receive gross proceeds of approximately \$196.2 million on a pretax basis for its respective ownership interest. The proceeds from the sale of this interest will be used to reduce the company's stranded costs under restructuring and the cash proceeds will be used to repay subsidiary debt and capital lease obligations and to return equity capital to the parent company.

#### **C. Environmental Matters**

The NU system, including WMECO, is subject to environmental laws and regulations intended to mitigate or remove the effect of past operations and improve or maintain the quality of our environment. As such, the NU system, including WMECO, have active environmental auditing and training programs and believe they are substantially in compliance with the current laws and regulations.

However, the normal course of operations may involve activities and substances that expose WMECO to potential liabilities of which management cannot determine the outcome. Additionally, management cannot determine the outcome for liabilities that may be imposed for past acts, even though such past acts may have been lawful at the time they occurred. Management does not believe, however, that this will have a material impact on WMECO's consolidated financial statements.

Based upon currently available information for the estimated remediation costs as of December 31, 2000 and 1999, the liability recorded by WMECO for its estimated environmental remediation costs amounted to \$4.6 million and \$4.2 million, respectively.

#### **D. Spent Nuclear Fuel Disposal Costs**

Under the Nuclear Waste Policy Act of 1982, WMECO must pay the DOE for the disposal of spent nuclear fuel and high-level radioactive waste. The DOE is responsible for the selection and development of repositories for, and the disposal of, spent nuclear fuel and high-level radioactive waste. For nuclear fuel used to generate electricity prior to April 7, 1983 (Prior Period Fuel), an accrual has been recorded for the full liability and payment must be made prior to the first delivery of spent fuel to the DOE. Until such payment is made, the outstanding balance will continue to accrue interest at the 3-month treasury bill yield rate. As of December 31, 2000 and 1999, fees due to the DOE for the disposal of Prior Period Fuel were \$45.6 million and \$43 million, respectively, including interest costs of \$30 million and \$27.4 million, respectively.

Fees for nuclear fuel burned on or after April 7, 1983, are billed currently to customers and paid to the DOE on a quarterly basis. WMECO is responsible for fees to be paid

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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for fuel burned until the divestiture of the Millstone nuclear units.

**E. Nuclear Insurance Contingencies**

Insurance policies covering WMECO's ownership share of the NU system's nuclear facilities have been purchased for the primary cost of repair, replacement or decontamination of utility property, certain extra costs incurred in obtaining replacement power during prolonged accidental outages and the excess cost of repair, replacement or decontamination or premature decommissioning of utility property.

WMECO is subject to retroactive assessments if losses under those policies exceed the accumulated funds available to the insurer. The maximum potential assessments with respect to losses arising during the current policy year for the primary property insurance program, the replacement power policies and the excess property damage policies are \$1.1 million, \$0.6 million and \$1.4 million, respectively. In addition, insurance has been purchased by the NU system in the aggregate amount of \$200 million on an industry basis for coverage of worker claims.

Under certain circumstances, in the event of a nuclear incident at one of the nuclear facilities covered by the federal government's third-party liability indemnification program, the NU system, including WMECO, could be assessed liabilities in proportion to its ownership interest in each of its nuclear units up to \$83.9 million. The NU system's payment of this assessment would be limited to, in proportion to its ownership interest in each of its nuclear units, \$10 million in any one year per nuclear unit. In addition, if the sum of all claims and costs from any one nuclear incident exceeds the maximum amount of financial protection, the NU system, including WMECO, would be subject to an additional 5 percent, or \$4.2 million, liability, in proportion to its ownership interests in each of its nuclear units. Based upon its ownership interests in the Millstone units, WMECO's maximum liability, including any additional assessments, would be \$44.3 million per incident, of which payments would be limited to \$5 million per year. In addition, through purchased-power contracts with VYNPC, WMECO would be responsible for up to an additional assessment of \$2.2 million per incident, of which payments would be limited to \$0.3 million per year.

WMECO expects to terminate its nuclear insurance upon the divestiture of its nuclear units.

**F. Long-Term Contractual Arrangements**

*Yankee Companies:* Under the terms of its agreement, WMECO paid its ownership (or entitlement) shares of costs, which included depreciation, operation and maintenance (O&M) expenses, taxes, the estimated cost of decommissioning, and a return on invested capital. These costs were recorded as

## Western Massachusetts Electric Company and Subsidiary

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

purchased-power expenses. WMECO's cost of purchases under its contract with VYNPC amounted to \$4 million in 2000, \$4.7 million in 1999 and \$4.4 million in 1998. VYNPC is in the process of selling its nuclear unit. Upon completion of the sale, this long-term contract will be terminated.

*Nonutility Generators (NUGs):* WMECO has entered into various arrangements for the purchase of capacity and energy from NUGs. WMECO's total cost of purchases under these arrangements amounted to \$28.5 million in 2000, \$28.2 million in 1999 and \$29.9 million in 1998. The company is in the process of renegotiating the terms of these contracts through either a contract buydown or buyout. WMECO expects any payments to the NUGs as a result of these renegotiations to be recovered from the company's customers.

*Hydro-Quebec:* Along with other New England utilities, WMECO has entered into an agreement to support transmission and terminal facilities to import electricity from the Hydro-Quebec system in Canada. WMECO is obligated to pay, over a 30-year period ending in 2020, its proportionate share of the annual O&M expenses and capital costs of those facilities.

*Estimated Annual Costs:* The estimated annual costs of WMECO's significant long-term contractual arrangements, absent the effects of any contract terminations, buydowns or buyouts are as follows:

	2001	2002	2003	2004	2005
	(Millions of Dollars)				
VYNPC .....	\$ 4.8	\$ 4.9	\$ 5.0	\$ 5.4	\$ 5.1
NUGs .....	29.5	30.4	31.2	31.9	32.6
Hydro-Quebec ..	3.2	3.1	3.0	2.9	2.8

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**10. NUCLEAR DECOMMISSIONING AND PLANT CLOSURE COSTS**

*Millstone:* WMECO's operating nuclear power plants, Millstone 2 and 3, have service lives that are expected to end in 2015 and 2025, respectively, and upon retirement, must be decommissioned. Millstone 1's expected service life was to end in 2010, however, in July 1998, restart activities were discontinued and decommissioning of the unit began. In connection with the sale of the Millstone units, Dominion has agreed to assume responsibility for decommissioning. Until the divestiture, WMECO recovers sufficient amounts through its allowed rates related to decommissioning costs.

WMECO's ownership share of the estimated cost of decommissioning Millstone 2 and 3, in year end 2000 dollars, is \$81.8 million and \$79.3 million, respectively. Nuclear decommissioning costs are accrued over the expected service lives of the units and are included in depreciation expense and the accumulated provision for depreciation. Nuclear decommissioning expenses for these units amounted to \$3.7 million in 2000, 1999 and 1998. Nuclear decommissioning expenses for Millstone 1 were \$2.5 million in 2000, \$2.9 million in 1999 and \$2.5 million in 1998. Through December 31, 2000 and 1999, total decommissioning expenses of \$43 million and \$39.3 million, respectively, have been collected from customers and are reflected in the accumulated provision for depreciation.

External decommissioning trusts have been established for the costs of decommissioning the Millstone units. Funding of the estimated decommissioning costs assumes after-tax earnings on the Millstone decommissioning funds of 5.5 percent.

As of December 31, 2000 and 1999, \$43 million and \$39.3 million, respectively, have been transferred to external decommissioning trusts. Earnings on the decommissioning trusts increase the decommissioning trust balances and the accumulated provisions for depreciation. Unrealized gains and losses associated with the decommissioning trusts also impact the balance of the trusts and the accumulated provisions for depreciation. The fair values of the amounts in the external decommissioning trusts were \$82.4 million and \$77.4 million at December 31, 2000 and 1999, respectively. Upon divestiture, balances in the decommissioning trusts will be transferred to the buyer. NU is obligated to top-off the Millstone decommissioning trust if its value does not equal an agreed upon amount at closing, pursuant to the conditions set forth in the purchase and sale agreement.

*Yankee Companies:* VYNPC owns and operates a nuclear generating unit with a service life that is expected to end in 2012. WMECO's ownership share of estimated costs, in year end 2000 dollars, of decommissioning this unit is \$11.3 million. In 1999, VYNPC agreed to sell its nuclear generating unit for \$22 million to an unaffiliated company. Among other commitments, the acquiring company agreed to assume the obligation to decommission the unit after it is taken out of service, and the owners of VYNPC (including WMECO) agreed to fund their shares of the

## Western Massachusetts Electric Company and Subsidiary

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

decommissioning costs up to a negotiated amount. Subsequent to the time that agreement was executed, the original proposed acquiring company has increased the price it agreed to pay and three other unaffiliated companies have indicated their interest in buying VYNPC's generating unit on terms that have not been disclosed. At present, WMECO expects that the unit will be sold, but the identity of the owner and the terms of sale, including price, future decommissioning obligations and future power purchase obligations, are not known.

As of December 31, 2000 and 1999, WMECO's remaining estimated obligation, including decommissioning for the units owned by CYAPC, YAEC and MYAPC, which have been shut down was \$42.5 million and \$63.7 million, respectively.

#### 11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each of the following financial instruments:

*Nuclear Decommissioning Trusts:* WMECO's portion of the investments held in the NU system companies' nuclear decommissioning trusts were marked-to-market by \$32.3 million as of December 31, 2000, and \$35.4 million as of December 31, 1999, with corresponding offsets to the accumulated provision for depreciation. The amounts adjusted in 2000 and in 1999 represent cumulative net unrealized gains. Cumulative gross unrealized holding losses were immaterial for both 2000 and 1999.

*Preferred stock and long-term debt:* The fair value of WMECO's fixed-rate securities is based upon the quoted market price for those issues or similar issues. Adjustable rate securities are assumed to have a fair value equal to their carrying value. The carrying amounts of WMECO's financial instruments and the estimated fair values are as follows:

(Millions of Dollars)	At December 31, 2000	
	Carrying Amount	Fair Value
Preferred stock not subject to mandatory redemption .....	\$ 20.0	\$ 20.2
Preferred stock subject to mandatory redemption .....	16.5	16.5
Long-term debt -		
First mortgage bonds .....	100.0	100.3
Other long-term debt .....	99.4	93.7

# Western Massachusetts Electric Company and Subsidiary

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Millions of Dollars)	At December 31, 1999	
	Carrying Amount	Fair Value
Preferred stock not subject to mandatory redemption .....	\$ 20.0	\$ 19.1
Preferred stock subject to mandatory redemption .....	18.0	18.0
Long-term debt -		
First mortgage bonds .....	194.2	196.3
Other long-term debt .....	96.8	89.9

### 12. OTHER COMPREHENSIVE INCOME

The accumulated balance for each other comprehensive income item is as follows:

(Thousands of Dollars)	December 31, 1999	Current Period Change	
		December 31, 2000	December 31, 1999
Unrealized gains on securities .....	\$193	\$22	\$215
Minimum pension liability adjustments ..	(33)	-	(33)
<b>Accumulated other comprehensive income ..</b>	<b>\$160</b>	<b>\$22</b>	<b>\$182</b>

(Thousands of Dollars)	December 31, 1998	Current Period Change	
		December 31, 1999	December 31, 1998
Unrealized gains on securities .....	\$183	\$10	\$193
Minimum pension liability adjustments ..	(33)	-	(33)
<b>Accumulated other comprehensive income ..</b>	<b>\$150</b>	<b>\$10</b>	<b>\$160</b>

# Western Massachusetts Electric Company and Subsidiary

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The changes in the components of other comprehensive income are reported net of the following income tax effects:

	2000	1999	1998
(Thousands of Dollars)			
Unrealized gains			
on securities .....	\$ (14)	\$ (7)	\$ (117)
Minimum pension			
liability adjustments ....	-	-	21
<b>Other comprehensive</b>			
<b>income .....</b>	<b>\$ (14)</b>	<b>\$ (7)</b>	<b>\$ (96)</b>

### 13. SEGMENT INFORMATION

Effective January 1, 1999, the NU system companies, including WMECO, adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The NU system is organized between regulated utilities and competitive energy subsidiaries. WMECO is included in the regulated utilities segment of the NU system and has no other reportable segments.

### 14. SUBSEQUENT EVENT

*Merger Agreement With Consolidated Edison, Inc.:* In 2000, NU and Consolidated Edison, Inc. (Con Edison) received most of the approvals needed to complete the merger announced in October 1999. Shareholders from both companies approved the merger in April 2000, and all state regulatory approvals were granted by the end of the year. Additionally, the FERC approved the merger in May 2000, the Nuclear Regulatory Commission approved the transaction in August 2000, and the United States Department of Justice approved the merger in February 2001. Necessary approval from the SEC was expected to be received in mid-March 2001.

On February 28, 2001, NU's Board of Trustees requested that Con Edison provide reasonable assurance, in writing, that it intended to comply with the terms of the definitive merger agreement between the two companies. This included assurances that Con Edison would consummate the pending merger at the price set forth in the agreement promptly following the receipt of SEC approval. The original request for assurance was to be received by March 2, 2001, however that date was later extended to March 5, 2001. On March 5, 2001, Con Edison advised NU that it was not willing to close the merger on the agreed terms. NU notified Con Edison that it was treating its refusal to proceed on the terms set forth in the merger agreement as a repudiation and breach of the merger agreement, and that NU would file suit to obtain the benefits of the transaction as negotiated for NU shareholders. On March 6, 2001, Con Edison filed suit in the U.S. District Court for the Southern District of New York (Southern District), seeking declaratory judgment that NU failed to satisfy conditions precedent under the merger agreement. On March 12, 2001, NU filed suit against Con Edison in the Southern District seeking damages in excess of \$1 billion arising from Con Edison's breach of the merger agreement.



Western Massachusetts Electric Company and Subsidiary

SELECTED CONSOLIDATED FINANCIAL DATA	2000	1999	1998	1997	1996
	(Thousands of Dollars)				
Operating Revenues .....	\$513,678	\$414,231	\$393,322	\$426,447	\$421,337
Operating Income .....	54,096	41,741	19,854	251	33,190
Net Income/(Loss) .....	35,268	2,887	(9,579)	(27,460)	11,089
Cash Dividends on Common Stock .....	12,002	-	-	15,004	16,494
Total Assets .....	1,047,818	1,253,604	1,287,682	1,179,128	1,191,915
Long-Term Debt (a) .....	199,425	290,279	389,314	396,649	349,442
Preferred Stock Not Subject to Mandatory Redemption .....	20,000	20,000	20,000	20,000	20,000
Preferred Stock Subject to Mandatory Redemption (a) .....	16,500	18,000	19,500	21,000	21,000
Obligations Under Capital Leases (a) .....	26,921	29,972	34,093	32,887	32,234

CONSOLIDATED QUARTERLY FINANCIAL DATA (Unaudited)

	Quarter Ended			
2000	March 31	June 30	September 30	December 31
	(Thousands of Dollars)			
Operating Revenues .....	<u>\$129,410</u>	<u>\$120,090</u>	<u>\$130,400</u>	<u>\$133,778</u>
Operating Income .....	<u>\$ 14,782</u>	<u>\$ 9,974</u>	<u>\$ 13,940</u>	<u>\$ 15,400</u>
Net Income .....	<u>\$ 11,053</u>	<u>\$ 2,956</u>	<u>\$ 9,638</u>	<u>\$ 11,621</u>

1999

Operating Revenues .....	<u>\$97,686</u>	<u>\$108,829</u>	<u>\$107,776</u>	<u>\$ 99,940</u>
Operating Income/(Loss) .....	<u>\$12,205</u>	<u>\$ 8,812</u>	<u>\$ 22,821</u>	<u>\$ (2,097)</u>
Net Income/(Loss) .....	<u>\$ 4,852</u>	<u>\$ 4,183</u>	<u>\$ 11,368</u>	<u>\$ (17,516)</u>

(a) Includes portion due within one year.

Western Massachusetts Electric Company and Subsidiary

CONSOLIDATED STATISTICS (Unaudited)

	Gross Electric Utility Plant December 31, (Thousands of Dollars)	kWh Sales (Millions)	Average Annual Use Per Residential Customer (kWh)	Electric Customers (Average)	Employees December 31,
2000	\$1,153,514	7,278	7,371	198,372	406
1999	1,216,015	4,654	7,423	198,012	482
1998	1,256,046	4,091	6,979	196,339	533
1997	1,334,233	4,300	7,121	195,324	507
1996	1,303,361	4,626	7,335	194,705	497

## ***Western Massachusetts Electric Company***

### **First and Refunding Mortgage Bonds**

Trustee and Interest Paying Agent  
State Street Bank and Trust Company  
Goodwin Square  
225 Asylum Street 23rd Floor  
Hartford, CT 06103

### **Preferred Stock**

Transfer Agent, Dividend Disbursing Agent and Registrar  
Bank of New York  
101 Barclay Street—Floor 12W  
New York, NY 01286

2001 Dividend Payment Dates  
7.72% Series B  
January 1, April 1, July 1, and October 1

7.60% Series  
February 1, May 1, August 1, and November 1

Address General Correspondence in Care of:  
Northeast Utilities Service Company  
Investor Relations Department  
P.O. Box 270  
Hartford, CT 06141-0270  
Telephone: (860) 665-5000