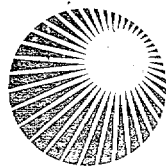
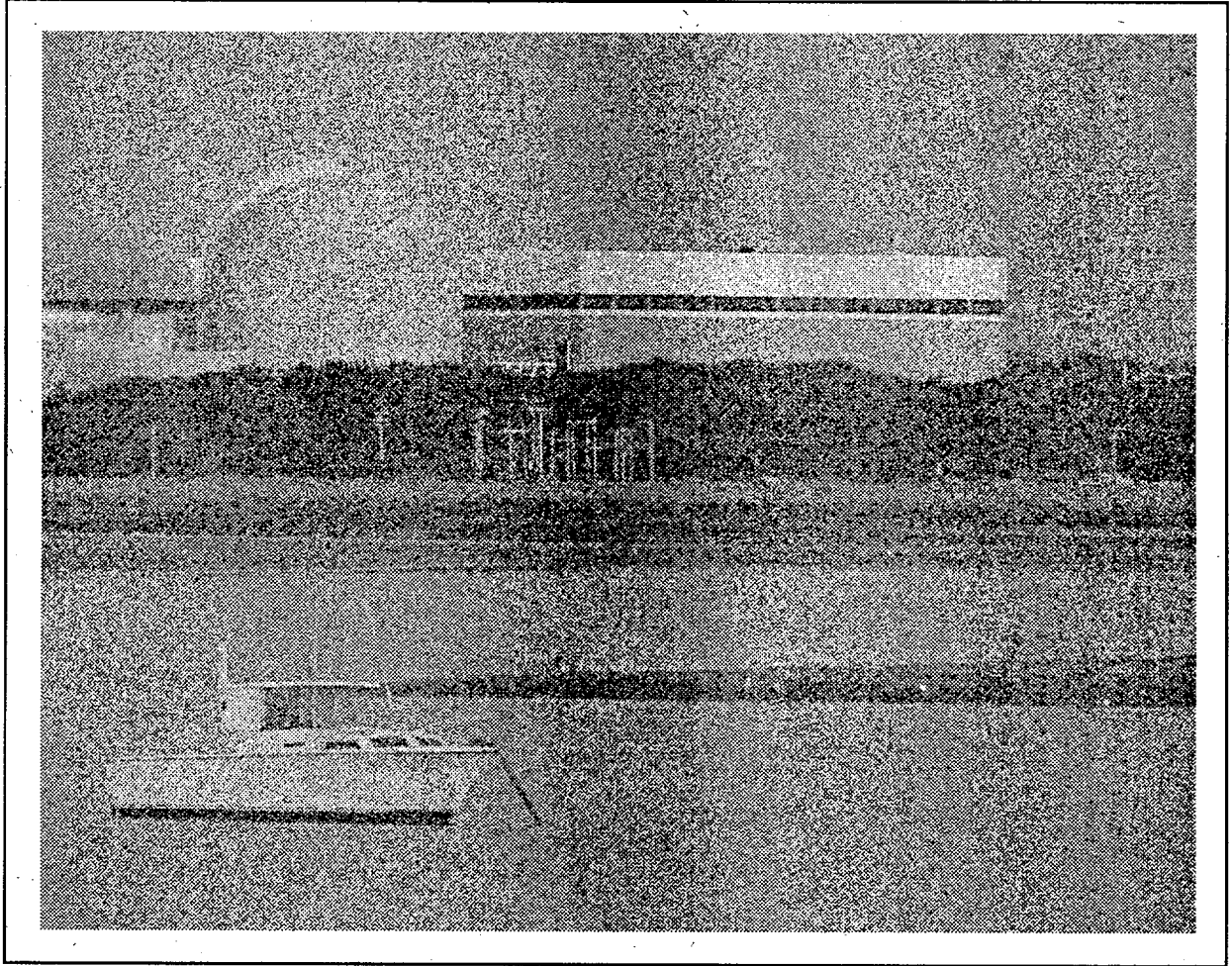


2000 Annual Report



**North
Atlantic**

The Northeast Utilities System

Directors

Georgte R. Gram II
Director—Support Services
Seabrook Station

Ted C. Feigenbaum
Executive Vice President and
Chief Nuclear Officer

Bruce D. Kenyon
President and
Chief Executive Officer

Officers

Bruce D. Kenyon
President and
Chief Executive Officer

Ted C. Feigenbaum
Executive Vice President and
Chief Nuclear Officer

Lillian M. Cuoco
Secretary

Robert A. Bersak
Assistant Secretary

Jennifer F. Powers
Assistant Secretary

2000 Annual Report
North Atlantic Energy Corporation
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North Atlantic Energy Corporation

Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition

Overview

North Atlantic Energy Corporation, (NAEC or the company), is a wholly owned operating subsidiary of Northeast Utilities (NU) and is part of the Northeast Utilities system (NU system). Public Service Company of New Hampshire (PSNH), is another wholly owned subsidiary of NU. PSNH is obligated to purchase the capacity and output from NAEC's 35.98 percent joint ownership interest in the Seabrook Station nuclear unit (Seabrook) under the terms of two life-of-unit, full cost recovery contracts (Seabrook Power Contracts).

The company's only assets are Seabrook and other Seabrook-related assets and its only source of revenues are the Seabrook Power Contracts. PSNH's obligations under the Seabrook Power Contracts are solely its own and have not been guaranteed by NU. The Seabrook Power Contracts contain no provisions entitling PSNH to terminate its obligations. If, however, PSNH were to fail to perform its obligations under the Seabrook Power Contracts, the company would be required to find other purchasers for Seabrook's power.

With the implementation of the "Agreement to Settle PSNH Restructuring" (Settlement Agreement), PSNH and NAEC will restructure the power contracts to provide for the buydown of the value of the Seabrook asset to \$100 million. NAEC will use a portion of these cash proceeds to retire its existing long-term debt obligation. NAEC will also return to NU parent another portion of these cash proceeds in the form of a dividend. The Settlement Agreement also requires NAEC to sell via public auction its share of Seabrook, with the sale to occur no later than December 31, 2003. Upon a successful sale of NAEC's share of Seabrook, the existing Seabrook Power Contracts between PSNH and NAEC will be terminated. However, PSNH will continue to be responsible for funding NAEC's ownership share of Seabrook's decommissioning liability.

In 2000, NAEC's revenues decreased to \$274.3 million, down 4.5 percent from revenues of \$287.4 million in 1999. Revenues were \$276.7 million in 1998. In 2000, NAEC had net income of \$32.5 million, compared to \$29.6 million in 1999 and \$29.5 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 a 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

During 2000, net cash flows provided by operations were \$117.6 million, compared to \$181.4 million in 1999 and \$128.7 million in 1998. The decrease in 2000 was primarily due to an increase in receivables and an increase in deferred income tax benefit due to lower tax depreciation.

Net cash flows used in financing activities were \$112 million in 2000, compared to \$130 million in 1999 and \$75 million in 1998. This included \$270 million to retire long-term debt, compared to \$70 million and \$20 million in 1999 and 1998, respectively. Cash dividends on common shares paid in 2000 were \$42 million, compared to \$60 million in 1999 and \$45 million in 1998.

Including investments made in the NU System Money Pool, construction expenditures and investments in nuclear decommissioning trusts, net cash flows used in investing activities were \$5.5 million in 2000, compared to \$51.5 million in 1999 and \$53.7 million in 1998. NAEC currently forecasts construction expenditures of \$6.6 million for the year 2001.

In 2000, NAEC renewed its \$200 million term credit agreement for 364 days. In April 2000, Moody's Investors Service (Moody's) upgraded its credit ratings for NAEC, and in October 2000, Fitch IBCA (Fitch) upgraded its credit ratings for NAEC. In January 2001, Moody's and Standard and Poor's upgraded their credit ratings for NAEC, primarily as a result of the New Hampshire Supreme Court's decision to uphold that state's restructuring plan and NU's general financial recovery.

By the end of 2002, PSNH expects to complete the auction of approximately 1,200 MW of fossil and hydroelectric generation assets, as well NAEC's share of Seabrook. PSNH's restructuring settlement was predicated upon receiving approximately \$400 million of net proceeds from those sales. Cash proceeds will be used to retire debt and to return equity capital to the parent company.

In September 2000, the New Hampshire Public Utilities Commission (NHPUC) approved a comprehensive restructuring settlement that allows PSNH to securitize up to \$670 million of stranded costs. In January 2001, the New Hampshire Supreme Court upheld this restructuring order on appeal. However, one of the appellants indicated publicly it would request a review of the New Hampshire Supreme Court decision by the United States Supreme Court. Such a request must be filed by May 1, 2001. Management believes that such an appeal would have a low probability of success, but cannot determine what effect it might have on the timing of the issuance of securitization bonds and the implementation of customer choice in New Hampshire. PSNH currently expects to work with the State of New Hampshire to issue securitization bonds early in the second quarter of 2001. Cash proceeds would be combined with cash on hand and used primarily to buydown the power contract between PSNH and NAEC, retire debt at the two companies of approximately \$300 million and return equity capital to the parent company from PSNH and NAEC of another \$375 million.

Restructuring

On September 8, 2000, the NHPUC issued two orders. The first order approved an Amended Settlement Agreement. The Amended Settlement Agreement, as approved by the NHPUC, will resolve 11 NHPUC dockets and PSNH's federal lawsuit which had enjoined the state of New Hampshire from implementing its restructuring legislation, will require PSNH to write off in excess of \$200 million after-tax of its stranded costs and allow for the recovery of the remaining amount.

The second order issued by the NHPUC was an order addressing financing issues, primarily securitization. The order, among other things, authorizes PSNH to issue up to \$670 million of rate reduction bonds (RRB), permits PSNH to establish a RRB charge, and establishes the terms of the RRB charge, including the requirement that it be non-bypassable. The New Hampshire legislature had previously passed legislation, that permitted PSNH to issue up to \$670 million in RRBs to securitize certain regulatory assets.

The Settlement Agreement also requires NAEC to sell its share of the Seabrook power plant, including Seabrook 2. NAEC will use the proceeds of such a sale to pay off any outstanding obligations. Net proceeds in excess of book value will be transferred to PSNH and applied against PSNH's stranded costs. The sales would be accomplished through an auction process subject to NHPUC administration.

Nuclear Plant Performance and Divestiture

Seabrook

Seabrook operated at a capacity factor of 78 percent in 2000. The unit began a scheduled refueling outage on October 21, 2000. The outage was extended by approximately two months as a result of the need to repair extensive problems with a back-up diesel generator. Seabrook returned to service on January 29, 2001.

On December 15, 2000, NU filed its divestiture plan for Seabrook with the NHPUC and the Connecticut Department of Public Utility Control. NU hopes to complete the sale in 2002.

Nuclear Decommissioning

For further information regarding nuclear decommissioning, see Note 2, "Nuclear Decommissioning and Plant Closure Costs," to the 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. NU 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 7C, "Commitments and Contingencies - Spent Nuclear Fuel Disposal Costs," to the financial statements.

Other Matters

Environmental Matters

NAEC 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 7B, "Commitments and Contingencies - Environmental Matters," to the financial statements.

Other Commitments and Contingencies

For further information regarding these other commitments and contingencies, see Note 7, "Commitments and Contingencies," to the 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, refinancing, 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	\$ (13)	(5%)	\$ 11	4%
Operating Expenses:				
Fuel, purchased and interchange power, net	(3)	(17)	2	17
Other operation and maintenance expense	-	-	10	19
Depreciation	-	-	2	9
Amortization of regulatory assets	-	-	-	-
Federal and state income taxes	1	2	(1)	(4)
Taxes other than income taxes	<u>(6)</u>	<u>(42)</u>	<u>2</u>	<u>17</u>
Total operating expenses	<u>(7)</u>	<u>(3)</u>	<u>15</u>	<u>7</u>
Operating Income	<u>(6)</u>	<u>(11)</u>	<u>(4)</u>	<u>(8)</u>
Other Income:				
Deferred Seabrook return - other funds	(2)	(52)	(2)	(34)
Other, net	1	12	1	12
Other income tax	<u>4</u>	<u>19</u>	<u>5</u>	<u>33</u>
Net other income	2	14	3	27
Interest charges	<u>(6)</u>	<u>(17)</u>	<u>(1)</u>	<u>(3)</u>
Net Income/(Loss)	<u>\$ 3</u>	<u>10</u>	<u>\$ -</u>	<u>-</u>

Operating Revenues

Total operating revenues decreased by \$13 million or 5 percent for 2000, as compared to 1999, primarily due to lower operating costs billed to PSNH through the Seabrook Power Contracts.

Operating revenues increased in 1999, primarily due to the higher operating expenses related to the Seabrook refueling and maintenance outage in 1999.

Fuel, Purchased and Interchange Power, Net

Fuel expense decreased in 2000, as compared to 1999, primarily due to the extended nuclear refueling outage in 2000.

Fuel expense increased in 1999, primarily due to a higher fuel amortization rate since the Seabrook refueling outage.

Other Operation and Maintenance Expense

Other operation and maintenance (O&M) expenses were relatively unchanged in 2000, as compared to 1999.

Other O&M expenses increased in 1999, primarily due to higher costs relating to the Seabrook refueling outage.

Depreciation

Depreciation expense was unchanged in 2000.

Depreciation increased in 1999 due to shorter useful lives for 1999 plant asset additions.

Federal and State Income Taxes

Federal and state income taxes decreased during 2000, due to lower book taxable income.

Federal and state income taxes decreased during 1999, due to lower book taxable income.

Taxes Other Than Income Taxes

Taxes other than income taxes decreased in 2000, primarily due to the tax true-up in the third quarter of 1999 as a result of a change to the statewide utility property tax.

Taxes other than income taxes increased in 1999, as the result of the New Hampshire change to a statewide utility property tax in place of the nuclear station tax.

Deferred Seabrook Return - Other Funds

The deferred Seabrook return income decreased in 2000, as compared to 1999, as NAEC continues to recover the Seabrook deferred return, reducing the outstanding balance.

The deferred Seabrook return income decreased in 1999, as compared to 1998, as NAEC continues to recover the Seabrook deferred return, reducing the outstanding balance.

Other, Net

Other income, net increased in 2000, primarily due to higher interest income on investments in the NU System Money Pool.

Other income, net increased in 1999, primarily due to higher interest income on investments in the NU System Money Pool.

Interest Charges

Interest charges decreased in 2000, primarily due to lower long-term debt outstanding.

Interest charges decreased in 1999, primarily due to lower long-term debt outstanding.

North Atlantic Energy Corporation

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
of North Atlantic Energy Corporation:

We have audited the accompanying balance sheets of North Atlantic Energy Corporation (a New Hampshire corporation and a wholly owned subsidiary of Northeast Utilities) as of December 31, 2000 and 1999, and the related statements of 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 North Atlantic Energy Corporation as of December 31, 2000 and 1999, and the results of its operations and its 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 11, as to which the
date is March 13, 2001)

NORTH ATLANTIC ENERGY CORPORATION

STATEMENTS OF INCOME

FOR THE YEAR ENDED DECEMBER 31,	2000	1999	1998
(Thousands of Dollars)			
Operating Revenues.....	\$ 274,319	\$ 287,369	\$ 276,685
Operating Expenses:			
Operation -			
Fuel.....	12,923	15,596	13,305
Other.....	40,650	41,727	36,763
Maintenance.....	20,268	19,030	14,120
Depreciation.....	27,823	27,576	25,381
Amortization of regulatory assets, net.....	85,176	85,488	85,464
Federal and state income taxes.....	35,675	34,854	36,194
Taxes other than income taxes.....	7,727	13,370	11,401
Total operating expenses.....	230,242	237,641	222,628
Operating Income.....	44,077	49,728	54,057
Other Income/(Loss):			
Deferred Seabrook return - other funds.....	2,112	4,417	6,731
Other, net.....	(6,544)	(7,432)	(8,435)
Income taxes.....	22,792	19,131	14,378
Other income, net.....	18,360	16,116	12,674
Income before interest charges.....	62,437	65,844	66,731
Interest Charges:			
Interest on long-term debt.....	32,247	45,297	50,082
Other interest.....	1,423	(542)	(676)
Deferred Seabrook return - borrowed funds.....	(3,726)	(8,467)	(12,169)
Interest charges, net.....	29,944	36,288	37,237
Net Income.....	\$ 32,493	\$ 29,556	\$ 29,494

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

NORTH ATLANTIC ENERGY CORPORATION

BALANCE SHEETS

AT DECEMBER 31,	2000	1999
	(Thousands of Dollars)	
ASSETS		

Utility Plant, at original cost:		
Electric.....	\$ 719,353	\$ 736,472
Less: Accumulated provision for depreciation.....	223,465	196,694
	495,888	539,778
Construction work in progress.....	8,710	10,274
Nuclear fuel, net.....	28,369	21,149
	532,967	571,201
	-----	-----
Other Property and Investments:		
Nuclear decommissioning trusts, at market.....	50,863	43,667
	50,863	43,667
	-----	-----
Current Assets:		
Cash.....	118	-
Notes receivable from affiliated companies.....	27,800	56,400
Accounts receivable from affiliated companies.....	50,796	22,840
Taxes receivable.....	722	11,717
Materials and supplies, at average cost.....	14,003	13,088
Prepayments and other.....	2,000	1,773
	95,439	105,818
	-----	-----
Deferred Charges:		
Regulatory assets.....	48,068	129,641
Unamortized debt expense.....	847	1,780
-Prepaid property tax.....	630	-
Other.....	150	-
	49,695	131,421
	-----	-----
Total Assets.....	\$ 728,964	\$ 852,107
	-----	-----

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

NORTH ATLANTIC ENERGY CORPORATION

BALANCE SHEETS

AT DECEMBER 31,	2000	1999
	(Thousands of Dollars)	
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, \$1 par value - authorized 1,000 shares; 1,000 shares outstanding in 2000 and 1999.....	\$ 1	\$ 1
Capital surplus, paid in.....	160,999	160,999
Retained earnings.....	(41)	12,752
Total common stockholder's equity.....	160,959	173,752
Long-term debt.....	65,000	135,000
Total capitalization.....	225,959	308,752
Current Liabilities:		
Notes payable to banks.....	200,000	-
Long-term debt - current portion.....	70,000	270,000
Accounts payable.....	16,543	11,694
Accounts payable to affiliated companies.....	1,389	806
Accrued interest.....	2,716	2,340
Other.....	276	272
	290,924	285,112
Deferred Credits and Other Long-term Liabilities:		
Accumulated deferred income taxes.....	184,763	222,601
Deferred obligation to affiliated company.....	3,240	12,984
Other.....	24,078	22,658
	212,081	258,243

Commitments and Contingencies (Note 7)

Total Capitalization and Liabilities.....	\$ 728,964	\$ 852,107
	=====	=====

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

NORTH ATLANTIC ENERGY CORPORATION

STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

	Common Stock	Capital Surplus, Paid In	Retained Earnings (a)	Total
(Thousands of Dollars)				
Balance at January 1, 1998.....	\$ 1	\$ 160,999	\$ 58,702	\$ 219,702
Net income for 1998.....			29,494	29,494
Cash dividends on common stock.....			(45,000)	(45,000)
Balance at December 31, 1998.....	1	160,999	43,196	204,196
Net income for 1999.....			29,556	29,556
Cash dividends on common stock.....			(60,000)	(60,000)
Balance at December 31, 1999.....	1	160,999	12,752	173,752
Net income for 2000.....			32,493	32,493
Cash dividends on common stock.....			(42,000)	(42,000)
Tax expense for 1993-1999 from reduction on NU parent company losses (b).....			(3,286)	(3,286)
Balance at December 31, 2000.....	\$ 1	\$ 160,999	\$ (41)	\$ 160,959
	=====	=====	=====	=====

(a) The dividend restriction allows all the retained earnings plus an allowance of \$10,000,000 to be available. However the company has a 25% common equity ratio test to meet. Since the company's retained earnings are negative, only \$9,959,000 of the allowance can be paid.

(b) The amount in 2000 represents the tax expense related to the previously unallocated 1993 through 1999 NU parent losses.

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

NORTH ATLANTIC ENERGY CORPORATION

STATEMENTS OF CASH FLOWS

(Thousands of Dollars)	For the Years Ended December 31,		
	2000	1999	1998
Operating Activities:			
Net income.....	\$ 32,493	\$ 29,556	\$ 29,494
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation.....	27,823	27,576	25,381
Amortization of nuclear fuel.....	10,221	12,642	10,453
Deferred income taxes and investment tax credits, net.....	(25,579)	452	6,010
Deferred return - Seabrook.....	(5,838)	(12,884)	(18,900)
Amortization of regulatory assets, net.....	85,176	85,488	85,464
Tax expense for 1993-1999 from reduction of NU parent losses.....	(3,286)	-	-
Deferred obligation to affiliated company.....	(9,744)	(9,744)	(9,744)
Net other sources of cash.....	18,645	35,486	18,214
Changes in working capital:			
Receivables.....	(27,956)	964	1,891
Materials and supplies.....	(915)	(276)	191
Accounts payable.....	5,432	5,709	(7,161)
Accrued taxes.....	-	(710)	710
Other working capital (excludes cash).....	11,148	7,133	(13,258)
Net cash flows provided by operating activities.....	117,620	181,392	128,745
Investing Activities:			
Investments in plant:			
Electric utility plant.....	(6,586)	(7,895)	(9,028)
Nuclear fuel.....	(17,222)	(9,934)	(6,474)
Net cash flows used for investments in plant.....	(23,808)	(17,829)	(15,502)
Investment in NU system Money Pool.....	28,600	(26,050)	(30,350)
Investments in nuclear decommissioning trusts.....	(10,294)	(7,584)	(7,885)
Net cash flows used in investing activities.....	(5,502)	(51,463)	(53,737)
Financing Activities:			
Net increase/(decrease) in short-term debt.....	200,000	-	(9,950)
Reacquisitions and retirements of long-term debt.....	(270,000)	(70,000)	(20,000)
Cash dividends on common stock.....	(42,000)	(60,000)	(45,000)
Net cash flows used in financing activities.....	(112,000)	(130,000)	(74,950)
Net increase/(decrease) in cash for the period.....	118	(71)	58
Cash - beginning of period.....	-	71	13
Cash - end of period.....	\$ 118	\$ -	\$ 71
Supplemental Cash Flow Information:			
Cash paid during the year for:			
Interest, net of amounts capitalized.....	\$ 28,349	\$ 38,042	\$ 42,498
Income taxes.....	\$ 28,053	\$ 3,000	\$ 22,136

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

North Atlantic Energy Corporation

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. About North Atlantic Energy Corporation

North Atlantic Energy Corporation (NAEC or the company) along with The Connecticut Light and Power Company (CL&P), Public Service Company of New Hampshire (PSNH), Western Massachusetts Electric Company (WMECO), 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 New Hampshire, Connecticut and western Massachusetts through PSNH, CL&P and WMECO. NAEC owns 35.98 percent of the Seabrook Station nuclear unit (Seabrook) and sells all of its entitlement to the capacity and output of Seabrook to PSNH under the terms of two life-of-unit, full cost recovery contracts (Seabrook Power Contracts). HWP, also is engaged in the production and distribution of electric power.

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 NAEC, 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. NAEC is subject to further regulation for rates, accounting and other matters by the FERC and/or the New Hampshire Public Utilities Commission (NHPUC).

Several wholly owned subsidiaries of NU provide support services for the NU system companies 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. 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 (NAESCO) has operational responsibility for Seabrook.

B. Presentation

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

NOTES TO FINANCIAL STATEMENTS

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.

C. New Accounting Standards

Derivative Instruments: Effective January 1, 2001, NAEC 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 NAEC's financial position or results of operations.

D. Jointly Owned Electric Utility Plant

Seabrook: NAEC has a 35.98 percent ownership interest in Seabrook, a 1,148 megawatt nuclear generating unit. NAEC sells all of its share of the power generated by Seabrook to PSNH under the Seabrook Power Contracts. NAEC expects to auction its investment in Seabrook in 2001 with a closing on the sale expected in 2002.

NAEC's share of Seabrook's plant-in-service as of December 31, 2000 and 1999, was \$734.6 million and \$728 million, respectively, and the accumulated provision for depreciation was \$172.6 million and \$153 million, respectively.

NOTES TO FINANCIAL STATEMENTS

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 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 2.9 percent in 2000, 3.8 percent in 1999 and 3.5 percent in 1998.

F. Seabrook Power Contracts

NAEC and PSNH have entered into two power contracts that obligate PSNH to purchase NAEC's 35.98 percent ownership of the capacity and output of Seabrook for the term of Seabrook's operating license. Under these power contracts, PSNH is obligated to pay NAEC's cost of service during this period, regardless of whether Seabrook is operating. NAEC's cost of service includes all of its Seabrook-related costs, including operation and maintenance (O&M) expenses, fuel expense, income and property tax expense, depreciation expense, certain overhead and other costs, and a return on its allowed investment.

The Seabrook Power Contracts established the value of the initial investment in Seabrook at \$700 million. As prescribed by the 1989 rate agreement between NU, PSNH, and the state of New Hampshire (Rate Agreement), as of May 1, 1996, NAEC phased into rates 100 percent of the recoverable portion of its investment in Seabrook. From June 5, 1992 (the date NU acquired PSNH and NAEC acquired Seabrook from PSNH - the Acquisition Date) through November 1997, NAEC recorded a \$203.9 million deferred return on its investment in Seabrook. At November 30, 1997, NAEC's utility plant included \$84.1 million of the deferred return that was transferred as part of the Seabrook plant assets to NAEC on the Acquisition Date.

With the implementation of the "Agreement to Settle PSNH Restructuring" (Settlement Agreement), NAEC and PSNH will restructure the power contracts to provide for the buydown of the value of the Seabrook asset to \$100 million. The Settlement Agreement also requires NAEC to sell via public auction its share of Seabrook, with the sale to occur no later than December 31, 2003. Upon a successful sale of NAEC's share of Seabrook, the existing Seabrook Power Contracts between NAEC and PSNH will be terminated.

North Atlantic Energy Corporation

NOTES TO FINANCIAL STATEMENTS

Under the current Seabrook Power Contracts, if Seabrook is shut down prior to the expiration of its operating license, PSNH will be unconditionally required to pay NAEC termination costs for 39 years, less the period during which Seabrook has operated. These termination costs will reimburse NAEC for its share of Seabrook shut-down and decommissioning costs, and will pay NAEC a return of and on any undepreciated balance of its initial investment over the remaining term of the power contracts, and the return of and on any capital additions to the plant made after the Acquisition Date over a period of five years after shut down (net of any tax benefits to NAEC attributable to the cancellation).

G. Regulatory Accounting and Assets

The accounting policies of NAEC and the accompanying 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. During the fourth quarter of 2000, the Settlement Agreement became probable of implementation, therefore, PSNH discontinued the application of SFAS No. 71 for the generation portion of its business. In accordance with the power contracts, NAEC will be paid for the cost of Seabrook, therefore, PSNH's discontinuation of SFAS No. 71 did not impact NAEC.

Management continues to believe it is probable that NAEC will recover their investments in long-lived assets, including regulatory assets. In addition, all material regulatory assets are earning a return. The components of NAEC's regulatory assets are as follows:

At December 31,	2000	1999
	(Millions of Dollars)	
Deferred costs-Seabrook	\$23.2	\$ 88.5
Income taxes, net	23.4	35.6
Recoverable energy costs	1.5	1.7
Unamortized loss on reacquired debt .	-	3.8
	<u>\$48.1</u>	<u>\$129.6</u>

Upon the implementation of the Settlement Agreement, as filed, PSNH will make a payment to NAEC to buydown the Seabrook Power Contracts to \$100 million. NAEC will reduce the Seabrook assets to \$100 million. Upon the final sale of Seabrook, the Seabrook Power Contracts will be terminated and any difference between the net proceeds and the Seabrook book value at the time will be transferred to PSNH and applied against PSNH's stranded costs.

North Atlantic Energy Corporation

NOTES TO FINANCIAL STATEMENTS

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, which 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 ...	\$197.8	\$205.1
Regulatory assets - income tax gross up	7.6	12.2
Other	(20.6)	5.3
	<u>\$184.8</u>	<u>\$222.6</u>

I. Recoverable Energy Costs

Under the Energy Policy Act of 1992 (Energy Act), NAEC is assessed for its proportionate shares of the costs of decontaminating and decommissioning uranium enrichment plants 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. NAEC is currently recovering these costs through the Seabrook Power Contracts. As of December 31, 2000 and 1999, NAEC's total D&D Assessment deferral was \$1.5 million and \$1.7 million, respectively.

2. NUCLEAR DECOMMISSIONING AND PLANT CLOSURE COSTS

Seabrook: Under the terms of the Rate Agreement, PSNH is obligated to pay NAEC's share of Seabrook's decommissioning costs, even if the unit is shut down prior to the expiration of its operating license. Accordingly, NAEC bills PSNH directly for its share of the costs of decommissioning Seabrook. PSNH records its Seabrook decommissioning costs as a component of purchased-power expense. Under the Rate Agreement, these costs are recovered through base rates. The Seabrook decommissioning costs will continue to be increased annually by its respective escalation rates until the unit is sold.

NAEC's existing decommissioning trusts will be increased at the time of the plant sale, however, PSNH will continue to be responsible for funding NAEC's ownership share of the remainder of Seabrook's decommissioning liability after its share of the unit is sold. PSNH's obligation will be limited to the future funding of

North Atlantic Energy Corporation

NOTES TO FINANCIAL STATEMENTS

the decommissioning cost level in effect at the time of sale. The Settlement Agreement provides PSNH for the recovery of these costs through a stranded cost recovery charge within rates.

Under New Hampshire law, Seabrook decommissioning funding requirements are set by the New Hampshire Nuclear Decommissioning Financing Committee (NDFC). During January 2000, the NDFC issued an order that adjusted the decommissioning collection period and funding levels assuming that Seabrook's anticipated energy producing life was 25 years from the date it went into commercial operation. Decommissioning collections are now expected to be completed by October 2015, as opposed to 2026, for the decommissioning collection period only. The cost of funding decommissioning Seabrook is now accrued over the estimated remaining accelerated funding period that was ordered by the NDFC. This is eleven years earlier than the service life established by Seabrook's Nuclear Regulatory Commission's (NRC) operating license.

Upon retirement, Seabrook must be decommissioned. Current decommissioning studies conclude that complete and immediate dismantlement as soon as practical after retirement continues to be the most viable and economic method of decommissioning a unit. These studies are reviewed and updated periodically to reflect changes in decommissioning requirements, costs, technology, and inflation. Changes in requirements or technology, the timing of funding or dismantling or adoption of a decommissioning method other than immediate dismantlement would change decommissioning cost estimates and the amounts required to be recovered.

The estimated cost of decommissioning NAEC's share of Seabrook, in year end 2000 dollars is \$210.8 million. Nuclear decommissioning costs are accrued over the expected service life of the unit and are included in depreciation expense. Nuclear decommissioning expenses for the unit amounted to \$6.9 million in 2000, \$6.8 million in 1999 and \$4.7 million in 1998. Nuclear decommissioning, as a cost of removal, is included in the accumulated provision for depreciation.

Payments for NAEC's ownership share of the cost of decommissioning Seabrook are paid to an independent decommissioning financing fund managed by the state of New Hampshire. Funding of the estimated decommissioning costs assumes escalated collections and after-tax earnings on the Seabrook decommissioning fund of 6.5 percent.

As of December 31, 2000 and 1999, NAEC has paid \$39.6 million and \$32.7 million (including payments made prior to the Acquisition Date by PSNH), into Seabrook's decommissioning financing fund. Earnings on the decommissioning financing fund increase the decommissioning trust balance and the accumulated reserve for depreciation. Unrealized gains and losses associated with the decommissioning financing fund also impact the balance of the trust and the accumulated reserve for depreciation. The fair values of the amounts in the external decommissioning trust for

North Atlantic Energy Corporation

NOTES TO FINANCIAL STATEMENTS

NAEC were \$50.9 million and \$43.7 million at December 31, 2000 and 1999, respectively.

3. SHORT-TERM DEBT

Limits: The amount of short-term borrowings that may be incurred by NAEC is subject to periodic approval by either the SEC under the 1935 Act or by the NHPUC. As of December 31, 2000, NAEC is authorized by the NHPUC and the SEC to incur short-term borrowings up to a maximum of \$260 million.

Credit Agreements: On November 9, 2000, NAEC entered into an unsecured 364-day term credit agreement for \$200 million, replacing a \$225 million term loan which was to expire on November 9, 2000. The proceeds from the term credit agreement were used to repay the \$200 million outstanding under the previous term loan. Additionally, the interest rate swaps and collar related to the previous term loan expired and were not replaced. The term credit agreement also contains two mandatory prepayment provisions; the first is a 50 percent mandatory principal repayment of amounts outstanding to \$100 million within two days of the buydown of the Seabrook Power Contracts and the second is 100 percent prepayment within two days of the sale of Seabrook. Any amounts prepaid can not be reborrowed. Unless extended, the term credit agreement will expire on November 8, 2001. At December 31, 2000 and 1999, there were \$200 million in borrowings under the credit agreement and previous term loan.

Under the aforementioned credit agreements, the respective borrowers 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 NAEC's notes payable to banks outstanding on December 31, 2000, was 8.3 percent. Maturities of short-term debt obligations were for periods of three months or less.

These credit agreements provide that NAEC 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. NAEC currently is and expects to remain in compliance with these covenants.

Money Pool: Certain subsidiaries of NU, including NAEC, 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. 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

North Atlantic Energy Corporation

NOTES TO FINANCIAL STATEMENTS

parent's original borrowing. At December 31, 2000 and 1999, NAEC had no borrowings outstanding from the Pool.

4. LONG-TERM DEBT

Details of long-term debt outstanding are:

At December 31,	2000	1999
	(Millions of Dollars)	
First Mortgage Bonds:		
9.05% Series A, due 2002	\$135	\$205
Notes:		
Variable - Rate Facility, due 2000	-	200
Less amounts due within one year	<u>70</u>	<u>270</u>
Long-term debt, net	<u>\$ 65</u>	<u>\$135</u>

Long-term debt maturities and cash sinking fund requirements on debt outstanding at December 31, 2000, for the years 2001 and 2002 are \$70 million and \$65 million, respectively.

Essentially all utility plant of NAEC is subject to the liens of the company's first mortgage bond indenture. NAEC's first mortgage bonds are also secured by payments made to NAEC by PSNH under the terms of the Seabrook Power Contracts.

In 1999, interest rate swaps effectively fix the interest rate of NAEC's \$200 million variable-rate bank note at interest rates ranging from 5.81 percent to 6.07 percent.

5. 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	\$37.5	\$15.1	\$15.2
State	<u>1.0</u>	<u>0.2</u>	<u>0.6</u>
Total current	<u>38.5</u>	<u>15.3</u>	<u>15.8</u>
Deferred income taxes, net:			
Federal	(23.6)	0.4	4.0
State	<u>(2.0)</u>	<u>-</u>	<u>2.0</u>
Total deferred	<u>(25.6)</u>	<u>0.4</u>	<u>6.0</u>
Total income tax expense	<u>\$12.9</u>	<u>\$15.7</u>	<u>\$21.8</u>

North Atlantic Energy Corporation

NOTES TO FINANCIAL STATEMENTS

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.....	\$35.7	\$ 34.8	\$ 36.2
Other income taxes.....	<u>(22.8)</u>	<u>(19.1)</u>	<u>(14.4)</u>
Total income tax expense.....	<u>\$12.9</u>	<u>\$ 15.7</u>	<u>\$ 21.8</u>

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.....	\$ (6.5)	\$ 19.5	\$ 21.8
Bond redemptions.....	(1.4)	(2.8)	(2.8)
Seabrook deferred return.....	(17.3)	(15.7)	(14.2)
Other.....	<u>(0.4)</u>	<u>(0.6)</u>	<u>1.2</u>
Deferred income taxes, net....	<u>\$(25.6)</u>	<u>\$ 0.4</u>	<u>\$ 6.0</u>

A reconciliation between income tax expense and the expected tax expense at 35 percent of pretax income is as follows:

For the Years Ended December 31,	2000	1999	1998
	(Millions of Dollars)		
Expected federal income tax....	\$15.9	\$15.8	\$18.0
Tax effect of differences:			
Amortization of			
regulatory assets.....	7.1	7.0	7.1
Depreciation.....	(1.5)	(3.2)	1.6
Deferred Seabrook return.....	(0.7)	(1.5)	(2.4)
State income taxes, net of			
federal benefit.....	(0.7)	0.1	1.7
Allocation of Parent			
Company's loss.....	(6.3)	(2.1)	(3.9)
Other, net.....	<u>(0.9)</u>	<u>(0.4)</u>	<u>(0.3)</u>
Total income tax expense.....	<u>\$12.9</u>	<u>\$15.7</u>	<u>\$21.8</u>

6. DEFERRED OBLIGATION TO AFFILIATED COMPANY

At the time PSNH emerged from bankruptcy on May 16, 1991, in accordance with the phase-in under the Rate Agreement, it began to accrue a deferred return on a portion of its Seabrook investment. From May 16, 1991, to the Acquisition Date, PSNH accrued a deferred return of \$50.9 million. On the Acquisition Date, PSNH sold the \$50.9 million deferred return to NAEC as part of the Seabrook-related assets.

North Atlantic Energy Corporation

NOTES TO FINANCIAL STATEMENTS

At the time PSNH transferred the deferred return to NAEC, it realized, for income tax purposes, a gain that was deferred under the consolidated income tax rules. Beginning December 1, 1997, the gain is being amortized into income for income tax purposes, as the deferred return of \$50.9 million, and the associated income taxes of \$32.9 million, are being collected by NAEC through the Seabrook Power Contracts. As NAEC recovers the \$32.9 million in years eight through ten of the Rate Agreement, corresponding payments are being made to PSNH. The balance of the deferred obligation to PSNH at December 31, 2000 and 1999, was \$3.2 million and \$13 million, respectively.

7. COMMITMENTS AND CONTINGENCIES

A. Restructuring

In September 2000, the NHPUC approved a comprehensive restructuring order that would allow PSNH to securitize up to \$670 million of stranded costs. In January 2001, the New Hampshire Supreme Court upheld this restructuring order on appeal. However, one of the appellants indicated publicly it would request a review of the New Hampshire Supreme Court decision by the United States Supreme Court. Such a request must be filed by May 1, 2001. Management believes that such an appeal would have a low probability of success, but cannot determine what effect it might have on the timing of the issuance of securitization bonds and the implementation of customer choice in New Hampshire. PSNH currently expects to work with the State of New Hampshire to issue securitization bonds early in the second quarter of 2001.

B. Environmental Matters

The NU system, including NAESCO on behalf of NAEC, 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 and NAESCO, have an active environmental auditing and training program 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 NAEC 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 NAEC's financial statements.

C. Spent Nuclear Fuel Disposal Costs

Under the Nuclear Waste Policy Act of 1982, NAEC 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. Fees for

NOTES TO FINANCIAL STATEMENTS

nuclear fuel burned are billed currently to customers and paid to the DOE on a quarterly basis.

D. Nuclear Insurance Contingencies

Insurance policies covering NAEC's ownership share of Seabrook have been purchased for the primary cost of repair, replacement or decontamination of utility property and certain extra costs for repair, replacement or decontamination or premature decommissioning of utility property.

NAEC is subject to retroactive assessments if losses under those policies exceed the accumulated funds available to the insurer. The maximum potential assessments against NAEC, including costs resulting from PSNH's contracts with NAEC, with respect to losses arising during the current policy year for the primary property insurance program and the excess property damage policies are \$2 million and \$2.4 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 NAEC, 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 would be subject to an additional 5 percent, or \$4.2 million, liability, in proportion to its ownership interest in each of its nuclear units. Under the terms of the Seabrook Power Contracts with NAEC, PSNH could be obligated to pay for any assessment charged to NAEC as a cost of service. Based upon NAEC's ownership interest in Seabrook, PSNH's maximum liability, including any additional assessments, would be \$31.3 million per incident, of which payments would be limited to \$3.6 million per year.

8. MARKET RISK AND MANAGEMENT INSTRUMENTS

Interest Rate Risk Management: In 2000 and 1999, NAEC used interest rate collar and swap instruments with financial institutions to hedge against interest rate risk associated with its \$200 million variable-rate bank note. On November 9, 2000, this facility was replaced with a fixed-rate bank note. The collar and swap instruments expired and were not replaced.

Credit Risk: These agreements have been made with various financial institutions, each of which is rated "A3" or better by Moody's Investors Service rating group. NAEC is exposed to credit risk on its respective market risk management instruments if the

North Atlantic Energy Corporation

NOTES TO FINANCIAL STATEMENTS

counterparties fail to perform their obligations. Management anticipates that the counterparties will fully satisfy their obligations under the agreements.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Cash and Cash Equivalents: The carrying amounts approximate fair value due to the short-term nature of cash and cash equivalents.

Nuclear Decommissioning Trust: The investments held in NAEC's nuclear decommissioning trust were marked-to-market by \$0.1 million as of December 31, 2000, and by \$3.2 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.

Long-Term Debt: The fair value of NAEC's fixed-rate security is based upon the quoted market price for that issue or similar issues. The adjustable rate security is assumed to have a fair value equal to its carrying value.

The carrying amounts of NAEC's financial instruments and the estimated fair values are as follows:

(Million of Dollars)	At December 31, 2000	
	Carrying Amount	Fair Value
First mortgage bonds	\$135.0	\$136.8

(Million of Dollars)	At December 31, 1999	
	Carrying Amount	Fair Value
First mortgage bonds	\$205.0	\$207.8
Other long-term debt	\$200.0	\$200.0

10. SEGMENT INFORMATION

Effective January 1, 1999, the NU system companies, including NAEC, 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. NAEC is included in the regulated utilities segment of the NU system and has no other reportable segments.

NOTES TO FINANCIAL STATEMENTS

11. 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 NRC 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 a 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.

North Atlantic Energy Corporation

SELECTED FINANCIAL DATA	2000	1999	1998	1997	1996
(Thousands of Dollars)					
Operating Revenues	\$274,319	\$287,369	\$276,685	\$ 192,381	\$ 162,152
Operating Income	44,077	49,728	54,057	57,061	54,889
Net Income	32,493	29,556	29,494	29,953	32,072
Cash Dividends on Common Stock	42,000	60,000	45,000	25,000	38,000
Total Assets	728,964	852,107	945,153	1,014,639	1,017,388
Long-Term Debt (a)	135,000	405,000	475,000	495,000	515,000

QUARTERLY FINANCIAL DATA (Unaudited)

2000	Quarter Ended			
	March 31	June 30	September 30	December 31
(Thousands of Dollars)				
Operating Revenues	<u>\$66,276</u>	<u>\$66,106</u>	<u>\$66,921</u>	<u>\$75,016</u>
Operating Income	<u>\$11,657</u>	<u>\$11,185</u>	<u>\$10,470</u>	<u>\$10,765</u>
Net Income	<u>\$ 7,753</u>	<u>\$ 8,272</u>	<u>\$ 8,063</u>	<u>\$ 8,405</u>

1999

Operating Revenues	<u>\$70,289</u>	<u>\$77,203</u>	<u>\$69,779</u>	<u>\$70,098</u>
Operating Income	<u>\$12,475</u>	<u>\$12,303</u>	<u>\$12,122</u>	<u>\$12,828</u>
Net Income	<u>\$ 6,461</u>	<u>\$ 6,243</u>	<u>\$ 6,442</u>	<u>\$10,410</u>

STATISTICS (Unaudited)	2000	1999	1998	1997	1996
Gross Electric Utility Plant at December 31, (Thousands of Dollars)	<u>\$756,432</u>	<u>\$767,895</u>	<u>\$784,113</u>	<u>\$811,140</u>	<u>\$816,446</u>
kWh Sales (Millions) for the year ended December 31, ...	<u>2,850</u>	<u>3,125</u>	<u>3,018</u>	<u>2,859</u>	<u>3,542</u>

(a) Includes portion due within one year.

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North Atlantic Energy Corporation

First Mortgage Bonds

**Trustee and Interest Paying Agent
United States Trust Company of New York
114 West 47th Street
New York, NY 10036**

**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**

***Data contained in this Annual Report are submitted
for the sole purpose of providing information to
present security holders about the company.***

**General Offices
1000 Elm Street
P.O. Box 330
Manchester, New Hampshire 03105-0330**

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