

New Hampshire Yankee

Ted C. Feigenbaum
President and
Chief Executive Officer

NYN-92076

June 10, 1992

United States Nuclear Regulatory Commission
Washington, D.C. 20555

Attention: Document Control Desk

- References:
- (a) Facility Operating License No. NPF-86, Docket No. 50-443
 - (b) Amendment 10 to Facility Operating License No. NPF-86-Seabrook Station, Unit No. 1 (TAC No. M79077) dated May 29, 1992
 - (c) Amendment 11 to Facility Operating License No. NPF-86-Seabrook Station, Unit No. 1 (TAC No. M79076) dated May 29, 1992

Subject: Amendment to SEC Application Regarding North Atlantic Energy Service Corporation and Amendments 10 and 11 to Operating License

Gentlemen:

On June 5, Public Service of New Hampshire (PSNH) was merged with and into a wholly owned subsidiary of Northeast Utilities, with PSNH emerging as the surviving entity. As a result of this merger, PSNH is now a wholly owned subsidiary of NU. On the same date, PSNH's 35.6% ownership share of Seabrook Station was conveyed to North Atlantic Energy Corporation (NAEC), another wholly-owned subsidiary of NU. The reorganized PSNH now holds all of its former non-Seabrook assets. Until the managing agent transfer, the New Hampshire Yankee Division of PSNH will continue to operate and maintain Seabrook Station.

With respect to the managing agent transfer, enclosed please find Amendment 4 to NU's application to the Securities and Exchange Commission (SEC) seeking approval of the organization and conduct of business of North Atlantic Energy Service Corporation (NAESCO). SEC approval is the final approval needed to implement the transfer of managing agent responsibilities to NAESCO and it is expected shortly. As indicated in Amendment 4 to the SEC application, the definition of the "Time of Effectiveness" has been changed and the transfer will now take place as soon as possible after SEC approval is received and will not be delayed until the end of the month.

Please also note that the corporate titles in the subject amendments should be North Atlantic Energy Corporation and North Atlantic Energy Service Corporation.

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PDR ADOCK 05000443
PDR

New Hampshire Yankee Division of Public Service Company of New Hampshire
P.O. Box 300 • Seabrook, NH 03874 • Telephone (603) 474-9521

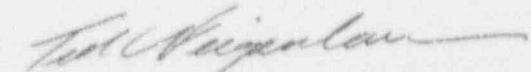
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If you have any questions on this matter please call Terry L. Harpster, Director of Licensing Services at (603) 474-9521 extension 2765.

Very truly yours,



Ted C. Feigenbaum

TCF:JBH/ss

Enclosure

cc: Mr. Thomas T. Martin
Regional Administrator
U.S. Nuclear Regulatory Commission
Region I
475 Allendale Road
King of Prussia, PA 19406

Mr. Gordon E. Edison, Sr. Project Manager
Project Directorate 1-3
Division of Reactor Projects
U.S. Nuclear Regulatory Commission
Washington, DC 20555

Mr. Noel Dudley
NRC Senior Resident Inspector
P.O. Box 1149
Seabrook, NH 03874

FILE NO. 70-7787

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 4 TO
FORM U-1
APPLICATION/DECLARATION WITH RESPECT TO THE
PROPOSED ORGANIZATION AND CONDUCT OF BUSINESS OF
NORTH ATLANTIC ENERGY SERVICE CORPORATION
Under
THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

Northeast Utilities
174 Brush Hill Avenue
West Springfield, MA 01090-0010

The Connecticut Light and Power
Company
107 Selden Street
Berlin, CT 06037-0218

Northeast Utilities Service Company
107 Selden Street
Berlin, CT 06037-0218

Yankee Atomic Electric Company
580 Main Street
Bolton, MA 01740

(Names of companies filing this statement
and addresses of principal executive offices)

NORTHEAST UTILITIES

(Name of top registered holding company)

Walter F. Torrance, Jr., Esq.
Senior Vice President, Secretary and General Counsel
Northeast Utilities Service Company
107 Selden Street
Berlin, CT 06037-0218

(Name and address of agent for service)

The Commission is requested to mail signed copies of all orders,
notices and communications to:

Gerald Garfield, Esq.
Day, Berry & Howard
CityPlace
Hartford, CT 06103-3499

Robert E. Busch
Executive Vice President and
Chief Financial Officer
Northeast Utilities Service Company
P.O. Box 270
Hartford, CT 06141-0270

John F. Opeka
Executive Vice President -
Nuclear
Northeast Utilities Service Company
P.O. Box 270
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John B. Keane, Esq.
Associate General Counsel
Northeast Utilities Service Company
P.O. Box 270
Hartford, CT 06141-0270

Northeast Utilities, The Connecticut Light and Power Company, Northeast Utilities Service Company and Yankee Atomic Electric Company hereby amend their application/declaration to read as shown in Attachment I hereto.

ITEM I

DESCRIPTION OF PROPOSED TRANSACTIONS

INTRODUCTION

1. Northeast Utilities ("NU"), a public utility holding company registered under the Public Utility Holding Company Act of 1935, as amended (the "Act"), Northeast Utilities Service Company ("NUSCO"), a service company subsidiary of NU, The Connecticut Light and Power Company ("CL&P"), an electric utility subsidiary of NU, and Yankee Atomic Electric Company ("YAEC"), an electric utility company subsidiary of NU and New England Electric System (collectively, the "Applicants") submit this application/declaration (the "Application") pursuant to Sections 6(a), 7, 9(a), 10, 12(b) and 13 of the Act and the rules thereunder, with respect to certain transactions related to the formation, capitalization and conduct of business of North Atlantic Energy Service Corporation ("NAESCO"), a to-be-formed electric utility company and service company subsidiary of NU. At the request of the staff of the Commission's Office of Public Utility Regulation, this Application is being submitted on Form U-1. NAESCO will be formed to manage, operate and maintain Seabrook Unit No. 1 ("Seabrook"), an 1150 megawatt nuclear power plant located in Seabrook, New Hampshire. NAESCO will also be responsible for supervision of the disposition of Seabrook Unit No. 2, a cancelled nuclear unit on the same site as Seabrook Unit

No. 1. NAESCO will not have an ownership interest in Seabrook or Seabrook Unit No. 2 or an entitlement to any of the capacity or energy therefrom.

2. This proposed transaction is a part of the overall proposed acquisition of Public Service Company of New Hampshire ("PSNH") by NU which is described in the application/declaration of NU and NUSCO in File No. 70-7695, as amended, and which was approved by the Commission in its Memorandum Opinion and Order issued December 21, 1990. Northeast Utilities, H.C.A. Release No. 25221 (December 21, 1990), modified, H.C.A. Release No. 25273 (March 15, 1991). The application in File No. 70-7695 seeks the necessary Commission approvals of all aspects of NU's proposed acquisition of PSNH except those related to NAESCO, and the December 21, 1990 order approved that acquisition and certain related transactions, reserving jurisdiction over other transactions. The only approvals sought in this Application are those related to NAESCO's formation, capitalization and conduct of business.

3. The acquisition transactions, in relevant part, can be described as follows:

PSNH, the owner of an approximately 35.6 percent interest in Seabrook, is currently authorized under U.S. Nuclear

Regulatory Commission ("NRC") Operating License NPF-86 to manage, operate and maintain Seabrook on behalf of itself and the 11 other joint owners of the unit (collectively, with PSNH, the "Joint Owners"). Pursuant to resolutions adopted by the Joint Owners on June 23, 1984, these functions are performed for Seabrook by PSNH's New Hampshire Yankee Division ("NHV").¹ After suffering through financial problems for most of the 1980s caused in large part by its sizeable investment in Seabrook, PSNH filed in United States Bankruptcy Court, District of New Hampshire (the "Bankruptcy Court"), in January, 1988 a petition seeking protection from its creditors under Chapter 11 of the U.S. Bankruptcy Code. NU became interested in acquiring PSNH, and, in December, 1989, after intense negotiations between NUSCO, on behalf of NU, and the official committees representing PSNH's unsecured creditors and equity security holders, and the holders of a majority of PSNH's third mortgage bonds, those parties filed with the Bankruptcy Court a Joint Plan of Reorganization for PSNH. PSNH later endorsed the Plan and became a co-sponsor of the final version of the Joint Plan as it was filed with the Bankruptcy Court on January 2, 1990 and subsequently confirmed by the Court (the "Plan"). The Plan has also been supported by the State of New Hampshire.

¹ An application was submitted in 1986 in File No. 70-7214 to create a separate corporation owned by the Joint Owners to perform the functions currently performed by NHV. That proposal is no longer being pursued.

4. The Plan contemplates, inter alia, (i) the acquisition of PSNH's common stock by NU, (ii) the transfer of PSNH's ownership interest in Seabrook (the "Seabrook Interest") to North Atlantic Energy Corporation ("NAEC"), a to-be-formed electric utility subsidiary of NU, (iii) the assumption by a wholly owned subsidiary of NU (which will be NAESCO) from NHY of the responsibility for managing, operating and maintaining Seabrook and supervising the disposition of Seabrook Unit No. 2, and (iv) the issuance by each of NU, PSNH, NAEC and NAESCO of certain securities in connection with the Plan. The Plan is structured to provide for NU's acquisition of PSNH in a one-step transaction in which NU would acquire all of a new issue of PSNH common stock concurrently with the cancellation of all of PSNH's currently outstanding stock if certain conditions, most notably the acquisition of required regulatory approvals, are received in time. If those conditions are not met in time, the acquisition would occur in two steps, with PSNH emerging from bankruptcy at step one as a stand-alone entity owned by its current unsecured creditors and equity security holders and committed by an order of the Bankruptcy Court to a merger with a wholly-owned subsidiary of NU, and with NU acquiring the reorganized PSNH at step two through that merger. In either the one-step or the two-step transaction, PSNH's Seabrook Interest would be transferred

to NAEC at or shortly after the time NU's acquisition of PSNH is consummated. The transaction will occur in two steps.

5. As stated above, in accordance with the Plan, NAESCO will be formed to assume from NHY the responsibility for managing, operating and maintaining Seabrook and for supervising the disposition of Seabrook Unit No. 2. In March, 1990, Seabrook received its full-power license from the NRC and on May 29, 1990, it was synchronized to the New England grid. The unit successfully completed power ascension testing in August, 1990. The 12 Joint Owners, and their ownership shares in Seabrook, are as follows:

<u>Joint Owner</u>	<u>Ownership Percent</u>
Public Service Company of New Hampshire	35.56942
The United Illuminating Company	17.50000
EUA Power Corporation	12.13240
Mass. Municipal Wholesale Electric Co.	11.59340
New England Power Company	9.95766
The Connecticut Light and Power Company	4.05985
Canal Electric Company	3.52317
Montaup Electric Company	2.89989
New Hampshire Electric Cooperative, Inc.	2.17391
Vermont Elec. Gen. and Transmission Coop	.41259
Taunton (Mass.) Municipal Lighting Plant	.10034
Hudson (Mass.) Light & Power Dept.	.07737

6. After its acquisition by NU, PSNH will cease to own an interest in or operate Seabrook, and NAEC will hold the Seabrook Interest. NAESCO will be an electric utility company (under Section 2(a)(3) of the Act) and a service company (under Section

13 of the Act) subsidiary of NU and, as explained in paragraph 15, it will manage, operate and maintain Seabrook and supervise the disposition of Seabrook Unit No. 2 once certain conditions have been met, which may occur prior to NU's acquisition of PSNH.

7. The Plan was confirmed by the Bankruptcy Court in an order dated April 20, 1990. Step one of the transaction was consummated on May 16, 1991. NU and PSNH are currently proceeding with applications for necessary regulatory approvals and working toward satisfying the other conditions for step two of the two-step transaction.

DESCRIPTION OF NAESCO

8. Because NAESCO, as the operator of Seabrook, will be involved in the "generation . . . of electricity ultimately sold to the public," it will be a "public utility" for New Hampshire law purposes under Section 362:2 of the New Hampshire Revised Statutes and must be a New Hampshire business entity under Section 374:24 of the New Hampshire Revised Statutes. N.H. Rev. Stat. Ann. §§ 362:2, 374:24 (1984). NAESCO will be a New Hampshire corporation, wholly owned and controlled by NU, and its principal executive offices will be located at Route 1, Lafayette Road, Seabrook, New Hampshire.

9. NAESCO's sole business will be providing managerial, operational and maintenance services to the Joint Owners under the Managing Agent Operating Agreement (the "MAOA") (Exhibit B.1) and the Disbursing Agent Agreement (the "DAA") (Exhibit B.2), described in paragraphs 15 to 21 herein. NAESCO's associate company customers within the NU system will be CL&P and NAEC (after NAEC receives the transfer of the Seabrook Interest from PSNH), two NU electric utility company subsidiaries. A statement of the gross operating revenues of CL&P for the last available 12-month period is filed herewith as Exhibit H. (Because NAEC will be a newly formed company with no history of gross operating revenues, no statement of gross operating revenues is being filed for it.) NAESCO will perform the same services for the other Joint Owners listed in paragraph 5 as it does for CL&P and NAEC. Although it is not presently contemplated that NAESCO will provide services to non-affiliated companies other than the non-affiliated Joint Owners, NAESCO reserves the right to do so and will file an application with the Commission seeking its approval of the provision of such services if it should so decide.

10. It is presently expected that NAESCO's only authorized class of stock will be one class of common stock, \$1 par value, of which 1,000 shares will be authorized and issued to NU as NAESCO's sole common stockholder. NU will pay \$10 per share, or \$10,000 in the aggregate, for those shares.

11. The Applicants do not presently anticipate the need for NAESCO to raise any capital besides that supplied by NU's purchase of its common shares. As described in paragraphs 19 and 20, NAESCO will be entitled to payment in full by the Joint Owners for the costs it will incur in performing its duties in advance of performing those duties, and because of this assured cash flow to pay its expenses prior to those expenses coming due, it is not expected to require additional capital. If the need for additional capital does arise, the method for raising that capital will be the subject of one or more subsequent applications.

12. NAESCO has not yet been formed, and accordingly currently has no property. NHY currently acquires property only as agent, acting on behalf of the Joint Owners, who hold the title to that property. This arrangement will continue after NAESCO assumes from NHY the responsibility for managing, operating and maintaining Seabrook. Therefore, NAESCO will not own any property.

13. Initially, NAESCO's operations will be governed by three agreements -- the MAOA, the DAA, and the Agreement for Joint Ownership, Construction and Operation of New Hampshire Nuclear Units (the "JOA") (Exhibit B.3), and it will have a

service contract with NUSCO (Exhibit B.4.1), a service contract with YAEC (Exhibit B.5.1) and a service contract with PSNH (Exhibit B.7). These agreements are described in paragraphs 15 to 25C. Acting through NHY, PSNH will assign to NAESCO, as agent of the Joint Owners, and NAESCO will assume, NHY's rights and obligations under various contracts entered into on behalf of the Joint Owners with respect to the management, operation and maintenance of Seabrook. These contracts relate to various functions to be performed by NAESCO under the MAOA, and none of the rights and obligations to be assumed by NAESCO relate to the acquisition of securities, utility assets or any other interest in a business subject to the provisions of Section 9 or 10 of the Act.

13A. The July 19, 1990 Agreement (defined in paragraph 15) is an agreement among NUSCO, as agent for NAESCO, and Joint Owners which collectively own approximately 70.6 percent of the ownership interests in Seabrook. The July 19, 1990 Agreement calls for NAESCO to assume the Managing Agent's role from NHY and to assume the Disbursing Agent's role from YAEC. The ownership interests represented by signatories to the July 19, 1990 Agreement are more than those required by the JOA to appoint NAESCO to those roles. In addition, the July 19, 1990 Agreement sets forth the principal terms of the MAOA and the amendment to the DAA filed herewith as Exhibit D.2.1, as well as certain

amendments to the JOA which may be made at a later date. The MAOA is an agreement among NAESCO and the Joint Owners pursuant to which NAESCO will assume from NHY the sole responsibility as Managing Agent for the management, operation and maintenance of Seabrook. The MAOA gives the Joint Owners certain rights related to the oversight of NAESCO, but those rights do not relate to the day-to-day operation of the plant. The DAA presently authorizes YAEC to act as Disbursing Agent for Seabrook, which entails billing each Joint Owner each month in advance for its share of projected Seabrook-related costs, subject to adjustment in subsequent months, and using those funds to pay those costs as they come due. Under the amendment to the DAA, NAESCO will assume the Disbursing Agent's role. Both the MAOA and the DAA will become effective at the "Time of Effectiveness," as defined in paragraph 15. The JOA is the agreement among the Joint Owners which sets forth their rights and liabilities with regard to each other as they relate to the construction, operation and ownership of Seabrook and their entitlement to the capacity and energy from Seabrook. NAESCO will not be a party to the JOA. (These agreements are more fully described in paragraphs 15 to 22B.)

14. The following is a list of the prospective directors of NAESCO, their connections with associate companies of NAESCO, and the approximate percentages of their total working time that

initially will be devoted to NAESCO on an annual basis. With the exception of Mr. Feigenbaum, none of these directors will receive any compensation directly from NAESCO.

William B. Ellis - Chairman and Chief Executive Officer - NU, The City & Suburban Electric & Gas Company ("C&SE&G"), The Connecticut Steam Company ("Steam"), The Connecticut Transmission Corporation ("Transmission"), Electric Power, Inc. ("EPI"), and the Nutmeg Power Company ("Nutmeg"); Chairman, Chief Executive Officer and Director - CL&P, NUSCO, Northeast Nuclear Energy Company ("NNECO"), Western Massachusetts Electric Company ("WMECO"), Holyoke Water Power Company ("HWP"), Holyoke Power & Electric Company ("HP&E"), Charter Oak Energy, Inc. ("Charter Oak"), Charter Oak (Paris), ("Paris"), the Quinnehtuk Company ("Quinnehtuk") and The Rocky River Realty Company ("Rocky River"); approximately 5% of time to be devoted to NAESCO annually.

Bernard M. Fox - President and Chief Operating Officer - NU, C&SE&G, Steam, Transmission, EPI, and Nutmeg; President, Chief Operating Officer and Director - CL&P, NUSCO, NNECO, WMECO, HWP, HP&E, Charter Oak, Paris, Quinnehtuk, and Rocky River; Director - YAEC, Vermont Yankee Nuclear Power Corp., and Maine Yankee Atomic Power Company; approximately 5% of time to be devoted to NAESCO annually.

John F. Opeka - Director and Executive Vice President - Nuclear - CL&P, NUSCO, NNECO, WMECO, HWP, HP&E, Charter Oak, Quinnehtuk, and Rocky River; Director - YAEC, Vermont Yankee Nuclear Power Corp., and Maine Yankee Atomic Power Company and member of Executive Committee of YAEC; approximately 30% of time to be devoted to NAESCO annually.

Robert E. Busch - Executive Vice President and Chief Financial Officer - NU, Paris, C&SE&G, Steam, Transmission, EPI, and Nutmeg; Director, Executive Vice President and Chief Financial Officer - Charter Oak, CL&P, NUSCO, NNECO, WMECO, HWP, HP&E, Quinnehtuk, and Rocky River; approximately 5% of time to be devoted to NAESCO annually.

John F. Cagnetta - Director and Senior Vice President, Corporate Planning and Regulatory Relations - Charter Oak, CL&P, NUSCO, NNECO, WMECO, HWP, and HP&E; Executive Vice President and Director - Paris; Director - Quinnehtuk, and Rocky

River; approximately 1% of time to be devoted to NAESCO annually.

Lawrence W. Shay - Director and Senior Vice President, Administrative Services - Charter Oak, CL&P, NUSCO, NNECO, WMECO, HWP, HP&E, Quinnehtuk, and Rocky River; approximately 5% of time to be devoted to NAESCO annually.

Frank R. Locke - Director - CL&P, NNECO, WMECO, HWP, HP&E, Quinnehtuk, and Rocky River; Director, Senior Vice President and Chief Administrative Officer, New Hampshire - NUSCO; approximately 5% of time to be devoted to NAESCO annually.

Edward R. Mroczka - Director and Senior Vice President, Nuclear Engineering and Operations - CL&P, NUSCO, NNECO, WMECO, HWP, and HP&E; Director - Quinnehtuk, and Rocky River; approximately 10% of time to be devoted to NAESCO annually.

Ted C. Feigenbaum - No position currently with any NU system company; 100% of time to be devoted to NAESCO annually.

Walter F. Torrance, Jr. - Senior Vice President, Secretary and General Counsel - NU; Director, Senior Vice President, Secretary and General Counsel - Charter Oak, Paris, CL&P, NUSCO, NNECO, Rocky River, C&SE&G, Steam Transmission, EPI, and Nutmeg; Director, Senior Vice President, Secretary, General Counsel and Assistant Clerk - HWP, HP&E, WMECO, and Quinnehtuk; approximately 5% of time to be devoted to NAESCO annually.

The following is a list of the prospective officers of NAESCO, their connections with associate companies of NAESCO, and the approximate percentages of their total working time that initially will be devoted to NAESCO on an annual basis. The exact title of each officer has not yet been determined. With the exception of Messrs. Feigenbaum and Canner, none of these officers will receive any compensation directly from NAESCO.

William B. Ellis - See list of directors

Bernard M. Fox - See list of directors

- John F. Opeka - See list of directors
- Robert E. Busch - See list of directors
- John P. Cagnetta - See list of directors
- Edward J. Mroczka - See list of directors
- Lawrence W. Shay - See list of directors
- Walter F. Torrance, Jr. - See list of directors
- Ted C. Feigenbaum - See list of directors
- C. Thayer Browne - Vice President and Treasurer - NU, Charter Oak, Paris, CL&P, NUSCO, NNECO, WMECO, HWP, HP&E, Quinnehtuk, Rocky River, C&SE&G, Steam, Transmission, EPI, and Nutmeg; approximately 5% of time to be devoted to NAESCO annually.
- Tod O. Dixon - Vice President, Information Resources - CL&P, NNECO, NUSCO, WMECO, HWP, and HP&E; approximately 5% of time to be devoted to NAESCO annually.
- Albert J. Hajek - Vice President, Corporate Performance Services and Organizational Control - CL&P, NNECO, NUSCO, WMECO, HWP, and HP&E; approximately 5% of time to be devoted to NAESCO annually.
- Barry Ilberman - Vice President, Human Resources - CL&P, NUSCO, NNECO, WMECO, HWP, and HP&E; approximately 5% of time to be devoted to NAESCO annually.
- Francis L. Kinney - Vice President, Public Affairs - CL&P, NNECO, NUSCO, WMECO, HWP, HP&E, Quinnehtuk, and Rocky River; approximately 5% of time to be devoted to NAESCO annually.
- Keith R. Marvin - Vice President, Purchasing and Materials Management - CL&P, NNECO, NUSCO, WMECO, HWP, HP&E, Quinnehtuk, and Rocky River; approximately 10% of time to be devoted to NAESCO annually.
- Wayne D. Romberg - Vice President, Nuclear Operations - CL&P, NNECO, NUSCO, and WMECO; approximately 10% of time to be devoted to NAESCO annually.

- George D. Uhl - Vice President and Controller - NU, CL&P, NNECO, NUSCO, WMECO, HWP, HP&E, Quinnehtuk, Rocky River, C&SE&G, Steam, Transmission, EPI, and Nutmeg; approximately 10% of time to be devoted to NAESCO annually.
- Eric A. DeBarba - Vice President, Generation, Engineering & Construction - CL&P, NUSCO, NNECO, WMECO, HWP, and HP&E; approximately 10% of time to be devoted to NAESCO annually.
- C. Frederick Sears - Vice President, Nuclear and Environmental Engineering - CL&P, NUSCO, NNECO, WMECO, HWP, and HP&E; approximately 10% of time to be devoted to NAESCO annually.
- Theresa H. Allsop - Assistant Secretary - NU, CL&P, NNECO, NUSCO, Charter Oak, Paris, and Rocky River; Assistant Clerk - WMECO, HWP, HP&E, and Quinnehtuk; Director and Assistant Secretary - C&SE&G, Steam, Transmission, EPI, and Nutmeg; approximately 5% of time to be devoted to NAESCO annually.
- Karen G. Valenti - Assistant Secretary - NU, CL&P, NUSCO, NNECO, Charter Oak, Paris, Rocky River, C&SE&G, Steam, Transmission, EPI, and Nutmeg; Assistant Clerk - WMECO, HWP, HP&E, and Quinnehtuk; approximately 5% of time to be devoted to NAESCO annually.
- Robert C. Aronson - Assistant Treasurer - NU, CL&P, NNECO, NUSCO, WMECO, Charter Oak, Paris, HWP, HP&E, Quinnehtuk, Rocky River, C&SE&G, Steam, Transmission, EPI, and Nutmeg; approximately 1% of time to be devoted to NAESCO annually.
- Arthur H. Hierl - Assistant Treasurer - NU, CL&P, NUSCO, NNECO, WMECO, Charter Oak, Paris, HWP, HP&E, Quinnehtuk, Rocky River, C&SE&G, Steam, Transmission, EPI, and Nutmeg; approximately 1% of time to be devoted to NAESCO annually.
- Eugene G. Vertefeuille - Assistant Treasurer - NU, CL&P, NUSCO, NNECO, WMECO, Charter Oak, Paris, HP&E, HWP, Quinnehtuk, Rocky River, C&SE&G, Steam, Transmission, EPI, and Nutmeg; approximately 5% of time to be devoted to NAESCO annually.
- Pierre O. Caron - No position currently with any NU system company; approximately 5% of time to be devoted to NAESCO annually.
- Irving E. Canner - No position currently with any NU system company; 100% of time to be devoted to NAESCO annually.

The compensation received by NAESCO's most senior officers and directors is included in NU's 1990 proxy statement, filed herewith as Exhibit I. During 1989 and 1990, Ted C. Feigenbaum and Irving E. Canner received no compensation from any NU system company.

In addition, NAESCO's permanent employees initially will be the same as those employed by NHY immediately prior to the transfer of operating responsibility. (See paragraph 15 for a description of the transition from NHY to NAESCO.) The salaries of these employees will be included in NAESCO's annual operating budget. A proposed operating budget for NAESCO's first fiscal year is filed herewith as Exhibit J. The current organization of NHY is shown in Exhibit M. The proposed organization of NAESCO is shown in Exhibit M.1

The estimates of the time each director or officer will devote to NAESCO in this paragraph are for the purpose of this application only. With the exception of Messrs. Feigenbaum and Canner, who will devote 100 percent of their time to NAESCO, each of the directors and officers of NAESCO will bill his time directly to that company on the basis of actual time spent on NAESCO activities, as reflected on timesheets completed by him.

In anticipation of the organization and conduct of business of NAESCO, the NU system companies have begun posting at NHY positions available in the NU organization so that NHY employees may have full access to positions available in the NU organization. Once NAESCO has begun operations, NAESCO and the other NU subsidiaries will cross-post positions available throughout the NU system. It is not anticipated that transfers of personnel on a full-time basis between NHY or NAESCO and the current NU subsidiaries which result from this practice will cause a reduction in the level or quality of services currently available to any of the NU subsidiaries. If the Applicants determine that requested transfers, individually or in the aggregate, would cause such a reduction, it will notify the Commission in writing at least 60 days prior to the effectiveness of that transfer.

AGREEMENTS WITH THE JOINT OWNERS

15. NAESCO's obligations to the Joint Owners will be governed principally by three agreements -- the MAOA, the DAA and the JOA (Exhibits B.1, B.2 and B.3, respectively). The MAOA will define NAESCO's duties with regard to the management, operation and maintenance of Seabrook and will be the most important of the three for the purposes of this Application. The principal terms of the MAOA were set forth in a July 19, 1990 agreement (the

"July 19, 1990 Agreement") between NUSCO, acting on behalf of NAESCO, and New England Power Company, CL&P, PSNH, The United Illuminating Company and Canal Electric Company (filed herewith as Exhibit B.6). Under the MAOA, NAESCO will assume from NHY the responsibilities for managing, operating and maintaining Seabrook and for supervising the disposition of Seabrook Unit No. 2 at the "Time of Effectiveness," which is defined by the MAOA as "the date of closing of the transactions necessary to accomplish the transfer of responsibility for the management, operation and maintenance of Seabrook" from NHY to NAESCO. The Applicants contemplate that this transition will be initially accomplished by transferring to NAESCO as of the Time of Effectiveness the existing staff of NHY and all existing authority to administer contracts with respect to Seabrook. This will achieve continuity in the management of Seabrook by allowing NAESCO to initially assume the role of operator of Seabrook with the same staff and contractor support resources that the NRC has previously evaluated and approved in connection with the technical qualifications of PSNH, including the engineering and technical resources supplied under the YAEC service contract. Thus, Seabrook will be assured of the continuing availability of technical expertise for its operation. NAESCO, in the exercise of its management responsibility and discretion, will thereafter have the flexibility of determining how those existing resources can best be integrated with the other resources available to

NAESCO, including those from the NU system, in order to carry out its responsibilities. The Joint Owners have passed a resolution directing NAESCO not to make significant staffing changes in the operating and on-site technical support organizations at Seabrook between the Time of Effectiveness and the completion of the first refueling (which is expected to begin in July, 1991 and to last for approximately 67 days) without the approval of the Joint Owners. The Applicants consent to the imposition by the Commission of a condition that NAESCO's assumption from NHY of the responsibilities for managing, operating and maintaining Seabrook and supervising the disposition of Seabrook Unit No. 2, NAESCO's assumption from YAEC of the Disbursing Agent's role, and the effectiveness of each of the NUSCO, YAEC and PSNH service contracts shall not occur sooner than the consummation of NU's acquisition of PSNH.

16. The July 19, 1990 Agreement has been signed by Joint Owners with an aggregate ownership interest in Seabrook of 70.60921 percent, which is large enough to appoint NAESCO as the Managing Agent of the plant pursuant to Section 36 of the present JOA and as the Disbursing Agent pursuant to Section 35 of the JOA. Although the Taunton Municipal Lighting Plant did not sign the July 19, 1990 Agreement, it has executed counterparts of the MAOA and DAA. The July 19, 1990 Agreement grants NAESCO the authority to manage, operate and maintain Seabrook once all of

the requisite regulatory approvals have been obtained, even if NU's acquisition of PSNH has not yet been consummated. That agreement also sets forth the principal provisions of the MAOA and the amendment to the DAA and certain modifications to the JOA which the signatories to the July 19, 1990 Agreement have agreed upon. While the Joint Owners must still execute the MAOA and the amendment to the DAA and may modify the present JOA to reflect the terms of the July 19, 1990 Agreement, NAESCO's assumption of its responsibilities related to Seabrook has already been authorized pursuant to the July 19, 1990 Agreement. Furthermore, on January 9, 1991, Joint Owners with an aggregate ownership interest in Seabrook of 70.60921 percent formally approved the MAOA and DAA, included as Exhibits B.1 and B.2, respectively, to this Application, which was much more than the 51 percent vote required to make the changes contemplated by those documents. It is expected that the MAOA and the DAA will be executed upon receipt of the required regulatory approvals. (See paragraphs 47 and 48). The execution of a document modifying the JOA (a proposed draft of which, proposed by CL&P and PSNH, is filed herewith as Exhibit B.3.1), which will require the approval of Joint Owners with an aggregate ownership interest of 80%, is not a condition precedent to the execution of the MAOA and the DAA or the assumption by NAESCO of its responsibilities for the management, operation and maintenance of Seabrook. While the Applicants will attempt to bring about the amendment to the JOA

in accordance with the July 19, 1990 Agreement as soon as possible, the 80 percent vote needed for that amendment is not required for the transactions contemplated by this Application.

16A. Although the amendment to the JOA called for by the July 19, 1990 Agreement might not be approved and executed by Joint Owners with an aggregate ownership interest of 80 percent or more prior to the Time of Effectiveness, NAESCO and the other signatories to the July 19, 1990 Agreement have agreed to adhere to the provisions of the July 19, 1990 Agreement prior to the approval of the JOA amendment "unless they are precluded from doing so by those [Joint Owners] which are not signatories thereto." Exhibit B.6 at 2. Thus, for example, while the current JOA limits the Managing Agent's liability for damages to "deliberate violations" of the JOA "occurring pursuant to authorized corporate action by PSNH," NAESCO has agreed in the MACA and the DAA to use the standard in the July 19, 1990 Agreement which limits its liability to "willful misconduct," which is more generous to the Joint Owners. In ways like this, NAESCO will, to the extent possible, follow the July 19, 1990 Agreement until the JOA amendment is passed. Because virtually all of the provisions of the July 19, 1990 Agreement which potentially conflict with their counterparts in the present JOA benefit the Joint Owners which did not sign the July 19, 1990 Agreement, the Applicants do not expect to be "precluded" by such

a Joint Owner from following the provisions of that Agreement. Since it is not expected that there will ever be a need to do so, the Applicants and the other signatories to the July 19, 1990 Agreement have not discussed a process by which such a "preclusion" would occur.

Following receipt of the Commission's approval of this Application and execution of the MAOA and DAA, NAESCO will continue to be bound by the provisions of the July 19, 1990 Agreement, but none of the provisions of that Agreement which are not embodied in the MAOA or DAA are subject to the Commission's jurisdiction.

17. The MAOA will give to NAESCO responsibility for the day-to-day management, operation and maintenance of Seabrook. Specifically, NAESCO's duties will include, inter alia:

- (i) managing, operating and maintaining Seabrook;
- (ii) selecting, employing, training and maintaining sufficient personnel to staff Seabrook in accordance with NRC license and regulatory requirements, and providing or causing to be provided any support services for such operations;
- (iii) planning for nuclear fuel utilization at Seabrook and procuring on behalf of the Joint Owners the requisite nuclear fuel, including arranging for all stages of uranium processing, fuel design and fabrication and eventual storage, transportation, disposition and/or reprocessing of irradiated

nuclear fuel and the disposition of or use of reprocessed material;

- (iv) purchasing and maintaining on behalf of the Joint Owners inventories of materials, supplies and spare parts required for the operation and maintenance of Seabrook;
- (v) after consultation with the executive committee of the Joint Owners (the "Executive Committee") (see paragraph 22) to the extent required by the July 19, 1990 Agreement, selecting and retaining consultants and contractors to assist in the performance of NAESCO's responsibilities;
- (vi) recommending to the Joint Owners specific actions concerning the disposition of Seabrook Unit No. 2;
- (vii) reporting to the Executive Committee on the operation and finances of, and insurance for, Seabrook; and
- (viii) taking all other actions necessary to keep the necessary regulatory permits in full force and effect.

18. The provisions of the July 19, 1990 Agreement and the MAOA give NAESCO the authority to appoint or retain a service company or agent affiliated with NAESCO to perform certain of its responsibilities under the MAOA and the JOA. Any agreement with such service company or agent must be approved by at least three Joint Owners, unaffiliated with each other, with an aggregate ownership interest in Seabrook of at least 60 percent. While NAESCO will remain responsible for the management, operation and maintenance of Seabrook, it will enter into such service agreements with NUSCO, YAEC and PSNH for certain services. The

material terms of those proposed contracts are discussed in paragraphs 23 to 25C of this Application.

19. NAESCO will adhere to Section 13 of the Act and the Commission's rules promulgated thereunder with respect to the allocation of its costs to its customer companies. More specifically, the MAOA will require the Joint Owners, severally in accordance with their ownership shares and not jointly or jointly and severally, to pay NAESCO, at cost, for all project costs and expenses incurred by it pursuant to the JOA. The MAOA will call for each Joint Owner to pay the Disbursing Agent by the first of each month its ownership share of NAESCO's estimated costs under its operating and capital budgets for that month in accordance with the provisions of the DAA. Any differences between NAESCO's actual and estimated costs in a particular month will be reflected in billings by the Disbursing Agent to the Joint Owners in subsequent months. Estimated and actual costs in all accounts for a given calendar year will be reconciled by the end of that year, and all books for a calendar year will be closed by the end of that year. Any amount billed to NAESCO for services performed by an affiliate pursuant to a service agreement authorized in accordance with the MAOA will be billed by the Disbursing Agent to the Joint Owners at cost. The Applicants currently project that approximately 93.7 percent of the annual operating budget for Seabrook for 1993 (which will be

the first full year in which NAESCO will manage, operate and maintain Seabrook) will be for services performed by NAESCO (and therefore billed directly to the Joint Owners as described above), and that only 6.3 percent will be for services performed by NUSCO, YAEC or PSNH under one of the Service Contracts.

20. NAESCO will also assume the duties YAEC currently performs as the Disbursing Agent for Seabrook, as set out in the DAA. These functions will include the preparation of monthly bills to the Joint Owners as contemplated by paragraph 19. NAESCO will establish and maintain an escrow account or accounts into which it will deposit the funds it receives from the Joint Owners in payment of those bills. Subject to the approval of the Executive Committee, NAESCO's duties under the DAA will also include the selection of investment managers to administer the funds it receives, the determination of investment guidelines relating to the administration of those funds, and the governing or establishment of certain trust funds. Costs incurred under the DAA will be included in NAESCO's annual operating budget and billed in accordance with Paragraph 19. NAESCO's charges for its services under the DAA will be at cost, and any amount billed to NAESCO for services performed by an affiliate under the DAA will be billed directly to the Joint Owners at cost. NAESCO will be required to keep complete and accurate accounts of all receipts and expenditures in accordance with the Commission's rules and

the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. The Applicants commit that NAESCO will therefore comply with Rule 93 by following the Commission's System of Accounts set forth in 17 C.F.R. Part 256 and the Federal Energy Regulatory Commission's Uniform System of Accounts after which the Commission's System of Accounts were modelled.

21. As noted above, the Disbursing Agent Agreement presently in effect for the Seabrook Project designates YAEC as the Disbursing Agent. Changes will be incorporated to reflect the designation of NAESCO as Disbursing Agent and to incorporate certain required provisions from the July 19, 1990 Agreement. Such changes are reflected in the proposed First Amendment to the Seventh Amendment to and Restated DAA which has been submitted herewith as part of Exhibit B.2 and which will be executed upon receipt of all required regulatory approvals.

22. Upon receipt of all required regulatory approvals, the MAOA will be executed pursuant to Section 36 of the current JOA. The JOA contains the provisions establishing the relationships among the Joint Owners and the management of Seabrook. Various provisions of that agreement will be relevant to NAESCO's role as the managing agent for that plant. Section 37 of the JOA provides for an Executive Committee with oversight responsibility, including oversight of the Disbursing Agent's

activities, the Seabrook budget process, the search process for a managing agent and review and approval of the managing agent's work plan and level of activities. The July 19, 1990 Agreement contemplates that the Executive Committee's role will include additional responsibilities with respect to the direction and approval of NAESCO's actions. The July 19, 1990 Agreement explicitly acknowledges the Executive Committee's general oversight responsibility for the policymaking, planning, financial, legal, political, material litigation and significant operational decisions of the managing agent related to Seabrook which do not involve the day-to-day operation of the plant. It also grants the Executive Committee additional responsibilities which will include receiving reports from NAESCO on the operations and finances of, and insurance for, Seabrook, and directing and approving the actions of NAESCO on such items as (a) the resolution of disputes related to the payment of costs associated with providing information to the Joint Owners, (b) the criteria for periodic reporting to the Joint Owners, (c) the method of cost allocation to the Seabrook project by affiliate companies of NAESCO, (d) the method of reimbursement of the Joint Owners for joint use of the common facilities constructed and used by the Seabrook project, (e) the policies for the sharing of Seabrook equipment by other units, (f) the criteria for determining which contracts will require Joint Owner review or approval under the MAOA, (g) the activities of NAESCO as the

Disbursing Agent for Seabrook, (h) the redistribution of expenditures among budget categories, and (i) negotiations with municipalities as to property taxes. None of the actions described in the preceding sentence will be undertaken without first obtaining any necessary Commission approval. Moreover, the Applicants expressly acknowledge that any change in the methods or the adoption of any new methods of allocating costs to the Seabrook project by affiliate companies of NAESCO or by NAESCO itself to the Joint Owners is subject to Commission authorization. The Executive Committee now votes and will continue to vote on a per capita basis and not on the basis of ownership percentages, as the Joint Owners do generally, but actions of the Executive Committee may be overridden by a vote of Joint Owners having a specific aggregate ownership interest. See Exhibit B.6 at 13-14.

22A.1 More specifically, any action of the Executive Committee in any of the areas set out in the preceding paragraph may only be overridden by a vote of three or more Joint Owners which are unaffiliated with each other and which collectively own a 60 percent or greater ownership interest in Seabrook. From the point of view of the smaller Joint Owners, this is a distinct improvement over the terms of the current JOA, which requires only a vote of 51 percent of the ownership interests, regardless of affiliations, to override an action of the Executive

Committee. The purpose of this "supermajority" provision in the July 19, 1990 Agreement is to assure that NAEC and CL&P, as affiliates, are unable to vote to override one of these key Executive Committee votes by convincing only one other Joint Owner to vote with them, thereby circumventing the Executive Committee's authority. Furthermore, the five-member Executive Committee acts on a "one-person, one-vote" basis, and the municipal and cooperatively owned Joint Owners, which collectively own less than a 15 percent interest in Seabrook, will always have a representative on the Executive Committee under the July 19, 1990 Agreement.² Exhibit B.6 at 14. Thus, these provisions guarantee that those municipal and cooperatively owned Joint Owners will have an effective voice in Executive Committee decisions which is nearly 40 percent more than their ownership interests would otherwise give them.³ Moreover, NAESCO's affiliates (CL&P and PSNH or NAEC) cannot reverse a decision reached through this process in a key area without getting at least two other Joint Owners to agree with them. Taken together, these provisions give the municipal and

² Section 37.1 of the present JOA gives all of the municipal Joint Owners one seat on the five-member Executive Committee. Thus, the representation of such Joint Owners on the Executive Committee is not changed by the July 19, 1990 Agreement.

³ This approximately 40 percent figure is arrived at by dividing 5.64239 (the difference between the municipal and cooperatively owned utilities' 20 percent vote on the Executive Committee and their 14.35761 aggregate ownership interest) by 14.35761 (their aggregate ownership interest), which yields a result of 39.2 percent.

cooperatively owned Joint Owners voting power on important issues which exceeds their proportionate ownership interests and protect their interests from always being overpowered by the voting strength of the NU subsidiary Joint Owners. The Applicants believe that this sort of "supermajority" voting provision, designed to protect the interests of smaller Joint Owners, is highly unusual in agreements governing jointly owned nuclear projects.

Furthermore, the Executive Committee provisions in the July 19, 1990 Agreement represent a significant improvement for those Joint Owners over the analogous provisions in the present JOA in two important ways. First, as noted above, Section 37.2(c) of the JOA states that any action of the Executive Committee thereunder may be overridden by Joint Owners with a collective 51 percent ownership interest, regardless of affiliations. Therefore, in the particularly important areas set out above, the authority of the Executive Committee has been substantially enhanced. In addition, the list of areas of responsibility of the Executive Committee has been made more explicit and significantly expanded from its current jurisdiction (which presently includes general oversight of policy making, financial and legal matters, review and approval of the Managing Agent's budget, work plan and level of activity, direction and oversight of the Disbursing Agent, searches for new managing agents, and

billing of costs with respect to the cancelled Seabrook Unit No. 2) to all of the areas discussed above. Thus, by expanding the list of responsibilities and making it harder to achieve an override of its actions by the Joint Owners in the most important areas, the July 19, 1990 Agreement has significantly strengthened the authority of the Executive Committee. And because the municipal and cooperatively owned Joint Owners have a disproportionately large voice in Executive Committee matters, the Agreement enhances their power also. Indeed, these same provisions enhance the power of all of the other Joint Owners in their dealings with the NU subsidiary Joint Owners.

22A. In addition, the July 19, 1990 Agreement calls for the JOA to be amended to provide for an audit committee of the Joint Owners (the "Audit Committee") comprised of one representative from each Joint Owner. The duties of the Audit Committee will include (a) reporting to the Executive Committee, (b) supervising the activities of any special independent auditor which may be selected by the Executive Committee to review the activities and records of NAESCO, (c) recommending such an independent auditor to the Executive Committee, (d) reviewing the results of any internal or independent audit of NAESCO or any of its affiliates with regard to their activities related to Seabrook, and (e) reviewing at least annually the performance of the decommissioning trustee and investment manager for Seabrook.

This Audit Committee, along with the Executive Committee, creates an effective check on the powers of NAESCO and its affiliates and ensures that NAESCO and its affiliates will only transact business on an arm's length basis.

22B1. Traditionally, audits of the Seabrook Managing Agent's Seabrook project accounts and records have been performed annually by an independent auditor selected by Joint Owners who are not affiliated with the Managing Agent, and it is contemplated by all of the Joint Owners that that practice will continue after the Time of Effectiveness. The Applicants commit for themselves that an annual audit of NAESCO's Seabrook project accounts and records by an independent auditor selected by Joint Owners who are not affiliated with the Managing Agent will be performed for as long as NAESCO is the Seabrook Managing Agent.

22B. Under the MAOA, the potential liability of NAESCO and its directors, trustees, officers, employees, agents and affiliates (and the trustees, officers, employees and agents of those affiliates) to any Joint Owner is limited to damages arising directly from the willful misconduct of those parties. Exhibit B.1 at 42-44. For the Joint Owners, this represents a significant improvement from the present standard set forth in the JOA, which provides that PSNH, acting as Managing Agent for Seabrook, will only be liable to the Joint Owners for "a deliberate violation of [the JOA] occurring pursuant to

authorized corporate action by PSNH." Exhibit B.3 at 21. Thus, the MAOA extends the Managing Agent's potential liability to the Joint Owners to any instance of willful misconduct, regardless of whether it is a deliberate violation of the JOA or whether it was authorized by NAESCO's Board of Directors. The MAOA thereby increases significantly the scope of potential liability of the Managing Agent.

In addition, despite the objections of the commenters in this matter, the standard for liability set forth in the MAOA is more than adequate for several other reasons, as follows:

- While NAESCO will have \$10,000 of equity capital from which any Joint Owner could obtain damages, any higher equity investment by NU would require a greater charge to all of the Joint Owners for a return on that capital under Rule 91, thus reducing the savings to be achieved through the contemplated arrangement.
- If any negligence on the part of NAESCO were to cause damage to property on the Seabrook site, such damage would likely be paid for with the proceeds of the all-risk property damage insurance obtained for Seabrook. That insurance would cover damage caused by negligence on the part of NAESCO with certain customary exclusions. Seabrook presently carries \$2.5 billion of nuclear property damage coverage, with a present deductible of \$500,000, which is a common deductible in the nuclear industry.
- If any negligence on the part of NAESCO were to cause any Joint Owner to be forced to purchase replacement power at a higher cost than the power generated by Seabrook, after a required waiting period the difference in costs might be paid by replacement energy insurance which each of the Joint Owners has the ability to purchase.

- Claims of third parties for damages caused by the nuclear hazard would be covered by the Price Anderson nuclear liability program (and capped by law at the amount of benefits provided by such program), and claims of third parties for damages caused by a non-nuclear hazard by the comprehensive general liability insurance carried for Seabrook, both subject to customary deductions and exclusions.
- After NU acquires PSNH and effects the transfer of the Seabrook Interest to NAEC, the NU system, of which NAESCO is a member will, through NAEC and CL&P, own an approximately 40 percent interest in Seabrook, more than double the interest of any other Joint Owner. NAESCO will therefore have every incentive to manage, operate and maintain Seabrook as carefully and efficiently as possible, thereby significantly reducing the possibility that an event will occur which could give rise to a claim for damages in the first place.

While NAEC, with its approximately 35.6 percent ownership interest in Seabrook, would have a larger capital base from which Joint Owners could obtain recoveries, as explained in paragraph 29, having NAEC manage, operate and maintain Seabrook makes little sense. NAEC will merely be a financing vehicle; it has deliberately been segregated from the operation of Seabrook to allow it to borrow money on far more favorable terms than would be available to it if it were to be responsible for those operations. Moreover, if NAEC were to operate Seabrook, the costs charged to the Joint Owners for its services could, under Rule 91, include a return on NAEC's capital, which would significantly increase those costs. NAESCO will not charge the Joint Owners a return on its \$10,000 of equity capital, which will be generated by internal NU cash.

Finally, it should be remembered that the contractual arrangements among the Joint Owners have always contemplated that the Joint Owners, and not the Managing Agent, would retain substantially all of the risk associated with the ownership and operation of Seabrook. This approach is the customary practice in the nuclear industry for jointly owned nuclear plants which are operated by an affiliate of one of their owners. The limitation of liability provisions in both the JOA and the July 19, 1990 Agreement reflect the continuation of this basic understanding among the Joint Owners. While the limitation of liability provision in the July 19, 1990 Agreement was designed to alter somewhat the allocation of risk between the Joint Owners and the Managing Agent, it certainly was never intended to shift all of the risk of ownership and operation to the Managing Agent. Such an approach, which implicitly is being advocated by the commenters, would be contrary to customary and prudent utility practice in the nuclear industry.

NUSCO SERVICE CONTRACT

23. NAESCO will enter into a service contract with NUSCO which is similar to the service contracts NUSCO now has with the other NU operating subsidiaries. A copy of the proposed service contract between NAESCO and NUSCO, which was formally approved on

January 9, 1991 by five unaffiliated Joint Owners having an aggregate ownership interest of 70.60921 percent, is filed herewith as Exhibit B.4.1. While NAESCO will remain responsible for the management, operation and maintenance of Seabrook, NUSCO will provide NAESCO, if and to the extent requested by NAESCO, with certain administrative, general and technical support services similar to those which it provides to the other nuclear plants operated by the NU system, which include the three Millstone units in Waterford, Connecticut and the Connecticut Yankee unit in Haddam Neck, Connecticut. Because these services will be provided to a total of five nuclear plants, as well as other NU system companies, NUSCO will be able to take advantage of economies of scale that NAESCO, if it were to perform these functions alone, could not. Furthermore, because NU has more than 50 reactor years of experience operating four nuclear units, NAESCO will have access to a wealth of nuclear operating experience and expertise currently residing in NU's subsidiaries. In each instance where a particular task or activity must be accomplished, NAESCO will decide whether to use internal NAESCO resources, NUSCO resources, YAEC resources, PSNH resources, or other resources as discussed in paragraph 25D below. This decision will be based upon the goal of achieving cost effectiveness without sacrificing nuclear safety, quality or reliability.

24. NUSCO will bill NAESCO at cost for any services rendered pursuant to the service contract between the two companies. Under that service contract, NUSCO costs that are incurred by NUSCO on behalf of NAESCO or for the sole benefit of NAESCO will be billed directly to NAESCO. All other NUSCO costs in which NAESCO is to bear an allocated share along with the other NU system companies will be allocated among NAESCO and the other NU system companies fairly and equitably in accordance with Exhibit A to Exhibit B.4.1, and the method of cost allocation must be approved by the Executive Committee. NUSCO will not be obligated to perform any services under this service contract if any cost allocation method approved by the Executive Committee would require the NU system companies to bear a disproportionately large portion of those indirect costs. Any allocation method that is used will be consistent with the Commission's rules with respect to allocations of service companies' costs to affiliated companies.

YAEC SERVICE CONTRACT

25. YAEC has been providing technical support services to the Seabrook project since its inception, and to NHY since NHY's formation in 1984. YAEC is an electric utility, the common stock of which is owned by ten New England utilities, and it is charged with the responsibility for operating the nuclear generating unit

referred to as "Yankee-Rowe." See Yankee Atomic Electric Co., H.C.A. Rel. No. 13048 (November 28, 1955). Although NAESCO will remain responsible for the management, operation and maintenance of Seabrook, NAESCO and YAEC will enter into a new service contract under which YAEC will continue to perform for NAESCO engineering and technical functions of the type it now provides under its existing contract with NHY. A copy of the proposed YAEC service contract, which was approved on January 9, 1991 by five unaffiliated Joint Owners having an aggregate ownership interest of 70.60921 percent, is filed herewith as Exhibit B.5.1. Because YAEC operates the Rowe nuclear plant in Rowe, Massachusetts and its Nuclear Services Division also provides engineering, licensing and technical services to Vermont Yankee, Maine Yankee and Seabrook, it, like NUSCO, will be able to take advantage of additional economies of scale that NAESCO, operating only Seabrook, would not have available to it. In addition, Yankee has accumulated an experienced staff which has over 650 man-years of direct Seabrook experience and over 66 reactor years of operating and support experience. As with the NUSCO service contract, YAEC will bill NAESCO at cost for whatever services it provides. Under the YAEC service contract, YAEC costs that are incurred by YAEC on behalf of NAESCO or for the sole benefit of NAESCO will be billed directly to NAESCO. All other YAEC costs in which NAESCO is to bear an allocated share along with the other companies to which YAEC provides services will be allocated

among NAESCO and those other companies fairly and equitably in accordance with Exhibit B to Exhibit B.5.1, and the method of that allocation must be approved by the Executive Committee. No other YAEC customer company will bear a disproportionately large portion of those indirect costs. Any allocation method that is used will be consistent with the Commission's rules with respect to allocations of service companies' costs to affiliated companies. In addition, Section 7.B. of the YAEC service contract requires the Joint Owners to indemnify and hold harmless YAEC and its directors, officers, employees, agents and affiliates (and the directors, trustees, officers, employees and agents of those affiliates) for any damages which result from YAEC's performance of its obligations under that contract, unless such damages are caused by the willful misconduct of the party to be indemnified.

PSNH Service Contract

25A. In addition, NAESCO will enter into a service contract with PSNH which is identical in most material respects to the NUSCO service contract. A copy of the proposed service contract between NAESCO and PSNH, which was formally approved on March 28, 1991 by five unaffiliated Joint Owners having an aggregate ownership interest of 70.60921 percent, is filed herewith as Exhibit B.7. Because PSNH is not yet a subsidiary of NU and is

not otherwise subject to the Act, its service contract with NAESCO will not require the Commission's approval until NU has acquired PSNH. PSNH will provide NAESCO, if and to the extent requested by NAESCO, with certain limited services in the areas of accounting, benefit plans and programs, computer services, emergency relay and transmission maintenance services, emergency response support, inter-plant maintenance support, legal services, payroll, property tax support services, insurance administration and claims adjustment, station service power supply and dispatching. While the PSNH service contract calls for PSNH to provide to NAESCO such other services as NAESCO requests and PSNH determines it can perform, NAESCO will not obtain from PSNH any services in areas other than those listed in the preceding sentence without giving the Commission at least 60 days' prior written notice. All services under the service contract will be provided on an interim basis for a period not to exceed two years, unless NAESCO, acting upon the direction of at least three unaffiliated Joint Owners with an aggregate ownership interest of 60 percent or more, and PSNH agree to extend that term as provided in Exhibit B.7. The Applicants will give the Commission 60 days' prior written notice if NAESCO and PSNH agree to extend the term of the contract as provided therein. PSNH currently provides these services to its NHY division, and it will facilitate the transition from NHY to NAESCO if these functions are kept with PSNH initially and are transferred to

NUSCO or NAESCO after other aspects of that transition have been completed. PSNH will continue to be engaged primarily in the business of an operating electric utility company, and the Applicants do not believe that the provision by PSNH to NAESCO, on an interim basis, of the services described in Exhibit B.7, which services will be of a limited nature and will have a minimal impact on the resources of PSNH, will make PSNH a service company under Section 13 of the Act.

25B. The PSNH service contract will become effective as of the Time of Effectiveness, as will the NUSCO and YAEC service contracts. As stated in paragraph 6, the Time of Effectiveness may occur prior to NU's acquisition of PSNH, so the NAESCO-PSNH service contract would, during the interim period between the Time of Effectiveness and the consummation of NU's acquisition of PSNH, be a contract between non-affiliates, converting to an affiliate contract once that acquisition is consummated and remaining as such until the term of that contract has expired. NAESCO and PSNH intend, however, to administer and perform that contract as an affiliate contract for the purposes of the Act and the rules promulgated thereunder both before and after the consummation of the acquisition.

25C. As with the NUSCO and YAEC service contracts, PSNH will bill NAESCO at cost for any services rendered to NAESCO

under the PSNH service contract. Pursuant to the PSNH service contract, PSNH costs that are incurred by PSNH on behalf of NAESCO or for the sole benefit of NAESCO will be billed directly to NAESCO. All other PSNH costs in which NAESCO is to bear an allocated share along with the other companies to which PSNH provides services will be allocated among NAESCO and those other companies fairly and equitably in accordance with Exhibit A to Exhibit B.7, and the method of that allocation must be approved by the Executive Committee. Any allocation method that is used will be consistent with the Commission's rules with respect to allocations of service companies' costs to affiliated companies.

25D. While Section 1.5 of the NUSCO service contract requires NAESCO to consider giving NUSCO the opportunity to provide work before contracting it out to others and Section 2.B of the YAEC services contract requires NAESCO to consider giving to YAEC the opportunity to provide the types of work described in the YAEC service contract, NAESCO is in no way bound to purchase goods or services from NUSCO, YAEC, PSNH or any other affiliate. In fact, the MAOA has several provisions that ensure that NAESCO will purchase goods and services in the most cost-efficient manner possible. As previously noted, Section 4 of that agreement requires that NAESCO obtain the approval of three unaffiliated Joint Owners with a combined ownership interest in Seabrook of at least 60 percent before it may enter into a

service contract with an affiliate. This approval requirement helped to assure that the terms of the three service contracts were fair and equitable to NAESCO and the Joint Owners and did not unduly favor NAESCO's affiliate companies. Also, Section 5 of the MAOA requires the approval of Joint Owners with an aggregate ownership interest in Seabrook of 51 percent before NAESCO can enter into certain "major contracts" or other agreements designated by the Executive Committee. Furthermore, the MAOA, DAA and each of the service contracts require the Executive Committee to approve the methodology for allocating the indirect costs of any affiliate of NAESCO charged to the Seabrook project. These and other provisions ensure that an arm's length relationship is maintained between NAESCO and its affiliates and that the Joint Owners that are not NU subsidiaries retain reasonable control over that relationship.

THE TRANSACTION WILL MEET ALL OF THE REQUIREMENTS OF THE ACT

Sections 6(a) and 7

26. Pursuant to Section 6(a) of the Act, the Applicants request the Commission to approve the issuance by NAESCO of 1,000 shares of NAESCO's authorized but unissued common stock, \$1 par value, to NU for \$10 per share, or \$10,000 in the aggregate. This issuance will comply with the applicable provisions of

Section 7. Because this common stock will be NAESCO's only outstanding class of stock, it will be without preference as to dividends or distribution of voting power. The fees, commissions and other remuneration to be paid in connection with this issuance will consist primarily of legal fees, plus nominal costs for filing fees and stock certificates, and will represent a minor part of the overall cost of implementation of the Plan. Those fees, commissions and other remunerations are expected to total approximately \$1,000. Estimates of these costs are included in Exhibit G (to be filed by amendment). The only state commission with jurisdiction over this issuance is the New Hampshire Public Utilities Commission ("NHPUC"). The application to the NHPUC seeking approval of this issuance will be filed by amendment as Exhibit D.3, and the NHPUC's order approving it will be filed by amendment as Exhibit D.4. The issuance by NAESCO of its common stock to NU will be exempt from the competitive bidding requirements of Rule 50 by virtue of Section (a)(3) of that rule, which exempts the "issuance or sale of securities to any registered holding company . . . whose acquisition of such securities has been approved by the Commission pursuant to Section 10 of the Act."

Sections 9 and 10

27. While most of the prospective directors and officers of NAESCO hold similar positions with other NU system companies, the interlocking relations are not detrimental to the public interest or the interests of investors or consumers under Section 10(b)(1) of the Act for several reasons. First, these people were chosen for their competence, not to create interlocking management in the NU system. Second, NAESCO will be a first tier subsidiary, subject to regulation under New Hampshire law and regulation by the NHPUC, and the relationship between NAESCO and the rest of the NU system will be the same as the current relationships among NU's operating subsidiaries. Thus, the interlocking relationships will be only those necessary to integrate NAESCO into the NU system. Third, this transaction merely involves the "spinning off" to NAESCO, an NU subsidiary, of a function which otherwise would be performed by a division of PSNH, which under the Plan will also become a wholly owned subsidiary of NU. Any interlocking relations resulting from this transaction do not change materially the situation as it would exist if NAESCO were not formed. Fourth, in accordance with the Commission's holding in Ebasco Services, Inc., H.C.A. Release No. 2255, these directors and officers will not receive salaries from both NU and NAESCO, and therefore, this arrangement will not defeat the purpose of Section 13 by having directors and officers paid by both the registered holding company and a service company subsidiary. In fact, any amount paid by NAESCO for their

services will be directly allocated to NAESCO based on timesheet entries or, in the case of indirect costs, based on a cost allocation methodology approved by the Executive Committee, and, in either case, will be divided among the Joint Owners in proportion to their ownership interests in Seabrook. Finally, because of the benefits described herein which will accrue to the public and to consumers and investors as a result of NAESCO's management, operation and maintenance, the interlocking relationships will not be of a kind or to an extent detrimental to the public interest or the interest of investors or consumers. Cf. Eastern Utilities Associates, H.C.A. Release No. 25049 (March 2, 1990).

27A. The assumption by NAESCO of responsibility for the management, operation and maintenance of Seabrook also will not result in an undue concentration of control of public utility companies, of a kind or to an extent detrimental to the public interest or the interest of investors or consumers' under Section 10(b)(1) of the Act. NHY currently manages and operates Seabrook as a division of PSNH, and without the formation of NAESCO, NU would acquire that division as part of the acquisition already approved by the Commission in Northeast Utilities, H.C.A. Release No. 25221 (December 21, 1990), in which it fully considered the Section 10(b)(1) concentration of control ramifications of that acquisition. Id. at 34-40. For the purpose of addressing any

undue concentration of control, the only effect of the transactions contemplated by this Application is the transfer of the functions related to the operation of Seabrook from one future NU subsidiary to another, which in no way enlarges the NU system's control of utility companies. The Commission therefore has more than adequately considered the concentration of control arguments and need not do so again in connection with this Application.

28. The transaction will not unduly complicate NU's capital structure. "The Commission has recognized that the creation of a direct subsidiary of a public utility holding company does not unduly or unnecessarily complicate the system's capital structure in violation of [S]ection 10(b)(3)." Entergy Corp., H.C.A. Release No. 25100 (June 5, 1990). See also Entergy Corp., H.C.A. Release No. 25136 (August 27, 1990).

29. The creation of a new NU subsidiary to manage, operate and maintain Seabrook is necessary and appropriate, and it is not an undue complication of the NU system. As explained in paragraph 8, because NAESCO will be a "public utility" under New Hampshire law, it must be organized as a New Hampshire entity. Since none of the current NU subsidiaries are organized under New Hampshire law, they may not assume the responsibility for managing, operating and maintaining Seabrook. Furthermore, since

PSNH would no longer own an interest in Seabrook after NU's acquisition of PSNH is consummated, it therefore would make little sense for it to continue to operate the plant. NAEC 's a financing vehicle, and requiring that company to take on the responsibility for managing, operating and maintaining Seabrook Unit No. 1 and supervising the disposition of Seabrook Unit No. 2 would complicate its situation and could adversely impact its ability to acquire financing on the most favorable terms possible. Finally, as evidenced by their application in File No. 70-7214 (see footnote 1, supra), the Joint Owners have for some time intended to have Seabrook operated by a separate company, like NAESCO, the only business of which is the operation of that plant. In fact, this approach mirrors NU's own past practice of having a separate subsidiary operate its nuclear plants. Thus, in light of the various options available, the creation of NAESCO to manage, operate and maintain Seabrook is the best alternative and is not an undue complication of the NU system.

30. In accordance with Section 10(c)(1), the proposed transaction will not be unlawful under Section 8 because NU no longer has any interest in a gas utility company, having divested itself of the gas utility business previously operated by CL&P. See H.C.A. Release No. 24908 (June 22, 1989). NAESCO will have no direct or indirect interest in a gas utility business. Nor will the proposed transaction be detrimental to carrying out the

provisions of Section 11 of the Act. As discussed in paragraphs 28 to 29A, the addition of NAESCO simply adds to the integrated NU system another electric utility company and service company to operate Seabrook, of which that system, after NU's acquisition of PSNH, will own 40 percent. Furthermore, as demonstrated previously, no other present NU system company may perform the functions of NAESCO. The formation of NAESCO therefore is a logical, functionally related and necessary addition to the system.

31. In compliance with Section 10(c)(2) of the Act, the addition of NAESCO to the NU system "will serve the public interest by tending towards the economical and efficient development of an integrated public utility system." As discussed above, the NU system will continue to be an integrated public utility system after NAESCO is formed, and the transaction has the potential for, and is expected to result in, significant economies for the NU system and benefits for the public for the following reasons:

32. First, the formation of NAESCO is a part of NU's Plan to acquire and reorganize the bankrupt PSNH. The economies and efficiencies which will result from the implementation of NU's Plan were accepted by the Commission in its Opinion and Order in File No. 70-7695. Northeast Utilities, H.C.A. Release No. 25221

at 51-53 (December 21, 1990). The savings to result from NAESCO management, operation and maintenance of Seabrook are, to a large degree, already reflected in the most recent budget and four-year forecast for Seabrook, in which the following operation and maintenance costs are projected for the following years (in millions of 1992 dollars), assuming that NAESCO is the Managing Agent of Seabrook:

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
146.7	114.8	128.3	128.1	112.7

(See Exhibit O filed herewith.) (Differences in the figures for each year are attributable to certain emergency planning and NAESCO transition activities and to the occurrence in some years, but not in others, of refueling outages, which require greater operation and maintenance expenditures.) Using these figures, the projected five-year levelized operation and maintenance cost for Seabrook under NAESCO management is \$126.1 million (in 1992 dollars). Over the expected life of the unit, on a cumulative net present value basis, NAESCO's operation of Seabrook is estimated to save PSNH and CL&P approximately \$178 million and \$20 million, respectively, compared to the Seabrook 1989 operation and maintenance budget and 1990-1994 forecast, which was the last budget and forecast prepared by NHY prior to the confirmation of the Plan. (See Exhibit O.1 filed herewith)

The savings to result from NAESCO's management, operation and maintenance of Seabrook have been or will be achieved primarily through a reduced reliance on outside contractors at Seabrook and reduced costs in the area of emergency planning. Additionally, the ability to exchange technical expertise and experience between NAESCO and the rest of NU's nuclear organization is expected to benefit both Seabrook and NU's other nuclear units and to generate additional savings for all units. Finally, over time, it is expected that NAESCO may be able to achieve some additional cost reductions by relying on administrative and general services provided by NU's central organization. Because of the NRC's insistence on a slow, deliberate transition from NHY to NAESCO that will not impact operations at Seabrook or any of the units presently managed by NU, NAESCO will remain a site-based organization with no changes in technical staffing levels from those currently maintained by NHY.

33. Furthermore, the savings accomplished by NAESCO's operation of Seabrook will be enjoyed by all of the New England utilities with an ownership interest in, or power contract for power generated by, Seabrook in the same proportion as their ownership interest or entitlement in the plant. Therefore, substantial savings will accrue to New England electric utility companies other than NU and PSNH.

34. Finally, NAESCO's management, operation and maintenance of Seabrook means that NU, one of the more experienced and capable nuclear operators in the country, will bring its ability and experience to that plant. Among the benefits expected to be achieved through this arrangement are access by NAESCO to the wealth of nuclear operating experience and expertise currently existing in NU's nuclear operating subsidiaries, the development of specialization in the NU system in areas where it might not otherwise occur, the opportunity for NAESCO to benefit from the specific "lessons learned" by NU, the transfer of certain non-nuclear support functions (administrative and general) from NAESCO to NU's specialty groups allowing NAESCO to focus more effectively on the requirements of nuclear operations, and an enhanced ability to attract highly qualified employees for Seabrook because of the greater opportunities for career advancement throughout the larger NU system.

35. Once the Applicants have received the NHPUC's approval of NAESCO's issuance of common stock to NU as discussed in Item IV of this Application, all state laws with respect to the formation of NAESCO shall have been complied with, thus satisfying Section 10(f) of the Act. This approval was granted on August 27, 1991, and a copy of the NHPUC's order is filed herewith as Exhibit D.4. Therefore, because this transaction complies with this and all of the other relevant subsections of

Section 10, the Commission should approve NU's acquisition of NAESCO's common stock.

Section 12(b)

35A. The indemnification provision of the YAEC service contract described in paragraph 25 complies with Section 12(b) of the Act and Rule 43 thereunder. This provision is similar to one found in the current agreement between NHY and YAEC, and was negotiated in arm's length discussions between YAEC and the Joint Owners, thus assuring its fairness to the investors and consumers of the parties to the YAEC service contract and to the general public. Furthermore, in the past, the Commission has approved the indemnification of one affiliate by another under Section 12(b) of the Act. See e.g., Consolidated National Gas Co., H.C.A. Release No. 23043 (August 31, 1983); Georgia Power Co., H.C.A. Release No. 18756 (January 6, 1975). Since the terms of the instant indemnification provision were the product of intense bargaining among the Joint Owners, and since the Commission has approved such indemnifications before, the Commission should approve the indemnification provision of the YAEC contract.

Section 13

36. Section 13(b) of the Act prohibits a subsidiary of a registered public utility holding company from performing services for associate companies except in accordance with rules and regulations or orders of the Commission. Section 13(f) of the Act prohibits a service company subsidiary of a registered holding company from performing services for any public utility in contravention of the rules and regulations or orders of the Commission regarding "reports, accounts, costs, maintenance of competitive conditions, disclosure of interest, duration of contracts and similar matters." In managing, operating and maintaining Seabrook, NAESCO will be performing services both for associate companies (CL&P and, eventually, NAEC) and for other public utilities (the other Joint Owners), and NUSCO and YAEC, in entering into the contemplated arrangements with NAESCO, acting on behalf of the Joint Owners, will be performing services for associate companies and non-associate companies. In addition, once NU acquires PSNH, PSNH, when performing its obligations under the contemplated service contract with NAESCO, acting on behalf of the Joint Owners, will be performing services for associate and non-associate companies. Except for the services provided to the unaffiliated Joint Owners, neither NAESCO nor PSNH will provide services to non-affiliates without the Commission's approval. As the following paragraphs demonstrate,

these service arrangements will comply with all of the pertinent rules and regulations of the Commission.

37. Rule 86 prohibits a registered holding company subsidiary from performing services for associate companies without Commission approval, and Rule 87 lists the classes of company for which that approval may be granted. Among the classes listed in Rule 87 is "a subsidiary company whose organization and conduct of business the Commission has found, pursuant to [Rule 88], sufficient to meet the requirements of Section 13(b) of the Act." Under Rule 88(b), the Commission may approve the formation of a subsidiary service company under Section 13(b) if it finds, pursuant to a declaration of the company, that it will provide the services to the associates efficiently and economically with costs allocated fairly and equitably among them. As discussed herein, NAESCO will perform the managerial, operational and maintenance services for Seabrook efficiently and economically, producing savings for NAEC, CL&P and the other Joint Owners. Because the only work NAESCO will engage in will be related to Seabrook, all of its costs will be allocated directly to the Joint Owners to be paid in the manner described in paragraphs 19 and 20. Therefore, the formation of NAESCO complies with Rule 88, meaning it also complies with Rules 86 and 87.

38. The performance of services for NAESCO by NUSCO and YAEC also will comply with Rules 86 and 87. Consistent with Rule 87(a)(2), NUSCO's organization and conduct of business has been approved by the Commission, see Northeast Utilities Service Company, H.C.A. Release No. 13519 (June 30, 1966), and consistent with Rule 87(a)(3), YAEC is "a subsidiary company which is principally engaged in the business of an operating electric . . . utility company" and the services it will provide to NAESCO will be performed incidentally to its generating business. In addition, the organization and conduct of business of the Nuclear Services Division of YAEC, which will provide the services contemplated by the YAEC service contract, has been approved by the Commission. See Yankee Atomic Electric Co., H.C.A. Release No. 16141 (August 20, 1968). Accordingly, the contemplated service arrangements with both NUSCO and YAEC comply with Rule 87, and should be authorized under Rule 86.

39. In compliance with Rule 89, the MAOA, the DAA and the NUSCO and YAEC service contracts state that those agreements shall be terminated if and to the extent that they do not comply with the Act. In compliance with Rule 90, as described in paragraphs 19, 20, 25, and 26, NAESCO, NUSCO and YAEC will perform the services set out in the MAOA, the DAA and the NUSCO and YAEC service contracts at cost as determined in accordance with Rule 91. NAESCO will keep its accounts, cost accounting

procedure, correspondence, memoranda, papers, books and other records in the manner prescribed by Rule 93, preserve them for the appropriate time periods under that rule and will comply with the provisions of 17 C.F.R. §§ 256 and 257. Finally, NAESCO will file the appropriate reports at the appropriate times under Rule 94, and YAEC and PSNH will file the appropriate reports at the appropriate times under Rule 95.

40. In accordance with Rule 91, the costs to be charged by NAESCO to the Joint Owners under the MAOA and the DAA and the costs to be charged by NUSCO and YAEC to NAESCO under the NUSCO and YAEC service contracts shall include a reasonable return on capital for the shareholders of each of those companies. The return on capital component for each of those contracts shall be determined in accordance with their respective provisions, including Exhibits A to the MAOA and the NUSCO service contract and Exhibit B to the YAEC contract. In the case of the costs to be charged to the Joint Owners under the MAOA and the DAA, the return on capital component of those costs will be based solely upon NU's equity investment in NAESCO because it is not presently contemplated that any of NAESCO's capital structure will be comprised of debt.

40A. After NU acquires PSNH, the PSNH service contract will be a service contract between affiliates, and that contract will

comply with all of the Commission's applicable rules. Consistent with Rule 87(a)(3), PSNH, after the acquisition, will be "a subsidiary company [of NU] which is principally engaged in the business of an operating electric . . . utility company" and the services it will provide to NAESCO will be performed incidentally to its generating business, thus complying with Rules 86 and 87. In compliance with Rule 89, the PSNH service contract states that it shall be terminated if and to the extent that it does not comply with the Act or the rules, regulations or orders thereunder. In compliance with Rule 90, as described in paragraph 25B, PSNH will perform the services set out in the PSNH service contract at cost including a reasonable return on equity under Rule 91.

41. Section 13(f) of the Act prohibits a service company from using the mails or any means or instrumentality of interstate commerce

to enter into or take any step in the performance of any service, sales or construction contract with any public-utility company engaged in interstate commerce, or with any registered holding company or any subsidiary of a registered holding company, in contravention of such rules and regulations or orders regarding reports, accounts, costs, maintenance of competitive conditions, disclosure of interest, duration of contracts, and similar matters as the Commission deems necessary or appropriate in the public interest or for the protection of investors or consumers. . . .

This section of the Act applies to NAESCO's, NUSCO's, YAEC's and PSNH's relationships with the Joint Owners who are not their affiliates as well as to their relationships with their associate companies. While the Commission has promulgated few rules under this Section applying specifically to service arrangements with non-affiliates, each company will perform its duties with respect to its non-affiliates in the identical manner that it will perform those duties with respect to its affiliates, in compliance with the applicable rules the Commission has promulgated. This ensures that any concerns the Commission might have regarding each company's relationships with its non-affiliates are handled under the rules promulgated for services to affiliates. Accordingly, the Applicants have complied or will comply with every applicable rule, regulation and order of the Commission, and NAESCO's organization and conduct of business and the MAOA, the DAA, and the NUSCO, YAEC and PSNH service contracts should be approved under the appropriate provisions of Sections 13(b) and 13(f) of the Act.

42. In several material respects, the transactions for which the Applicants seek Commission approval with this Application are similar to those transactions recently approved by the Commission in Entergy Corp., H.C.A. Release No. 25100 (June 5, 1990). In that matter, Entergy Corporation, a

registered public utility holding company, and its electric utility, generating and fuel supply subsidiaries sought to form a new company, called Entergy Services, Inc., to manage, operate and maintain the nuclear units in which the Entergy system companies held interests. The transaction was expected to bring about several economies of scale, much as this transaction is. In fact, the primary difference between the Entergy case and this matter is that the security issuances and intra-system contractual arrangements in Entergy were more complex than those proposed for NAESCO. In its decision in Entergy, the Commission held that "the proposed transactions are consistent with the standards of the Act and our rules, that no adverse findings are necessary and that no hearing is required to develop the facts further." Id. See also General Public Utilities Corp., H.C.A. Release No. 21708 (Sept. 5, 1980) (organization of subsidiary service company to operate nuclear units approved); Yankee Atomic Electric Co., H.C.A. Release No. 16141 (August 20, 1968) (formation of division of operating electric utility to provide nuclear services to other utilities approved).

42A. The Applicants consent to the imposition by the Commission of conditions on its approvals in this matter similar to those imposed by it in Entergy. More specifically, the Applicants consent to the following conditions:

1. No change in the organization of NAESCO, the type and character of the companies to be serviced, the methods of allocating costs to the Joint Owners, or in the scope or character of services to be rendered, shall be made unless and until NAESCO shall first have given the Commission written notice of such proposed change not less than 60 days prior to the proposed effectiveness of such change; provided, however, that any proposal whereby NAESCO would render services to non-nuclear facilities or to entities other than the Joint Owners of Seabrook (as they may change from time to time), or change its organizational structure, services to be rendered or methods of cost allocation in furtherance of either of the foregoing, would be subject to further Commission authorization. The Applicants interpret the above condition to require that the Commission be notified of changes in NAESCO's "organization" or "organizational structure" only when such changes would result in changes in the scope or character of services to be rendered by NAESCO, in the type or character of the companies to be served or in the method of cost allocation used by NAESCO.

If, on receipt of such notice, the Commission notifies NAESCO within the 60-day period that a question exists as to whether the proposed change is consistent with the

standards of Section 13 of the Act or any rule, regulation or order adopted or issued thereunder, such change or addition shall not become effective until NAESCO has filed with the Commission a declaration regarding the proposal, and the Commission has issued an order permitting the declaration to become effective.

2. In the event that the operation of NAESCO's allocation of costs method does not result in a fair and equitable allocation of its costs among its customer companies, the Commission shall reserve the right to require, after notice and opportunity for hearing, prospective adjustments, and, to the extent that it appears feasible and equitable, retroactive adjustments of such cost allocations.
3. Jurisdiction shall be reserved by the Commission to take such further action as may be necessary or appropriate to carry out the provisions of Section 13 of the Act and the rules, regulations and orders thereunder.

42B. The Applicants also consent to the imposition by the Commission of a condition on its approvals in this matter that each of NAESCO, NUSCO, YAEC and PSNH be required to file with the Commission annually by May 1 a report on Form U-13-60. Neither PSNH nor YAEC will be obligated to file any such annual report,

or any other periodic report required under the Act, if it ceases providing services to NAESCO. The Applicants request that the Commission waive the requirement that either PSNH or YAEC must file a report on Form U-13E-1 for any year, so long as they comply with the annual reporting requirement described in this paragraph 42B.

43. On the basis of these precedents and the description of this transaction contained in this Application, the Commission is requested to approve the organization and conduct of business of NAESCO as a wholly owned service company and electric utility subsidiary of NU and to issue all of the ancillary approvals necessary to implement that organization and conduct of business. As explained herein, the assumption by NAESCO of NHY's duties with regard to the management, operation and maintenance of Seabrook will produce significant savings for all those involved in the Seabrook project and will comply with each of the relevant sections of the Act. NAESCO's management, operation and maintenance of Seabrook is supported by Joint Owners with more than 70 percent of the ownership interest in Seabrook, as demonstrated by the July 19, 1990 Agreement, the MAOA and the DAA. Accordingly, the Commission should approve NAESCO's organization.

ITEM II

FEES, COMMISSION, AND EXPENSES

44. The estimated amounts of fees, commissions and expenses paid or incurred, or to be paid or incurred, directly or indirectly, by the Applicants with respect to the organization of NAESCO are set forth in Exhibit G (to be filed by amendment).

45. None of such fees, commissions or expenses will be paid to any associate company or affiliate of the Applicants except for financial and other services to be performed at cost by NUSCO, an affiliated service company, and YAEC, an affiliated electric utility company, and except that C. Duane Blinn, a member of the firm of Day, Berry & Howard, counsel to NU, NUSCO and NAESCO, is Assistant Secretary of Connecticut Yankee Atomic Power Company, an affiliate, and the estimate of legal fees will include payment to be made to that firm for legal services in connection with the transactions proposed in this Application.

ITEM III

APPLICABLE STATUTORY PROVISIONS

46. The following sections of the Act, and Rules promulgated by the Commission pursuant to the Act, are or may be applicable to the transactions described herein:

<u>Sections of the Act</u>	<u>Transaction to which Sections Are or May Be Applicable</u>
6 and 7	NAESCO's issuance of common stock to NU
9 and 10	NU's acquisition of NAESCO's common stock
12(b)	Indemnification provision of YAEC service contract
13(b)	Organization of NAESCO as a subsidiary service company
	Provision of services by NAESCO to CL&P and, eventually, NAEC
	Provision of services by NUSCO to NAESCO
	Provision of services by YAEC to NAESCO
	Provision of services by PSNH to NAESCO
13(f)	Provision of services by NAESCO, NUSCO, YAEC and PSNH to certain Joint Owners
<u>Rules Issued by SEC pursuant to the Act</u>	<u>Transaction to which Rules Are or May Be Applicable</u>
43	Exemption of issuance by NAESCO of common stock to NU from Rule 43 under Rule 43(b)(3)
45	Indemnification provision of YAEC service contract
50	Exemption of NAESCO's issuance of common stock to NU from the Rule 50 competitive bid requirements under Rule 50(a)(3)
86, 87	Provision of services by NAESCO to Joint Owners and by NUSCO, YAEC and PSNH to NAESCO
88	Organization of NAESCO
89	Termination provisions of MAOA and DAA and NUSCO, YAEC and PSNH service contracts

- 90, 91 Cost allocation under MAOA and DAA and NUSCO, YAEC and PSNH service contracts
- 93 Accounting methods to be used by NAESCO
- 94 Filing of reports by NAESCO
- 95 Filing of reports by YAEC and PSNH

ITEM IV

REGULATORY APPROVALS

47. NRC approval is required to amend the NRC operating license for Seabrook to include NAESCO as a licensee under that license and to authorize NAESCO, as agent for the Joint Owners, to manage, operate and maintain Seabrook. On March 1, 1990, the NRC authorized issuance of a license for the full-power operation of Seabrook. On November 14, 1990, PSNH, on behalf of the Joint Owners, filed an application with the NRC for these approvals, a copy of which is filed herewith as Exhibit D.1. In reviewing this application, the NRC will be concerned primarily with the technical qualifications of NAESCO and other safety-related issues. See 56 Fed. Reg. 9384 (1991). Also on November 14, 1990, PSNH, on behalf of the Joint Owners, filed an application with the NRC for approval of the transfer of PSNH's interest in Seabrook to NAEC. On May 19, 1992, the NRC approved the assumption by NAESCO of the Seabrook Managing Agent's role and the transfer of the Seabrook Interest from PSNH to NAEC and authorized the NRC staff to issue the formal licensing

documentation necessary to effect that assumption and transfer. Filed herewith as Exhibit D.5 is the May 19, 1992 letter from Thomas E. Murley, Director of the NRC's Office of Nuclear Reactor Regulation, to William B. Ellis, NU's Chairman and Chief Executive Officer, informing Mr. Ellis of the NRC's approval. On May 29, 1992, the NRC issued that formal documentation, filed herewith as Exhibits D.2.1 and D.2.2, respectively.

48. As explained in paragraph 8, for NAESCO to operate Seabrook, New Hampshire law requires it to be formed as a New Hampshire business entity. The NHPUC has already approved the formation of NAESCO as a public utility (See Exhibit L at 171-72). As a New Hampshire public utility, NAESCO must receive the authorization of the NHPUC under Section 369:1 of the New Hampshire Revised Statutes to issue its common stock to NU. On August 27, 1991, the NHPUC authorized the issuance by NAESCO of its common stock and the acquisition of that common stock by NU. Copies of the application to the NHPUC and the NHPUC's order are filed herewith as Exhibits D.3 and D.4, respectively.

48A. By way of summary, once NAESCO is organized and has assumed responsibility for the management, operation and maintenance of Seabrook, the Commission will be the regulatory agency with primary jurisdiction over its corporate structure, accounting practices, affiliate contracts, cost allocation

methods and the issuance of securities, the Federal Energy Regulatory Commission will have ancillary jurisdiction over its system of accounts and will receive copies of all information disseminated to the Commission, the NRC will be the regulatory agency with jurisdiction over Seabrook nuclear safety matters and the NHPUC will have oversight jurisdiction with regard to the costs for Seabrook power and will have jurisdiction over affiliate contracts and the issuance of any securities by NAESCO.

ITEM V

PROCEDURE

49. Although NAESCO will operate and maintain Seabrook as an integral part of NU's acquisition of PSNH, under the July 19, 1990 Agreement and the MAOA, NAESCO may assume responsibility for operation and maintenance once it has received the necessary regulatory approvals, even if that occurs prior to the consummation of that acquisition, in order to achieve as promptly as possible the substantial savings outlined herein. Accordingly the Commission is requested to issue its order granting the requested approvals as promptly as practicable. The Commission is further requested to issue that order even if the NRC has not yet taken action. The Applicants consent, however, to the Commission's reservation of jurisdiction over the PSNH service

contract. Finally, in accordance with Rule 24(c), the Applicants request authority to consummate the transactions contemplated by this Application within one year from the date of the Commission's order approving those transactions.

50. Except for such issues as may be set down for hearing, the Applicants hereby waive a recommended decision by a hearing officer or other responsible officer of the Commission and consent that the Office of Public Utility Regulation within the Division of Investment Management may assist in the preparation of the Commission's decision and/or order and hereby request that the Commission's order become effective forthwith upon issuance.

ITEM VI

EXHIBITS AND FINANCIAL STATEMENT

(a) EXHIBITS

The number in parenthesis after each exhibit and financial statement refers to the number of the amendment to this Application with which that document was filed. Items followed by an (0) were filed with the original application. Asterisked (*) items are to be filed by subsequent amendment.

- A.1 Certificate of Incorporation of NAESCO (1)
- A.2 Bylaws of NAESCO (1)
- B.1 Form of Managing Agent Operating Agreement (0)
- B.1.1 Form of First Amendment to MAOA (3)

- B.2 Seventh Amendment to and Restated Agreement for Seabrook Project Disbursing Agent and First Amendment thereto (0)
- B.2.1 Form of second Amendment to DAA (3)
- B.3 Agreement for Joint Ownership, Construction and Operation of New Hampshire Nuclear Units, as amended (0)
- B.3.1 Proposed draft of Amendment 24 to Exhibit B.3 (1)
- B.4 Form of service contract between NUSCO and NAESCO (0)
- B.4.1 Form of revised NUSCO service contract (1)
- B.4.2 Form of First Amendment to NUSCO Service Contract (3)
- B.5 Form of YAEC service contract (0)
- B.5.1 Form of revised YAEC service contract (1)
- B.5.2 Form of First Amendment to YAEC Service Contract (3)
- B.6 July 19, 1990 Agreement among NUSCO, New England Power Co., CL&P, PSNH, The United Illuminating Co. and Canal Electric Co. (0)
- B.7 Form of PSNH service contract (1)
- B.7.1 Form of First Amendment to PSNH Service Contract (3)
- D.1.1 NRC Application (transfer of operating responsibility to NAESCO) (0)
- D.1.2 NRC Application (transfer of seabrook Interest from PSNH to NAEC) (2)
- D.2.1 NRC Amendment (NAESCO) (3)
- D.2.2 NRC Amendment (NAEC) (3)
- D.3 NHPUC Application (3)
- D.4 NHPUC Order (3)
- D.5 Letter from Thomas E. Murley to William B. Ellis (3)
- F Opinion of Counsel (3)

- G Statement of fees, commissions and expenses (3)
- H Statement of gross operating revenues for CL&P (0)
- I 1990 NU Proxy Statement (0)
- J Proposed NAESCO operating budget for first fiscal year (0)
- J.1 NHY budget forecast (1)
- K Form of Proposed Notice (First Revision) (1)
- L NHPUC Decision in Docket No. 89-244 (July 20, 1990) filed as Exhibit D.10 to the application/declaration in File No. 70-7695 and incorporated herein by reference. (0)
- M Organizational structure of NHY (0)
- M.1 Proposed organizational structure of NAESCO (1)
- N.1 NU Form 10-K for the year ended December 31, 1990 (1)
- N.2 1991 NU Annual Report to Shareholders (1)
- N.3 PSNH Form 10-K for the year ended December 31, 1990 (1)
- N.4 1990 PSNH Letter to Shareholders (PSNH did not send an annual report to shareholders in 1990 or in 1991) (1)
- N.5 1991 YAEC Annual Report to Sponsor Companies (1)
- O Excerpt from NHY 1992 budget and 1993-1996 Forecast (3)
- O.1 Excerpt from NHY 1990 budget and 1991-1994 Forecast (3)

(b) FINANCIAL STATEMENTS

- 1. Northeast Utilities (parent company only)
 - 1.1 Balance Sheet, per books and pro forma, as of December 31, 1990 (1)
 - 1.2 Statement of Income per books and pro forma for the twelve months ended December 31, 1990 (1)
- 2. Northeast Utilities and Subsidiaries and PSNH (consolidated)

- 2.1 Balance Sheet, per books and pro forma, as of December 31, 1990 (1)
 - 2.2 Statement of Income and Statement of Retained Earnings for the twelve months ended December 31, 1990. (Per books and pro forma Statement of Income and Statement of Retained Earnings for the twelve months ended December 31, 1990 are not being furnished since the Plan contemplates an almost complete restructuring of PSNH's capitalization, a transfer of Seabrook to NAEC (a newly organized company with no Statement of Income or Statement of Retained Earnings), and a change in revenues in accordance with a Rate Agreement between NUSCO and the Governor and Attorney General of the State of New Hampshire.) (1)
3. Yankee Atomic Electric Company
 - 3.1 Balance Sheet, per books as of September 30, 1990. (Because Yankee will provide to NAESCO, at cost, the same services it currently provides to NHY at cost, this transaction will have no material effect on its balance sheet or income, and, accordingly, no pro forma balance sheet, statement of income or statement of retained earnings is being filed herewith.) (0)
 - 3.2 Statement of Income and Statement of Retained Earnings for the twelve months ended September 30, 1990. (0)
 4. North Atlantic Energy Service Company
(Because NAESCO is a newly-organized company, no Statement of Income and Statement of Retained Earnings has been prepared.)

ITEM VII

INFORMATION AS TO ENVIRONMENTAL EFFECTS

- (a) The steps required for the implementation of the transactions described herein involve the issuance of securities and the execution of contracts related to already existing facilities. As such, the issuance of an order by the Commission with respect to this Application is not a major Federal action significantly affecting the quality of the human environment. An

environmental impact statement was prepared for Seabrook by the NRC in its Docket No. 50-443. This transaction will not change the assessment in that statement.

(b) No.

SIGNATURES

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned applicants have each duly caused this amendment to their application/declaration to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: June 4, 1992

Northeast Utilities
Northeast Utilities Service Company
The Connecticut Light and Power
Company
by Northeast Utilities Service
Company
Their Agent

By DAY, BERRY & HOWARD
Its Attorneys
CityPlace
Hartford, Connecticut 06103-3499

By /s/Gerald Garfield
Gerald Garfield
A Partner

Yankee Atomic Electric Company

By /s/H.T. Tracy
H.T. Tracy
Vice President