CONNECTICUT LIGHT & POWER CO
Form 10-Q
November 06, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X]	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2009

OR

[ ]	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________ to ____________

Commission File Number	**Registrant; State of Incorporation; Address; and Telephone Number**	**I.R.S. Employer Identification No.**
1-5324	**NORTHEAST UTILITIES** (a Massachusetts voluntary association) One Federal Street Building 111-4 Springfield, Massachusetts 01105 Telephone: (413) 785-5871	04-2147929
0-00404	**THE CONNECTICUT LIGHT AND POWER COMPANY** (a Connecticut corporation) 107 Selden Street Berlin, Connecticut 06037-1616 Telephone: (860) 665-5000	06-0303850

1-6392	**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE** (a New Hampshire corporation) Energy Park 780 North Commercial Street Manchester, New Hampshire 03101-1134 Telephone: (603) 669-4000	02-0181050
0-7624	**WESTERN MASSACHUSETTS ELECTRIC COMPANY** (a Massachusetts corporation) One Federal Street Building 111-4 Springfield, Massachusetts 01105 Telephone: (413) 785-5871	04-1961130

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days:

	Yes	No
	ü	

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

	Yes	No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer
Northeast Utilities	ü		
The Connecticut Light and Power Company			ü
Public Service Company of New Hampshire			ü
Western Massachusetts Electric Company			ü

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act):

	Yes	No
Northeast Utilities		ü
The Connecticut Light and Power Company		ü
Public Service Company of New Hampshire		ü

Western Massachusetts Electric Company	ü

Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date:

Company - Class of Stock	Outstanding at October 31, 2009
Northeast Utilities Common shares, $5.00 par value	175,463,545 shares
The Connecticut Light and Power Company Common stock, $10.00 par value	6,035,205 shares
Public Service Company of New Hampshire Common stock, $1.00 par value	301 shares
Western Massachusetts Electric Company Common stock, $25.00 par value	434,653 shares

Northeast Utilities holds all of the 6,035,205 shares, 301 shares, and 434,653 shares of the outstanding common stock of The Connecticut Light and Power Company, Public Service Company of New Hampshire and Western Massachusetts Electric Company, respectively.

Public Service Company of New Hampshire and Western Massachusetts Electric Company each meet the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q, and each is therefore filing this Form 10-Q with the reduced disclosure format specified in General Instruction H(2) of Form 10-Q.

GLOSSARY OF TERMS

The following is a glossary of frequently used abbreviations or acronyms that are found in this report.

CURRENT OR FORMER NU COMPANIES, SEGMENTS OR INVESTMENTS:

Boulos	E.S. Boulos Company
CL&P	The Connecticut Light and Power Company
HWP	Holyoke Water Power Company
NAESCO	North Atlantic Energy Service Corporation
NGC	Northeast Generation Company
NGS	Northeast Generation Services Company and subsidiaries
NU or the Company	Northeast Utilities and subsidiaries
NU Enterprises	NU Enterprises, Inc. is the parent company of Select Energy, NGS, SECI and Boulos. For further information, see Note 11, "Segment Information," to the unaudited condensed consolidated financial statements.
NUSCO	Northeast Utilities Service Company
NU parent and other companies	NU parent and other companies is comprised of NU parent, NUSCO and other subsidiaries, including HWP, The Rocky River Realty Company (a real estate subsidiary), Mode 1 Communications, Inc. (telecommunications) and the non-energy-related subsidiaries of Yankee (Yankee Energy Services Company, and Yankee Energy Financial Services Company)
PSNH	Public Service Company of New Hampshire
Regulated companies	NU's regulated companies, comprised of the electric distribution and transmission segments of CL&P, PSNH and WMECO, the generation segment of PSNH, and Yankee Gas, a natural gas local distribution company. For further information, see Note 11, "Segment Information," to the unaudited condensed consolidated financial statements.
SECI	Select Energy Contracting, Inc.
Select Energy	Select Energy, Inc.
SESI	Select Energy Services, Inc.
WMECO	Western Massachusetts Electric Company
Yankee	Yankee Energy System, Inc.
Yankee Gas	Yankee Gas Services Company

REGULATORS:

DOE	U.S. Department of Energy
DPU	Massachusetts Department of Public Utilities
DPUC	Connecticut Department of Public Utility Control
FERC	Federal Energy Regulatory Commission
NHPUC	New Hampshire Public Utilities Commission
SEC	Securities and Exchange Commission

OTHER:

2008 Form 10-K	The Northeast Utilities and subsidiaries combined 2008 Annual Report on Form 10-K as filed with the SEC
AFUDC	Allowance For Funds Used During Construction
C&LM	Conservation and Load Management
CfD	Contract for Differences
CTA	Competitive Transition Assessment
EPS	Earnings Per Share
ES	Default Energy Service
FASB	Financial Accounting Standards Board
FMCC	Federally Mandated Congestion Charge
GAAP	Accounting principles generally accepted in the United States of America
GSC	Generation Service Charge
GWh	Gigawatt Hours
IPP	Independent Power Producers
ISO-NE	New England Independent System Operator or ISO New England, Inc.
kWh	Kilowatt-Hours
KV	Kilovolt
LBCB	Lehman Brothers Commercial Bank, Inc.
LOC	Letter of Credit
Money Pool	Northeast Utilities Money Pool
MW	Megawatts
MWh	Megawatt-Hours
NEEWS	New England East-West Solutions
NU supplemental benefit trust	The NU Trust Under Supplemental Executive Retirement Plan
NYMPA	New York Municipal Power Agency
PBOP	Postretirement Benefits Other Than Pension
PCRBs	Pollution Control Revenue Bonds
Regulatory ROE	The average cost of capital method for calculating the return on equity related to the distribution and generation business segments excluding the wholesale transmission segment.
ROE	Return on Equity
RRB	Rate Reduction Bonds
SBC	Systems Benefit Charge
SCRC	Stranded Cost Recovery Charge
SERP	Supplemental Executive Retirement Plan

TCAM	Transmission Cost Adjustment Mechanism
UI	The United Illuminating Company

NORTHEAST UTILITIES AND SUBSIDIARIES
THE CONNECTICUT LIGHT AND POWER COMPANY AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES
WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

TABLE OF CONTENTS

NORTHEAST UTILITIES AND SUBSIDIARIES

NORTHEAST UTILITIES AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Thousands of Dollars)	September 30, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 248,977	$ 89,816
Receivables, less provision for uncollectible accounts of $52,305 in 2009 and $43,275 in 2008	591,469	698,755
Unbilled revenues	164,472	218,440
Fuel, materials and supplies - current	281,409	300,049
Marketable securities - current	63,887	78,452
Derivative assets - current	19,270	31,373
Prepayments and other	110,121	88,679
	1,479,605	1,505,564
Property, Plant and Equipment:		
Electric utility	9,563,493	9,219,351
Gas utility	1,070,950	1,043,687
Other	288,918	290,156
	10,923,361	10,553,194
Less: Accumulated depreciation: $2,731,763 for electric and gas utility and $129,755 for other in 2009; $2,610,479 for electric and gas utility and $159,639 for other in 2008	2,861,518	2,770,118
	8,061,843	7,783,076
Construction work in progress	561,218	424,800
	8,623,061	8,207,876
Deferred Debits and Other Assets:		

Regulatory assets		3,170,566		3,502,606
Goodwill		287,591		287,591
Marketable securities - long-term		55,351		30,757
Derivative assets - long-term		217,780		241,814
Other		172,380		212,272
		3,903,668		4,275,040
Total Assets	$	14,006,334	$	13,988,480

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

NORTHEAST UTILITIES AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Thousands of Dollars)	September 30, 2009	December 31, 2008
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes payable to banks	$ 325,234	$ 618,897
Long-term debt - current portion	66,286	54,286
Accounts payable	410,125	678,614
Accrued taxes	73,802	12,527
Accrued interest	89,165	69,818
Derivative liabilities - current	56,811	100,919
Other	173,167	168,401
	1,194,590	1,703,462
Rate Reduction Bonds	503,303	686,511
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	1,338,979	1,223,461
Accumulated deferred investment tax credits	22,952	25,371
Deferred contractual obligations	173,451	193,016
Regulatory liabilities	529,259	592,540
Derivative liabilities - long-term	858,306	912,426
Accrued pension	740,421	740,930
Accrued postretirement benefits	224,039	240,371
Other	426,388	430,718
	4,313,795	4,358,833
Capitalization:		
Long-Term Debt	4,345,028	4,103,162

Noncontrolling Interest in Consolidated Subsidiary:		
Preferred stock not subject to mandatory redemption	116,200	116,200
Common Shareholders' Equity:		
Common shares, $5 par value - authorized 225,000,000 shares; 195,400,618 shares issued and 175,435,375 shares outstanding in 2009 and 176,212,275 shares issued and 155,834,361 shares outstanding in 2008	977,003	881,061
Capital surplus, paid in	1,758,109	1,475,006
Deferred contribution plan - employee stock ownership plan	(5,927)	(15,481)
Retained earnings	1,203,603	1,078,594
Accumulated other comprehensive loss	(37,767)	(37,265)
Treasury stock, 19,708,136 shares in 2009 and 2008	(361,603)	(361,603)
Common Shareholders' Equity	3,533,418	3,020,312
Total Capitalization	7,994,646	7,239,674
Total Liabilities and Capitalization	$ 14,006,334	$ 13,988,480

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

NORTHEAST UTILITIES AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Thousands of Dollars, except share information)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Operating Revenues	$ 1,306,173	$ 1,506,897	$ 4,124,087	$ 4,352,209
Operating Expenses:				
Operation -				
Fuel, purchased and net interchange power	611,632	801,050	2,034,151	2,286,066
Other	250,296	232,222	732,562	755,306
Maintenance	61,609	71,287	166,812	198,892
Depreciation	77,074	69,717	231,825	205,792
Amortization of regulatory assets, net	10,542	61,386	19,194	132,186
Amortization of rate reduction bonds	56,669	53,132	163,871	154,366
Taxes other than income taxes	75,798	69,026	216,651	200,133
Total operating expenses	1,143,620	1,357,820	3,565,066	3,932,741
Operating Income	162,553	149,077	559,021	419,468
Interest Expense:				
Interest on long-term debt	55,733	53,111	168,191	142,333
Interest on rate reduction bonds	8,657	12,207	28,889	38,910
Other interest	5,245	5,579	8,490	18,355
Interest expense, net	69,635	70,897	205,570	199,598

Other Income, Net		9,490	17,682	26,081	41,610
Income Before Income Tax Expense		102,408	95,862	379,532	261,480
Income Tax Expense		36,230	21,783	130,047	68,381
Net Income		66,178	74,079	249,485	193,099
Net Income Attributable to Noncontrolling					
Interest:					
Preferred dividends of subsidiary		1,390	1,390	4,169	4,169
Net Income Attributable to Controlling Interest	$	64,788	$ 72,689	$ 245,316	$ 188,930
Basic Earnings Per Common Share	$	0.37	$ 0.47	$ 1.43	$ 1.22
Fully Diluted Earnings Per Common Share	$	0.37	$ 0.47	$ 1.43	$ 1.21
Dividends Declared Per Common Share	$	0.24	$ 0.21	$ 0.71	$ 0.61
Weighted Average Common Shares Outstanding:					
Basic		175,358,776	155,607,201	170,958,396	155,456,606
Fully Diluted		175,995,506	156,097,641	171,532,913	155,904,871

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

NORTHEAST UTILITIES AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
(Thousands of Dollars)	2009	2008
Operating Activities:		
Net income	$ 249,485	$ 193,099
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Bad debt expense	31,519	21,341
Depreciation	231,825	205,792
Deferred income taxes	77,617	31,125
Pension and PBOP expense/(income), net of capitalized portion, and contributions	10,197	(12,642)
Allowance for equity funds used during construction	(6,162)	(23,546)
Regulatory overrecoveries/(refunds and underrecoveries), net	42,677	(97,888)
Amortization/(deferral) of recoverable energy costs	1,842	(5,898)
Amortization of regulatory assets, net	19,194	132,186
Amortization of rate reduction bonds	163,871	154,366
Deferred contractual obligations	(20,816)	(25,604)
Derivative assets and liabilities	(18,519)	(32,369)
Other	13,493	(2,796)
Changes in current assets and liabilities:		
Receivables and unbilled revenues, net	122,700	(10,356)
Investments in securitizable assets	-	(25,787)
Fuel, materials and supplies	18,900	(59,554)
Other current assets	(7,490)	(18,962)
Taxes receivable/accrued	59,641	64,425
Accounts payable	(242,179)	(58,594)
Other current liabilities	13,335	(2,063)
Net cash flows provided by operating activities	761,130	426,275

Investing Activities:			
Investments in property and plant		(634,446)	(951,831)
Proceeds from sales of marketable securities		182,131	195,445
Purchases of marketable securities		(183,814)	(197,453)
Other investing activities		4,298	3,230
Net cash flows used in investing activities		(631,831)	(950,609)
Financing Activities:			
Issuance of common shares		388,529	5,002
Cash dividends on common shares		(120,647)	(95,824)
Cash dividends on preferred stock of subsidiary		(4,169)	(4,169)
(Decrease)/increase in short-term debt		(293,663)	363,187
Issuance of long-term debt		312,000	660,000
Retirements of long-term debt		(54,286)	(154,286)
Retirements of rate reduction bonds		(183,208)	(174,091)
Financing fees		(15,331)	(6,234)
Other financing activities		637	(1,537)
Net cash flows provided by financing activities		29,862	592,048
Net increase in cash and cash equivalents		159,161	67,714
Cash and cash equivalents - beginning of period		89,816	15,104
Cash and cash equivalents - end of period	$	248,977	$ 82,818

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

NORTHEAST UTILITIES AND SUBSIDIARIES

THE CONNECTICUT LIGHT AND POWER COMPANY AND SUBSIDIARIES

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES

WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (All Companies)

A.

Presentation

Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the entirety of this combined Quarterly Report on Form 10-Q, the first and second quarter 2009 combined Quarterly Reports on Form 10-Q, and the combined Annual Report of Northeast Utilities (NU or the Company), The Connecticut Light and Power Company (CL&P), Public Service Company of New Hampshire (PSNH), and Western Massachusetts Electric Company (WMECO), which was filed with the SEC as part of the Northeast Utilities and subsidiaries combined 2008 Annual Report on Form 10-K (NU 2008 Form 10-K). The accompanying unaudited condensed consolidated financial statements contain, in the opinion of management, all adjustments (including normal, recurring adjustments) necessary to present fairly NU's and the above companies' financial position as of September 30, 2009 and December 31, 2008, the results of operations for the three and nine months ended September 30, 2009 and 2008, and cash flows for the nine months ended September 30, 2009 and 2008. The results of operations for the three months ended September 30, 2009 and 2008, and the results of operations and cash flows for the nine months ended September 30, 2009 and 2008, are not necessarily indicative of the results expected for a full year.

The unaudited condensed consolidated financial statements of NU, CL&P, PSNH and WMECO include the accounts of all their respective subsidiaries. Intercompany transactions have been eliminated in consolidation.

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

In accordance with Financial Accounting Standards Board (FASB) guidance on noncontrolling interests in consolidated financial statements effective January 1, 2009, the Preferred stock of CL&P, which is not owned by NU or its consolidated subsidiaries and is not subject to mandatory redemption, has been presented as a noncontrolling interest in CL&P in the accompanying unaudited condensed consolidated financial statements of NU. The Preferred stock of CL&P is considered to be temporary equity and has been classified between liabilities and permanent shareholders' equity on the accompanying unaudited condensed consolidated balance sheets of NU and CL&P due to a provision in CL&P's certificate of incorporation that grants preferred stockholders the right to elect a majority of CL&P's board of directors while certain conditions exist, such as if preferred dividends are in arrears for one year. The Net income reported in the accompanying unaudited condensed consolidated statements of income and cash flows represents consolidated net income prior to apportionment to noncontrolling interests, which is represented by dividends on preferred stock of CL&P.

The included presentation and disclosure requirements effective January 1, 2009 have been applied retrospectively to the unaudited condensed consolidated balance sheet as of December 31, 2008, the unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2008, the unaudited condensed consolidated statement of cash flows for the nine months ended September 30, 2008, and to consolidated comprehensive income for the three and nine months ended September 30, 2008 included in Note 6, "Comprehensive Income," to the unaudited condensed consolidated financial statements. For the nine months ended September 30, 2009 and 2008, there was no change in NU parent's 100 percent ownership of common equity of CL&P.

NU has certain other reclassifications of prior period data included in the accompanying unaudited condensed consolidated balance sheets for PSNH and WMECO and the unaudited condensed consolidated statements of cash flows for all companies presented, which have been made to conform with the current period's presentation.

B.

Accounting Standards Issued But Not Yet Adopted

In June 2009, the FASB issued guidance on the consolidation of variable interest entities (VIEs) that requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a VIE. This analysis identifies the party that must consolidate a VIE, referred to as the primary beneficiary, as the enterprise that has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of or receive benefits from the entity that could potentially be significant to the VIE. The guidance eliminates the quantitative approach for determining the primary beneficiary of a VIE, which was based on identifying which party absorbs the majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both. This guidance is effective as of January 1, 2010, for interim and annual reporting periods beginning in 2010. Earlier application is prohibited. NU, including CL&P, PSNH, and WMECO, does not currently consolidate any VIEs with which the company is associated, and management does not expect to change the accounting for these VIEs as a result of implementing this guidance.

In August 2009, the FASB issued accounting guidance on measuring liabilities at fair value, which is effective in the fourth quarter of 2009 and provides guidance on how to measure the fair value of a liability when a quoted price for the liability is not available. The guidance reaffirms existing guidance requiring that fair values reflect the price that NU would expect to pay to transfer the liabilities in the current market. The guidance is not expected to affect the financial statements of NU, CL&P, PSNH, or WMECO upon adoption.

C.

Accounting Standards Recently Adopted

On January 1, 2009, NU, including CL&P, PSNH and WMECO, adopted fair value measurement guidance for nonrecurring fair value measurements of nonfinancial assets and liabilities, including asset retirement obligations (AROs) and goodwill and other impairment analyses. NU adopted the guidance for fair value measurements of financial assets and liabilities effective January 1, 2008. Implementation of the guidance for nonfinancial assets and liabilities did not affect the accompanying unaudited condensed consolidated financial statements. Application of this guidance to the Yankee Gas Services Company (Yankee Gas) goodwill impairment analysis, which is performed as of October 1st of each year, is not expected to have a material effect on the Company's financial position or results of operations.

In the second quarter of 2009, NU, including WMECO, adopted guidance related to the recognition and presentation of other-than-temporary impairments. This guidance changes the indicators for determining if unrealized losses on debt securities (the excess of amortized cost over fair value) should be recorded in Net income as other-than-temporary impairments. Beginning in the second quarter of 2009, other-than-temporary impairments of debt securities in NU's Trust Under Supplemental Executive Retirement Plan (NU supplemental benefit trust) are reflected in the Company's unaudited condensed consolidated statement of income if the Company either intends to sell the security or would more likely than not be required to sell the security before recovery to its amortized cost, or if the Company does not expect to recover the amortized cost as a result of a credit loss. For securities that the Company does not intend to sell and it is not more likely than not that it will be required to sell before recovery, only the credit loss component of an impairment is recognized in Net income, and the remainder is recognized in Accumulated other comprehensive income/(loss). NU recorded an after-tax cumulative effect of a change in accounting principle of $0.7 million as an increase to the April 1, 2009 balance of Retained earnings with an offset to Accumulated other comprehensive income/(loss) relating to the reversal of unrealized losses previously recorded in Net income on debt securities held in the NU supplemental benefit trust, which did not meet the criteria described above. The guidance had no impact on unrealized losses in WMECO's spent nuclear fuel trust as unrealized losses including impairments are recorded in Deferred debits and other assets - other on the accompanying unaudited condensed consolidated balance sheet due to the regulatory accounting treatment of this trust.

In the second quarter of 2009, NU, including CL&P, PSNH and WMECO, adopted guidance which clarifies how to estimate fair value when the volume and level of activity for an asset or liability have significantly decreased and how to identify transactions that are not orderly. This guidance requires additional disclosures related to fair value measurements (refer to Note 1D, "Summary of Significant Accounting Policies - Fair Value Measurements," and Note 3, "Fair Value Measurements," to the unaudited condensed consolidated financial statements). Implementation of this guidance did not affect the companies' valuation of assets or liabilities that are measured at fair value.

In the second quarter of 2009, the FASB issued guidance regarding subsequent events, which incorporates into FASB authoritative literature accounting guidance that originated as auditing standards about events or transactions that occur after the balance sheet date but before financial statements are issued. This guidance, which was effective in the second quarter, retains the auditing standard requirements to recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the balance sheet date and to disclose but not recognize in the financial statements subsequent events that provide evidence about conditions that arose after the balance sheet date but before the financial statements are issued. NU is required to disclose the date through which it has evaluated subsequent events. In preparing the accompanying unaudited condensed consolidated financial statements, NU has evaluated events subsequent to September 30, 2009 through the issuance of the financial statements on November 6, 2009 and NU has not identified any events for recognition or disclosure.

D.

Fair Value Measurements

The Company measures its derivative instruments that are not designated as normal purchases or normal sales and marketable securities at fair value.

Fair Value Hierarchy: In measuring fair value the Company uses observable market data when available and minimizes the use of unobservable inputs. Unobservable inputs are needed to value certain derivative contracts due to complexities in terms of the contracts. Inputs used in fair value measurements are categorized into three fair value hierarchy levels for disclosure purposes. The entire fair value measurement is categorized based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy are described below:

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

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

Level 3 - Quoted market prices are not available. Fair value is derived from valuation techniques in which one or more significant inputs or assumptions are unobservable. Where possible, valuation techniques incorporate observable market inputs that can be validated to external sources such as industry exchanges, including prices of energy and energy-related products. Significant unobservable inputs are used in the valuations, including items such as energy and energy-related product prices in future years for which observable prices are not yet available, future contract quantities under full-requirements or supplemental sales contracts, and market volatilities. Items valued using these valuation techniques are classified according to the lowest level for which there is at least one input that is significant to the valuation. Therefore, an item may be classified in Level 3 even though there may be some significant inputs that are readily observable.

Determination of Fair Value: The valuation techniques and inputs used in NU's fair value measurements are as follows:

Derivative instruments: Many of the Company's derivative positions that are recorded at fair value are classified as Level 3 within the fair value hierarchy and are valued using models that incorporate both observable and unobservable inputs. Fair value is modeled using techniques such as discounted cash flow approaches adjusted for assumptions relating to exit price and the Black-Scholes option pricing model, incorporating the terms of the contracts. Significant unobservable inputs used in the valuations include energy and energy-related product prices for future years for long-dated derivative contracts, future contract quantities under full requirements and supplemental sales contracts, and market volatilities. Discounted cash flow valuations incorporate estimates of premiums or discounts that would be required by a market participant to arrive at an exit price, using available historical market transaction information. Valuations of derivative contracts also reflect nonperformance risk, including credit. The derivative contracts classified as Level 3 include NU Enterprises, Inc. (NU Enterprises) remaining wholesale marketing contract and its related supply contracts, CL&P's contracts for differences (CfDs), CL&P's contracts with certain independent power producers (IPPs), PSNH and Yankee Gas physical options and CL&P and PSNH financial transmission rights (FTRs).

Other derivative contracts recorded at fair value are classified as Level 2 within the fair value hierarchy. An active market for the same or similar contracts exists for these contracts, which include PSNH forward contracts to purchase energy and interest rate swap agreements. For these contracts, valuations are based on quoted prices in the market and include some modeling using market-based assumptions.

For further information on derivative contracts, see Note 2, "Derivative Instruments," to the unaudited condensed consolidated financial statements.

Marketable securities: NU and WMECO hold in trust marketable securities, which include equity securities, mutual funds and cash equivalents, and fixed maturity securities.

Equity securities, mutual funds and cash equivalents are classified as Level 1 in the fair value hierarchy. These investments are traded in active markets and quoted prices for identical investments are available and used in NU's fair value measurements.

Fixed maturity securities classified as Level 2 within the fair value hierarchy include U.S. Treasury securities, corporate bonds, collateralized mortgage obligations, U.S. pass-through bonds, asset-backed securities, commercial mortgage-backed securities, and commercial paper. The fair value of these instruments is estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The pricing models utilize observable inputs such as recent trades for the same or similar instruments, yield curves, discount margins and bond structures.

For further information see Note 3, "Fair Value Measurements," and Note 10, "Marketable Securities," to the unaudited condensed consolidated financial statements.

There were no changes to the valuation methodologies for derivative instruments or marketable securities for the three or nine months ended September 30, 2009.

E.

Regulatory Accounting

The accounting policies of the regulated companies, as defined below, conform to accounting principles generally accepted in the United States of America applicable to rate-regulated enterprises and historically reflect the effects of the rate-making process.

The transmission and distribution segments of CL&P, PSNH (including its generation business) and WMECO, along with Yankee Gas' distribution segment (collectively, the regulated companies), continue to be rate-regulated on a cost-of-service basis. Management believes it is probable that NU's regulated companies will recover their respective investments in long-lived assets, including regulatory assets. All material net regulatory assets are earning an equity return, except for securitized regulatory assets, the majority of deferred benefit costs and regulatory assets offsetting regulated company derivative liabilities, which are not supported by equity. Amortization and deferrals of regulatory assets/(liabilities) are included on a net basis in Amortization of regulatory assets/(liabilities), net on the accompanying unaudited condensed consolidated statements of income.

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

	As of September 30, 2009		As of December 31, 2008	
(Millions of Dollars)		**NU**		**NU**
Deferred benefit costs	$	1,091.3	$	1,140.9
Regulatory assets offsetting derivative liabilities		770.7		844.2
Securitized assets		493.5		677.4
Income taxes, net		353.6		355.4
Unrecovered contractual obligations		154.4		169.1

CL&P undercollections		58.4		75.2
Storm cost deferral		62.8		19.3
Other regulatory assets		185.9		221.1
Totals	$	3,170.6	$	3,502.6

	As of September 30, 2009			As of December 31, 2008		
(Millions of Dollars)	**CL&P**	**PSNH**	**WMECO**	**CL&P**	**PSNH**	**WMECO**
Deferred benefit costs	$ 515.4	$ 133.8	$ 109.4	$ 537.7	$ 142.9	$ 113.5
Regulatory assets offsetting derivative liabilities	719.4	50.8	-	751.9	92.1	-
Securitized assets	240.1	192.3	61.1	377.8	227.6	72.0
Income taxes, net	301.0	20.3	17.7	306.8	16.1	20.7
Unrecovered contractual obligations	121.5	-	32.9	132.6	-	36.5
CL&P undercollections	58.4	-	-	75.2	-	-
Storm cost deferral	-	52.9	9.9	-	8.2	11.1
WMECO recoverable nuclear costs	-	-	1.8	-	-	5.0
Other regulatory assets	64.2	56.6	15.9	92.1	63.0	9.6
Totals	$ 2,020.0	$ 506.7	$ 248.7	$ 2,274.1	$ 549.9	$ 268.4

Additionally, the regulated companies had $18 million ($0.1 million for PSNH, $9 million for CL&P, and $8.9 million for WMECO) and $68.3 million ($62.7 million for PSNH and $5.6 million for CL&P) of regulatory costs as of September 30, 2009 and December 31, 2008, respectively, which were included in Deferred debits and other assets - other on the accompanying unaudited condensed consolidated balance sheets. These amounts represent incurred costs that have not yet been approved for recovery by the applicable regulatory agency. Management believes these costs are recoverable in future cost-of-service regulated rates. As of December 31, 2008, $62.7 million related to costs incurred at PSNH for the December 2008 storm restorations that met the New Hampshire Public Utilities Commission (NHPUC) specified criteria for deferral to a major storm cost reserve. In July 2009, the NHPUC concluded in a temporary rate order that PSNH could begin recovery of the storm costs. The NHPUC is currently reviewing these costs in connection with the permanent rate case filing. These costs are classified as a regulatory asset as of September 30, 2009.

Included in NU's other regulatory assets are the regulatory assets associated with the accounting for conditional AROs totaling $45.2 million ($25.1 million for CL&P, $14.4 million for PSNH, and $3 million for WMECO) as of September 30, 2009 and $42.3 million ($23.1 million for CL&P, $13.9 million for PSNH, and $2.8 million for WMECO) as of December 31, 2008. Management believes that recovery of the conditional ARO regulatory assets is probable.

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

(Millions of Dollars)	As of September 30, 2009 NU	As of December 31, 2008 NU
Cost of removal	$ 215.4	$ 226.0
Regulatory liabilities offsetting derivative assets	118.9	137.8
Regulatory overcollections	64.4	75.4
CL&P AFUDC transmission incentive	49.4	47.6
PSNH ES deferral	24.8	33.0
Pension and PBOP liabilities - Yankee Gas acquisition	15.6	17.6
Overrecovered gas costs	14.2	16.9
Other regulatory liabilities	26.6	38.2
Totals	$ 529.3	$ 592.5

	As of September 30, 2009			As of December 31, 2008		
(Millions of Dollars)	CL&P	PSNH	WMECO	CL&P	PSNH	WMECO
Cost of removal	$ 85.6	$ 62.4	$ 17.0	$ 91.2	$ 64.7	$ 19.2
Regulatory liabilities offsetting derivative assets	117.8	1.1	-	131.3	4.6	-
Regulatory overcollections	54.6	6.2	3.6	69.5	4.6	1.3
CL&P AFUDC transmission incentive	49.4	-	-	47.6	-	-
PSNH ES deferral	-	24.8	-	-	33.0	-
WMECO provision for rate refunds	-	-	1.3	-	-	1.3
WMECO transition charge overcollections	-	-	-	-	-	5.7
WMECO pension/PBOP tracker	-	-	0.1	-	-	2.0
Other regulatory liabilities	18.0	4.9	1.6	23.9	4.5	0.3
Totals	$ 325.4	$ 99.4	$ 23.6	$ 363.5	$ 111.4	$ 29.8

F.

Allowance for Funds Used During Construction

Allowance for funds used during construction (AFUDC) is included in the cost of the regulated companies' utility plant and represents the cost of borrowed and equity funds used to finance construction. The portion of AFUDC attributable to borrowed funds is recorded as a reduction of Other interest expense, and the AFUDC related to equity funds is recorded as Other income, net on the accompanying unaudited condensed consolidated statements of income.

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
(Millions of Dollars, except percentages)	NU	NU	NU	NU
Borrowed funds	$ 1.2	$ 4.3	$ 4.7	$ 13.5
Equity funds	2.8	8.5	6.2	23.5
Totals	$ 4.0	$ 12.8	$ 10.9	$ 37.0
Average AFUDC rates	6.4%	8.4%	6.2%	8.3%

	For the Three Months Ended					
	September 30, 2009			September 30, 2008		
(Millions of Dollars, except percentages)	CL&P	PSNH	WMECO	CL&P	PSNH	WMECO
Borrowed funds	$ 0.4	$ 0.8	$ -	$ 3.3	$ 0.6	$ 0.3
Equity funds	1.9	0.9	-	7.0	0.9	0.5
Totals	$ 2.3	$ 1.7	$ -	$ 10.3	$ 1.5	$ 0.8
Average AFUDC rates	8.2%	6.1%	0.8% *	8.8%	7.9%	8.4%

*

The AFUDC rate applies to WMECO's portion of construction work in progress (CWIP) that is currently recovered in rate base, as further described below.

	For the Nine Months Ended					
	September 30, 2009			September 30, 2008		
(Millions of Dollars, except percentages)	CL&P	PSNH	WMECO	CL&P	PSNH	WMECO
Borrowed funds	$ 1.9	$ 2.4	$ 0.2	$ 10.0	$ 2.2	$ 0.7
Equity funds	3.5	2.5	-	19.4	3.2	0.9

Totals	$	5.4	$	4.9	$	0.2	$	29.4	$	5.4	$	1.6
Average AFUDC rates		6.8%		6.7%		2.0%		8.6%		7.6%		7.6%

The regulated companies' average AFUDC rate is based on a Federal Energy Regulatory Commission (FERC) prescribed formula that produces an average rate using the cost of a company's short-term financings as well as a company's capitalization (preferred stock, long-term debt and common equity). The average rate is applied to average eligible CWIP amounts to calculate AFUDC. AFUDC is recorded on 100 percent of CL&P's and WMECO's CWIP for their New England East-West Solutions projects, all of which is being reserved as a regulatory liability to reflect current rate base recovery for 100 percent of the CWIP as a result of FERC-approved transmission incentives.

G.

Other Income, Net

The pre-tax components of other income/(loss) items are as follows:

NU	**For the Three Months Ended**		**For the Nine Months Ended**	
(Million of Dollars)	**September 30, 2009**	**September 30, 2008**	**September 30, 2009**	**September 30, 2008**
Other Income:				
Interest income	$ 0.4	$ 10.1	$ 4.4	$ 10.1
Investment income	5.5	2.3	9.6	6.1
AFUDC - equity funds	2.8	8.5	6.2	23.5
Energy Independence Act incentives	0.5	0.5	4.9	9.4
C&LM incentives	-	0.1	0.5	-
Other	0.3	0.2	0.7	0.8
Total Other Income	9.5	21.7	26.3	49.9
Other Loss:				
Investment loss	-	(4.0)	-	(7.8)
C&LM costs	-	-	-	(0.3)
Rental expense	-	-	(0.2)	(0.2)
Total Other Loss	-	(4.0)	(0.2)	(8.3)
Total Other Income, Net	$ 9.5	$ 17.7	$ 26.1	$ 41.6

CL&P	**For the Three Months Ended**		**For the Nine Months Ended**	
(Millions of Dollars)	**September 30, 2009**	**September 30, 2008**	**September 30, 2009**	**September 30, 2008**
Other Income:				
Interest income	$ 0.7	$ 6.4	$ 2.6	$ 6.4

Investment income	3.5	1.7	5.7	5.0
AFUDC - equity funds	1.9	7.0	3.5	19.4
Energy Independence Act incentives	0.6	0.5	4.9	9.4
C&LM incentives	-	-	0.3	-
Other	0.4	0.2	1.0	0.5
Total Other Income	7.1	15.8	18.0	40.7
Other Loss:				
Rental expense	-	-	(0.1)	-
Investment loss	-	(2.7)	-	(5.3)
C&LM costs	-	-	-	(0.6)
Total Other Loss	-	(2.7)	(0.1)	(5.9)
Total Other Income, Net	$ 7.1	$ 13.1	$ 17.9	$ 34.8

PSNH	**For the Three Months Ended**		**For the Nine Months Ended**	
(Millions of Dollars)	**September 30, 2009**	**September 30, 2008**	**September 30, 2009**	**September 30, 2008**
Other Income:				
Interest income	$ 0.4	$ 1.9	$ 2.2	$ 1.9
Investment income	0.8	0.5	1.4	1.4
AFUDC - equity funds	0.9	0.9	2.5	3.2
Other	0.1	-	0.4	0.1
Total Other Income	2.2	3.3	6.5	6.6
Investment loss	-	(0.6)	-	(1.3)
Total Other Income, Net	$ 2.2	$ 2.7	$ 6.5	$ 5.3

WMECO	**For the Three Months Ended**		**For the Nine Months Ended**	
(Millions of Dollars)	**September 30, 2009**	**September 30, 2008**	**September 30, 2009**	**September 30, 2008**
Other Income:				
Interest income	$ (0.6)	$ 1.1	$ (0.4)	$ 1.1
Investment income	0.8	0.2	1.2	0.9
AFUDC - equity funds	-	0.5	-	0.9
Other	-	-	0.2	-
C&LM incentives	-	0.1	0.2	0.3
Total Other Income	0.2	1.9	1.2	3.2
Other Loss:				
Investment loss	-	(0.6)	-	(1.1)
Rental expense	-	-	(0.1)	-
Total other loss	-	(0.6)	(0.1)	(1.1)
Total Other Income, Net	$ 0.2	$ 1.3	$ 1.1	$ 2.1

Investment income includes equity in earnings of regional nuclear generating and transmission companies of $0.4 million and $0.4 million for NU ($0.1 million in both periods for CL&P and de minimis amounts for PSNH and WMECO) for the three months ended September 30, 2009 and 2008, respectively, and $1.4 million in both periods for NU ($0.3 million in both periods for CL&P, $0.1 million in both periods for WMECO and de minimis amounts for PSNH) for the nine months ended September 30, 2009 and 2008, respectively. Equity in earnings relates to the Company's investments, including CL&P, PSNH and WMECO's investments, in Connecticut Yankee Atomic Power Company (CYAPC), Maine Yankee Atomic Power Company, and Yankee Atomic Electric Company, and NU's investments in two regional transmission companies.

For both the three and nine months ended September 30, 2009, NU and WMECO's interest income included a $0.7 million tax refund adjustment. For both the three and nine months ended September 30, 2008, interest income for NU, CL&P, PSNH, and WMECO included $10.1 million, $6.4 million, $1.9 million, and $1.1 million, respectively, of interest income from other federal tax settlements.

H.

Special Deposits and Counterparty Deposits

To the extent NU Enterprises, a wholly owned subsidiary of NU, through its wholly owned subsidiary Select Energy, Inc. (Select Energy), requires collateral from counterparties, or the counterparties require collateral from Select

Energy, cash is held on deposit by Select Energy or with unaffiliated counterparties and brokerage firms as a part of the total collateral required based on Select Energy's position in transactions with the counterparty. Select Energy's right to use cash collateral is determined by the terms of the related agreements. Key factors affecting the unrestricted status of a portion of this cash collateral include the financial standing of Select Energy and of NU as its credit supporter.

NU, including CL&P, PSNH, and WMECO, records special deposits and counterparty deposits posted under a master netting agreement as an offset to a derivative asset or liability if the related derivatives are recorded in a net position. As of September 30, 2009, CL&P and Select Energy had $1 million and $0.9 million, respectively, of collateral posted under master netting agreements and netted against the fair value of the derivatives. As of December 31, 2008, NU, including CL&P, PSNH and WMECO, had no special deposits and no counterparty collateral posted under master netting agreements netted against the fair value of derivatives.

Special deposits paid by Select Energy to unaffiliated counterparties and brokerage firms not subject to master netting agreements totaled $29.3 million and $26.3 million as of September 30, 2009 and December 31, 2008, respectively. These amounts are recorded as Current assets and are included in Prepayments and other on the accompanying unaudited condensed consolidated balance sheets. There were no counterparty deposits for Select Energy as of September 30, 2009 and December 31, 2008.

NU, CL&P, PSNH and WMECO have established credit policies regarding counterparties to minimize overall credit risk. These policies require an evaluation of potential counterparties, financial condition, collateral requirements and the use of standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty. These evaluations result in established credit limits prior to entering into a contract. As of September 30, 2009 and December 31, 2008, there were no counterparty deposits for these companies.

I.

Income Taxes

Tax Positions: In June 2009, the Internal Revenue Service (IRS) completed its audit of the federal tax years 2005 through 2007, bringing closure to, and effective settlement of, issues concerning the timing of certain deductions through 2007 for NU. For the nine months ended September 2009, the audit closure reduced pre-tax interest expense by $5.4 million ($3.1 million for CL&P, $1.6 million for PSNH, and $0.5 million for WMECO), and a $1 million reduction to income tax expense. Management estimates that resolution of this audit decreases NU's unrecognized tax benefits by approximately $32 million ($16 million for CL&P, $12 million for PSNH, and $3 million for WMECO).

NU is currently working to resolve all open tax years. It is reasonably possible that one or more of these open tax years could be resolved within the next twelve months. Management estimates that potential resolutions could result in a $1 million to $34 million decrease in unrecognized tax benefits for NU ($1 million to $14 million for CL&P and a de minimis impact for PSNH and WMECO).

J.

Other Taxes

Certain excise taxes levied by state or local governments are collected by CL&P and Yankee Gas from their respective customers. These excise taxes are shown on a gross basis with collections in revenues and payments in expenses. For the three and nine months ended September 30, 2009, NU gross receipts taxes, franchise taxes and other excise taxes of $33.6 million and $103.4 million, respectively, ($31.7 million and $90.4 million, respectively, for CL&P) were included in Operating revenues and Taxes other than income taxes on the accompanying unaudited condensed consolidated statements of income. For the three and nine months ended September 30, 2008, these amounts totaled $33.9 million and $92.4 million, respectively ($31.4 million and $78.4 million, respectively, for CL&P). Certain sales taxes are also collected by CL&P, WMECO, and Yankee Gas from their respective customers as agents for state and local governments and are recorded on a net basis with no impact on the accompanying unaudited condensed consolidated statements of income.

2.

DERIVATIVE INSTRUMENTS (NU, NU Enterprises, CL&P, PSNH, Yankee Gas)

Derivative contracts that meet the definition of and are designated as "normal purchases or normal sales" (normal) are recognized in Operating revenues or Operating expenses, as applicable, as electricity or natural gas is delivered.

Derivative contracts that are not designated as accounting hedges, or as normal, are recorded at fair value as current or long-term derivative assets or liabilities. Changes in fair values of NU Enterprises' derivatives are included in Net income. For the regulated companies, including CL&P, PSNH and Yankee Gas, regulatory assets or liabilities are recorded for the changes in fair values of derivatives, as these contracts are part of current regulated operating costs, or have an allowed recovery mechanism, and management believes that these costs will continue to be recovered from or refunded to customers in cost-of-service, regulated rates. See below for discussion of "Derivatives designated as hedging instruments."

CL&P, PSNH, WMECO and Yankee Gas are exposed to the volatility of the prices of energy and energy related products in procuring energy supply for their customers. The costs associated with supplying energy to customers are recoverable through customer rates. The Company manages the risks associated with the price volatility of energy and energy related products through the use of derivative contracts, many of which are accounted for as normal, (for WMECO all derivative contracts are accounted for as normal) and the use of nonderivative contracts.

CL&P mitigates the risks associated with the price volatility of energy and energy-related products through the use of standard or last resort service contracts, which fix the price of electricity purchased for customers for periods of time ranging from three months to three years and are accounted for as normal. CL&P has entered into derivatives, including FTR contracts and bilateral basis swaps, to manage the risk of congestion costs associated with its standard offer and last resort service contracts. As required by regulation, CL&P has also entered into derivative and nonderivative contracts for the purchase of energy and energy-related products and contracts related to capacity. While the risks managed by these contracts are regional congestion costs and capacity price risks that are not specific to CL&P, Connecticut's electric distribution companies, including CL&P, are required to enter into these contracts. The derivative contracts not accounted for as normal are accounted for at fair value. Management believes any costs or benefits from these contracts are recoverable from or refunded to CL&P's customers, therefore any changes in fair value are recorded as Regulatory assets and Regulatory liabilities.

WMECO mitigates the risks associated with the volatility of the prices of energy and energy-related products in procuring energy supply for its customers through the use of default service contracts, which fix the price of electricity purchased for customers for periods of time ranging from three months to three years and are accounted for as normal.

PSNH mitigates the risks associated with the volatility of energy prices in procuring energy supply for its customers through its generation facilities and the use of derivative contracts, including energy forward contracts, options and FTRs. PSNH enters into these contracts in order to stabilize electricity prices for customers. The derivative contracts not accounted for as normal are accounted for at fair value. Management believes any costs or benefits from these contracts are recoverable from or refunded to PSNH's customers, therefore any changes in fair value are recorded as Regulatory assets and Regulatory liabilities.

Yankee Gas mitigates the risks associated with supply availability and volatility of natural gas prices through the use of storage facilities and long-term agreements to purchase gas supply for customers that include nonderivative contracts and contracts that are accounted for as normal. Yankee Gas also manages price risk through the use of options contracts. The derivative contracts not accounted for as normal are accounted for at fair value, and because management believes any costs or benefits from these contracts are recoverable from or refundable to Yankee Gas' customers, any changes in fair value are recorded as Regulatory assets and Regulatory liabilities.

NU Enterprises, through Select Energy, has one remaining fixed price forward sales contract that was part of its wholesale energy marketing business. NU Enterprises mitigates the price risk associated with this contract through the use of forward purchase contracts. NU Enterprises' derivative contracts are accounted for at fair value, and changes in their fair values are recorded in Operating expenses.

NU is also exposed to interest rate risk associated with its long-term debt. From time to time, the Company enters into forward starting interest rate swaps, accounted for as cash flow hedges, to mitigate the risk of changes in interest rates when it expects to issue long-term debt. NU parent has also entered into an interest rate swap on fixed rate long-term debt in order to manage the balance of fixed and floating rate debt. The interest rate swap mitigating the interest rate risk associated with the fixed rate long-term debt is accounted for as a fair value hedge.

The gross fair values of derivative assets and liabilities with the same counterparty are offset and reported as net Derivative assets or Derivative liabilities, with appropriate current and long-term portions, in the accompanying unaudited condensed consolidated balance sheets. The following tables present the gross fair values of contracts and the net amounts recorded as current or long-term Derivative assets or liabilities, by primary underlying risk exposures or purpose:

	As of September 30, 2009						
(Millions of Dollars)	**Gross Asset**	**Gross Liability**	**Net Amount Recorded as Derivative Asset**	**Gross Asset**	**Gross Liability**	**Cash Collateral Posted**	**Net Amount Recorded as Derivative Liability**
Derivatives not designated as hedging instruments							
NU Enterprises:							
Commodity sales contract and related price and supply risk management:							
Current	$ -	$ -	$ -	$ 2.9	$ (11.1)	$ 0.9	$ (7.3)
Long-Term	-	-	-	4.4	(41.6)	-	(37.2)
Regulated Companies:							

CL&P commodity and capacity contracts required by regulation:							
Current	16.0	(4.4)	11.6	-	(7.4)	-	(7.4)
Long-Term	252.0	(45.0)	207.0	-	(810.8)	-	(810.8)
Commodity price and supply risk management:							
CL&P:							
Current	2.2	-	2.2	-	(2.0)	1.0	(1.0)
PSNH:							
Current (1)	0.6	-	0.6	-	(40.7)	-	(40.7)
Long-Term (1)	0.5	-	0.5	-	(10.2)	-	(10.2)
Yankee Gas:							
Current	-	-	-	-	(0.4)	-	(0.4)
Long-Term	-	-	-	-	(0.1)	-	(0.1)
Derivatives designated as hedging instruments							
Interest rate risk management:							
Current (2)	4.8	-	4.8	-	-	-	-
Long-Term	10.3	-	10.3	-	-	-	-

(1)

On PSNH's accompanying unaudited condensed consolidated balance sheet, the current portion of the net derivative asset is shown in Prepayments and other and the long-term portion is shown in Deferred debits and other assets - other.

(2)

Amount does not include interest receivable of $5.1 million as of September 30, 2009 recorded in Prepayments and other on the accompanying unaudited condensed consolidated balance sheet.

For further information on the fair value of derivative contracts, see Note 3, "Fair Value Measurements," to the unaudited condensed consolidated financial statements.

The following provides additional information about the derivatives included in the tables above, including volumes and cash flow information.

Derivatives not designated as hedging instruments

NU Enterprises' energy sales contract and related price risk management: As of September 30, 2009, NU Enterprises had approximately 0.4 million megawatt-hours (MWh) of supply volumes remaining in its wholesale portfolio when expected sales to the New York Municipal Power Agency (an agency that is comprised of municipalities) are compared with contracted supply, both of which extend through 2013.

CL&P energy and capacity contracts required by regulation: CL&P has contracts with two IPPs to purchase electricity monthly in amounts aggregating approximately 1.5 million MWh per year through March 2015 under one of these contracts and 0.1 million MWh per year through December 2020 under the second contract. CL&P also has two capacity-related CfDs to increase energy supply in Connecticut relating to one generating project that has been modified and one generating plant to be built. The total capacity of these CfDs and two additional CfDs of The United Illuminating Company (UI) is expected to be approximately 787 megawatts (MW). CL&P has an agreement with UI, which is also accounted for as a derivative, under which they will share the costs and benefits of the four CfDs, with 80 percent allocated to CL&P and 20 percent to UI. The four CfDs obligate the utilities to pay/receive monthly the difference between a set capacity price and the forward capacity market price that the projects receive in the New England Independent System Operator capacity markets for periods of up to 15 years beginning in 2009.

CL&P, PSNH and Yankee Gas energy and natural gas price risk management: As of September 30, 2009, CL&P had 0.5 million MWh and 0.4 million MWh remaining under FTRs and bilateral basis swaps, respectively, that expire by December 31, 2009 and require monthly payments or receipts.

PSNH has electricity procurement contracts with delivery dates through 2011 to purchase an aggregate amount of 1.7 million MWh of power that is used to serve customer load and manage price risk of its electricity delivery service obligations. These contracts are settled monthly. PSNH also has two energy call options that it received in exchange for assigning its transmission rights in a direct current transmission line. The options give PSNH the right to purchase 0.7 million MWh of electricity through December 2010. In addition, PSNH has entered into FTRs to manage the risk of congestion costs associated with its electricity delivery service. As of September 30, 2009, there were 0.4 million MWh remaining under FTRs that expire in 2009 and require monthly payments or receipts. The purpose of the PSNH derivative contracts is to provide stable rates for customers by mitigating price uncertainties associated with the New England electricity spot market.

As of September 30, 2009, Yankee Gas had two peaking supply option contracts to purchase up to 17 thousand MMBtu of natural gas on up to 20 days per season to manage natural gas supply price risk related to winter load obligations. One contract for 3 thousand MMBtu expires on October 31, 2009 and the other contract for 14 thousand MMBtu expires on April 1, 2012. Demand fees on these contracts are settled annually or seasonally and are included in Yankee Gas' Purchased Gas Adjustment clause for recovery.

The following table presents the realized and unrealized gains/(losses) associated with derivative contracts not designated as hedging instruments for the three and nine months ended September 30, 2009:

		Amount of Gain/(Loss) Recognized on Derivative Instrument	
Derivatives Not Designated as Hedging Instruments	**Location of Gain or Loss Recognized on Derivative**	**Three Months Ended September 30, 2009**	**Nine Months Ended September 30, 2009**
NU Enterprises:		(Millions of Dollars)	
Energy sales contract and energy price risk management	Fuel, purchased and net interchange power	$(1.5)	$6.4
Regulated Companies:			
CL&P energy and capacity contracts required by regulation	Regulatory assets/liabilities	(31.8)	18.3
Commodity price and supply risk management:			
CL&P	Regulatory assets/liabilities	(0.9)	(7.9)
PSNH	Regulatory assets/liabilities	(7.2)	(58.0)
Yankee Gas	Regulatory assets/liabilities	(0.4)	(2.5)

For the regulated companies, monthly settlement amounts are recorded as receivables or payables and as Operating revenues or Fuel, purchased and net interchange power. Regulatory assets/liabilities are established with no impact to Net income.

Derivatives designated as hedging instruments

Interest Rate Risk Management: To manage the interest rate risk characteristics of NU parent's fixed rate long-term debt, NU parent has a fixed to floating interest rate swap on its $263 million, 7.25 percent fixed rate senior notes maturing on April 1, 2012. This interest rate swap qualified and was designated as a fair value hedge and requires semi-annual payments/receipts. The changes in fair value of the swap and the interest component of the hedged long-term debt instrument are recorded in interest expense. There was no ineffectiveness recorded for the three and nine months ended September 30, 2009. The cumulative changes in fair values of the swap and the Long-term debt are recorded as a Derivative asset/liability and an adjustment to Long-term debt. Interest receivable is recorded as a reduction of Interest expense and is included in Prepayments and other.

For the three and nine months ended September 30, 2009, the realized and unrealized gains/(losses) related to changes in fair value of the swap and Long-term debt as well as pre-tax Interest expense, recorded in Net income, were as follows:

	Swap		Hedged Debt	
(Millions of Dollars) Income Statement Classification	**Three Months Ended September 30, 2009**	**Nine Months Ended September 30, 2009**	**Three Months Ended September 30, 2009**	**Nine Months Ended September 30, 2009**
Changes in fair value	$ 4.0	$ 0.8	$ (4.0)	$ (0.8)
Interest recorded in Net income	-	-	2.7	6.5

There were no cash flow hedges outstanding as of or during the three and nine month periods ended September 30, 2009 and no ineffectiveness was recorded during those periods. From time to time, NU, including CL&P, PSNH and WMECO, enters into forward starting interest rate swap agreements on proposed debt issuances that qualify and are designated as cash flow hedges. Cash flow hedges are recorded at fair value, and the changes in the fair value of the effective portion of those contracts are recognized in Accumulated other comprehensive income/(loss). Cash flow hedges impact Net income when hedge ineffectiveness is measured and recorded, when the forecasted transaction being hedged is improbable of occurring or when the transaction is settled. When a cash flow hedge is terminated, the settlement amount is recorded in Accumulated other comprehensive income/(loss) and is amortized into Net income over the term of the underlying debt instrument.

For the three and nine months ended September 30, 2009, pre-tax gains/(losses) amortized from Accumulated other comprehensive income/(loss) into Interest expense were as follows:

(Millions of Dollars)	**Three Months Ended September 30, 2009**	**Nine Months Ended September 30, 2009**
CL&P	$ (0.2)	$ (0.6)
PSNH	-	(0.1)
WMECO	-	0.1

Other		0.1		0.3
NU	$	(0.1)	$	(0.3)

For further information, see Note 6, "Comprehensive Income," to the unaudited condensed consolidated financial statements.

Credit Risk

Certain derivative contracts that are accounted for at fair value, including PSNH's electricity procurement contracts, CL&P's bilateral agreements and NU Enterprises' electricity sourcing contracts, contain credit risk contingent features. These features require these companies, or in NU Enterprises' case, NU parent, to maintain investment grade credit ratings from the major rating agencies and to post cash or standby letters of credit (LOCs) as collateral for contracts in a net liability position over specified credit limits. NU parent provides standby LOCs under its revolving credit agreement for NU subsidiaries to post with counterparties. The following summarizes the fair value of derivative contracts that are in a liability position and subject to credit risk contingent features and the fair value of cash collateral and standby LOCs posted with counterparties as of September 30, 2009:

(Millions of Dollars)		**Fair Value Subject to Credit Risk Contingent Features**		**Cash Collateral Posted**		**Standby LOCs Posted**
CL&P	$	(0.3)	$	1.0	$	-
PSNH		(50.8)		-		56.0
NU Enterprises		(17.0)		0.9		-
NU	$	(68.1)	$	1.9	$	56.0

Additional collateral is required to be posted by NU Enterprises, CL&P or PSNH, respectively, if NU parent's, CL&P's or PSNH's respective unsecured debt credit ratings are downgraded below investment grade. As of September 30, 2009, no additional cash collateral would be required to be posted if credit ratings were downgraded below investment grade. However, if PSNH's or NU parent's senior unsecured debt were downgraded to below investment grade, additional standby LOCs in the amount of $14.8 million and $17.1 million would be required to be posted on derivative contracts for PSNH and Select Energy, respectively.

For further information, see Note 1H, "Summary of Significant Accounting Policies - Special Deposits and Counterparty Deposits," to the unaudited condensed consolidated financial statements.

3.

FAIR VALUE MEASUREMENTS (All Companies)

The following tables present the amounts of assets and liabilities recorded at fair value on a recurring basis by the level in which they are classified within the fair value hierarchy:

	As of September 30, 2009						
(Millions of Dollars)	**Total NU**	**CL&P**	**PSNH**	**WMECO**	**NU Enterprises**	**Yankee Gas**	**NUSCO and NU Parent**
Derivative Assets:							
Level 1	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Level 2	15.1	-	-	-	-	-	15.1
Level 3	221.9	220.8	1.1	-	-	-	-
Total	$ 237.0	$ 220.8	$ 1.1	$ -	$ -	$ -	$ 15.1
Derivative Liabilities:							
Level 1	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Level 2	(50.8)	-	(50.8)	-	-	-	-
Level 3	(866.2)	(820.2)	(0.1)	-	(45.4)	(0.5)	-
Cash collateral posted	1.9	1.0	-	-	0.9	-	-
Total	$ (915.1)	$ (819.2)	$ (50.9)	$ -	$ (44.5)	$ (0.5)	$ -
Marketable Securities:							
Level 1:							
Mutual funds	$ 34.7	$ -	$ -	$ -	$ -	$ -	$ 34.7
Money market and other	5.7	-	-	4.8	-	-	0.9
Total Level 1	40.4	-	-	4.8	-	-	35.6
Level 2:							
U.S. government issued debt securities (agency and treasury)	31.5	-	-	17.0	-	-	14.5
	25.8	-	-	18.1	-	-	7.7

Corporate debt securities							
Asset backed securities	5.2	-	-	1.0	-	-	4.2
Municipal bonds	10.8	-	-	10.6	-	-	0.2
Other	5.5	-	-	5.1	-	-	0.4
Total Level 2	78.8	-	-	51.8	-	-	27.0
Total	$ 119.2	$ -	$ -	$ 56.6	$ -	$ -	$ 62.6

As of December 31, 2008

(Millions of Dollars)	**Total NU**	**CL&P**	**PSNH**	**WMECO**	**NU Enterprises**	**Yankee Gas**	**NUSCO and NU Parent**
Derivative Assets:							
Level 1	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Level 2	20.8	-	-	-	-	-	20.8
Level 3	252.4	245.8	4.7	-	-	1.9	-
Total	$ 273.2	$ 245.8	$ 4.7	$ -	$ -	$ 1.9	$ 20.8
Derivative Liabilities:							
Level 1	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Level 2	(91.7)	-	(91.7)	-	-	-	-
Level 3	(921.6)	(856.9)	(0.6)	-	(63.9)	(0.2)	-
Total	$ (1,013.3)	$ (856.9)	$ (92.3)	$ -	$ (63.9)	$ (0.2)	$ -
Marketable Securities:							
Level 1	$ 42.1	$ -	$ -	$ 10.3	$ -	$ -	$ 31.8
Level 2	67.1	-	-	45.4	-	-	21.7
Level 3	-	-	-	-	-	-	-
Total	$ 109.2	$ -	$ -	$ 55.7	$ -	$ -	$ 53.5

Not included in the tables above are $234.6 million and $81.6 million of cash equivalents held by NU parent as of September 30, 2009 and December 31, 2008, respectively, which are included in cash and cash equivalents on the accompanying unaudited condensed consolidated balance sheets and are classified as Level 1 in the fair value hierarchy.

The following tables present changes for the three and nine months ended September 30, 2009 and 2008 in the Level 3 category of assets and liabilities measured at fair value on a recurring basis. This category includes derivative assets and liabilities, which are presented on a net basis. The Company classifies assets and liabilities in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 assets and liabilities typically also rely on a number of inputs that are observable either directly or indirectly. Thus, the gains and losses presented below include changes in fair value that are attributable to both observable and unobservable inputs. There were no transfers into or out of Level 3 assets and liabilities for the three and nine months ended September 30, 2009 and 2008.

	For the Three Months Ended September 30, 2009				
(Millions of Dollars)	**Total NU**	**CL&P**	**PSNH**	**NU Enterprises**	**Yankee Gas**
Derivatives, Net:					
Fair value as of June 30, 2009	$ (614.0)	$ (570.5)	$ 1.3	$ (44.7)	$ (0.1)
Net realized/unrealized losses included in:					
Net income [(1)]	(1.5)	-	-	(1.5)	-
Regulatory assets/liabilities	(33.4)	(32.7)	(0.3)	-	(0.4)
Purchases, issuances and settlements	4.6	3.8	-	0.8	-
Fair value as of September 30, 2009	$ (644.3)	$ (599.4)	$ 1.0	$ (45.4)	$ (0.5)
Quarterly change in unrealized losses included in Net income relating to items held as of September 30, 2009	$ (1.4)	$ -	$ -	$ (1.4)	$ -

	For the Three Months Ended September 30, 2008				
(Millions of Dollars)	**Total NU**	**CL&P**	**PSNH**	**NU Enterprises**	**Yankee Gas**
Derivatives, Net:					
Fair value as of June 30, 2008	$ (277.0)	$ (244.9)	$ 40.9	$ (74.6)	$ 1.6
Net realized/unrealized gains/(losses) included in:					
Net income [(1)]	5.3	-	-	5.3	-
Regulatory assets/liabilities	(195.8)	(164.1)	(30.4)	-	(1.3)
Purchases, issuances and settlements	(24.1)	(24.8)	-	0.7	-
Fair value as of September 30, 2008	$ (491.6)	$ (433.8)	$ 10.5	$ (68.6)	$ 0.3
Quarterly change in unrealized gains included in Net income relating to items held as of September 30, 2008	$ 6.0	$ -	$ -	$ 6.0	$ -

(Millions of Dollars)	**For the Nine Months Ended September 30, 2009**				
	Total NU	**CL&P**	**PSNH**	**NU Enterprises**	**Yankee Gas**
Derivatives, Net:					
Fair value as of January 1, 2009	$ (669.2)	$ (611.1)	$ 4.1	$ (63.9)	$ 1.7
Net realized/unrealized gains/(losses) included in:					
Net income (1)	6.4	-	-	6.4	-
Regulatory assets/liabilities	4.9	10.4	(3.0)	-	(2.5)
Purchases, issuances and settlements	13.6	1.3	(0.1)	12.1	0.3
Fair value as of September 30, 2009	$ (644.3)	$ (599.4)	$ 1.0	$ (45.4)	$ (0.5)
Period change in unrealized gains included in Net income relating to items held as of September 30, 2009	$ 6.1	$ -	$ -	$ 6.1	$ -

(Millions of Dollars)	**For the Nine Months Ended September 30, 2008**				
	Total NU	**CL&P**	**PSNH**	**NU Enterprises**	**Yankee Gas**
Derivatives, Net:					
Fair value as of January 1, 2008 (2)	$ (511.1)	$ (426.9)	$ 15.7	$ (100.1)	$ 0.2
Net realized/unrealized gains/(losses) included in:					
Net income (1)	10.2	-	-	10.2	-
Regulatory assets/liabilities	49.7	54.8	(5.2)	-	0.1
Purchases, issuances and settlements	(40.4)	(61.7)	-	21.3	-
Fair value as of September 30, 2008	$ (491.6)	$ (433.8)	$ 10.5	$ (68.6)	$ 0.3
Period change in unrealized gains included in Net income relating to items held as of September 30, 2008	$ 4.5	$ -	$ -	$ 4.5	$ -

(1)

Realized and unrealized gains and losses on derivatives included in Net income relate to the remaining Select Energy wholesale marketing contracts and are reported in Fuel, purchased and net interchange power on the accompanying unaudited condensed consolidated statements of income.

(2)

Amounts as of January 1, 2008 reflect fair values after initial adoption of accounting guidance for fair value measurements. As a result of implementation, the Company recorded an increase to derivative liabilities and a pre-tax charge of $6.1 million as of January 1, 2008 related to NU Enterprises' remaining derivative contracts. The Company also recorded changes in fair value of CL&P's CfD and IPP contracts, resulting in increases to CL&P's Derivative liabilities of approximately $590 million, with an offset to Regulatory assets and a decrease to CL&P's Derivative assets of approximately $30 million with an offset to Regulatory liabilities.

4.

PENSION BENEFITS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (All Companies)

Northeast Utilities Service Company (NUSCO), a subsidiary of NU, sponsors a single uniform noncontributory defined benefit retirement plan (Pension Plan), which is subject to the provisions of the Employee Retirement Income Security Act (ERISA). The Pension Plan covers nonbargaining unit employees (and bargaining unit employees, as negotiated) of NU, including CL&P, PSNH, and WMECO, hired before 2006 (or as negotiated, for bargaining unit employees). On behalf of NU's retirees, NUSCO also sponsors plans that provide certain retiree health care benefits, primarily medical and dental, and life insurance benefits through a post-retirement benefits other than pension plan (PBOP Plan). In addition, NU maintains a Supplemental Executive Retirement Plan (SERP), which provides benefits to eligible participants who are officers of NU. This plan primarily provides benefits that would have been provided to these employees under the Pension Plan if certain Internal Revenue Code limitations were not imposed.

The components of net periodic expense/(income) for the Pension Plan, PBOP Plan and SERP for the three and nine months ended September 30, 2009 and 2008 are as follows:

	For the Three Months Ended September 30,					
NU	**Pension Benefits**		**PBOP Benefits**		**SERP Benefits**	
(Millions of Dollars)	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Service cost	$ 11.3	$ 11.1	$ 1.8	$ 1.8	$ 0.2	$ 0.2
Interest cost	38.3	35.9	7.3	7.0	0.6	0.5
Expected return on plan assets	(47.3)	(50.0)	(5.3)	(5.3)	-	-
Net transition obligation cost	0.1	-	2.8	2.9	-	-
Prior service cost/(credit)	2.4	2.5	-	(0.1)	-	-
Actuarial loss	5.1	1.1	2.6	2.7	0.1	0.1
Total - net periodic expense	$ 9.9	$ 0.6	$ 9.2	$ 9.0	$ 0.9	$ 0.8
	$ (1.5)	$ (5.3)	$ 3.8	$ 3.9	$ -	$ 0.1

CL&P - net periodic (income)/expense						
PSNH - net periodic expense	$ 5.8	$ 4.5	$ 1.7	$ 1.8	$ 0.1	$ 0.1
WMECO - net periodic (income)/expense	$ (0.7)	$ (1.5)	$ 0.6	$ 0.7	*	*

	For the Nine Months Ended September 30,					
NU	**Pension Benefits**		**PBOP Benefits**		**SERP Benefits**	
(Millions of Dollars)	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Service cost	$ 33.8	$ 32.8	$ 5.4	$ 5.3	$ 0.6	$ 0.5
Interest cost	115.1	108.1				