SECURITIES AND EXCHANGE COMMISSION

(Release No. 35-28007; 70-10184)

Northeast Utilities, et. al.

Order Authorizing Amended Tax Allocation Agreement

July 28, 2005

Northeast Utilities ("NU"), Springfield, Massachusetts, a registered holding company under the Public Utility Holding Company Act of 1935, as amended ("Act"); and its subsidiaries: The Connecticut Light and Power Company, a wholly-owned public utility subsidiary of NU; CL&P Receivables Corporation; NU Enterprises, Inc.; Northeast Generation Services Company; Woods Network Services, Inc.; NGS Mechanical, Inc.; E.S. Boulos Company; Woods Electrical Co., Inc.; Northeast Generation Company; Select Energy Inc.; Select Energy New York, Inc.; The Rocky River Realty Company; The Quinnehtuk Company; Charter Oak Energy, Inc.; Mode 1 Communications, Inc.; Northeast Utilities Service Company; Yankee Energy System, Inc., a wholly-owned public utility holding company subsidiary exempt under section 3(a)(1) of the Act; Yankee Gas Services Company, a gas public utility; Yankee Energy Financial Services Company; Northeast Nuclear Energy Company, a wholly-owned public utility subsidiary of NU; NorConn Properties, Inc.; and Yankee Energy Services Company, each of Berlin, Connecticut**;** Public Service Company of New Hampshire, a wholly-owned public utility subsidiary of NU; Properties, Inc.; North Atlantic Energy Corporation, a wholly-owned public utility subsidiary of NU; and North Atlantic Energy Services Corp., each of Manchester, New Hampshire; Select Energy Services, Inc.; Reeds Ferry Supply Co., Inc.; Select Energy Contracting, Inc.; and HEC/Tobyhanna Energy Project, Inc., each of Natick, Massachusetts; Western Massachusetts Electric Company, a wholly-owned public utility subsidiary of NU, Springfield, Massachusetts;

and Holyoke Water Power Company, a wholly-owned public utility subsidiary of NU; and Holyoke Power and Electric Company, each of Holyoke, Massachusetts (together, "Applicants") have filed with the Securities and Exchange Commission ("Commission") a declaration under section 12(b) of the Act and rules 45 and 54 under the Act ("Declaration"). The Commission issued a notice of the proposed transaction on March 23, 2004 (Holding Company Act Release No. 27819). No request for a hearing was received.

The Applicants are seeking Commission approval to amend their tax allocation agreement so that NU will retain the benefit (in the form of the reduction in consolidated tax) that is attributable to tax losses incurred by NU in connection with the debt incurred to acquire Yankee Energy System, Inc. on March 1, 2000,[1] rather than generally provide the tax benefit to its subsidiaries as required by rule 45(c)(5). In connection with the acquisition, NU borrowed $263 million under a bank term loan facility. That borrowing has been refinanced several times, and currently NU has outstanding $263 million of ten-year senior unsecured notes carrying a coupon rate of 7.25%, which mature on April 1, 2012 (as may be refinanced, "Acquisition Debt"). In March 2003, NU entered into two interest rate swaps that effectively converted the fixed rate on the ten year unsecured notes to a variable rate. The annual interest payment on this debt is currently approximately $19.1 million. At an assumed rate of 35%, the tax benefit to NU is $6,650,000. NU is the entity legally obligated to repay the Acquisition Debt.

Under the proposed changes to the tax allocation agreement, the consolidated tax would generally be allocated among the Applicants in proportion to the separate return tax of each Applicant, provided that the tax apportioned to any subsidiary of NU will not exceed the tax the

[1] NU acquired Yankee Energy System pursuant to Commission order issued January 31, 2000. (Holding Company Act Release No. 27127).

subsidiary would have paid if the tax had been computed separately for the subsidiary, with NU allocating the benefits of its own losses generally to its subsidiaries. This is the method of allocation required under rule 45(c)(2)(ii).[2] However, under the proposed changes, NU would retain the benefit attributable to tax losses it incurs in connection with the Acquisition Debt, rather than reallocate the benefit to its subsidiaries, for the tax year beginning January 1, 2004 and ending when the Acquisition Debt has been paid off. In this respect, the proposed tax allocation agreement does not comply with all of the requirements of rule 45(c). However, in accordance with rule 45(c)(2), the portion of the consolidated tax allocated to any of the other Applicants will not exceed the "separate return tax" of each Applicant. Thus, the proposed tax allocation agreement will not have the effect of shifting a larger portion of the group's tax liability to any member of the group than that member would otherwise pay on a separate return basis.

Tax allocation agreements between a registered holding company and its subsidiaries must comply with section 12 and rule 45 of the Act. Rule 45(a) generally prohibits any registered holding company or subsidiary company from, directly or indirectly, lending or in any manner extending its credit to or indemnifying, or making any donation or capital contribution to, any company in the same holding company system, except pursuant to a Commission order. Approval under rule 45(a) is not required for the filing of a consolidated tax return under a tax allocation agreement between eligible associate companies in a registered holding company system that complies with the terms of rule 45(c). However, if a tax allocation agreement does

[2] In addition the proposed tax allocation agreement will provide: (1) a section of definitions that comports with the rule 45(c)(1) definitions; (2) provide a statement that NU will pay its own separate return tax if it is profitable; and (3) provide a statement that NU is precluded from recouping net operating losses under rule 45(c)(1) and (c)(5).

not comply in all respects with the provisions of rule 45(c), it may still be approved by the Commission under section 12(b) and rule 45(a). The Commission has authorized other registered public utility holding companies to enter into tax allocation agreements which have the effect of retaining the tax losses incurred in connection with acquisition debt, similar to the request of Applicants in the Declaration.[3]

Applicants state that the Acquisition Debt was incurred to acquire the equity of Yankee Energy System Inc. This debt represents indebtedness of NU, issued based on NU's creditworthiness and is non-recourse to its subsidiaries. By incurring the Acquisition Debt, NU is creating tax deductions that are non-recourse to its subsidiaries. NU could not, without the approval of the commissions having jurisdiction over the rates of its utility subsidiaries, recover in rates any costs, including the interest on the Acquisition Debt associated with the acquisition of Yankee Energy System Inc. As a result, the allocation of tax under the proposed tax allocation agreement would not result in any detriment to the customers of NU's utility subsidiaries. Moreover, the Acquisition Debt is and will remain unsecured. Thus, the lenders will not have any call on the assets of NU's subsidiaries or any security interest in the common stock of the subsidiaries that is held by NU.

Applicants state that, although NU's subsidiaries do not have any legal obligation for the Acquisition Debt, NU's ability to pay interest on the Acquisition Debt, as well as to pay common stock dividends, is largely dependent upon its receipt of dividends from its subsidiaries. Currently, NU projects that its dividend will be paid largely from current and retained earnings of the utility subsidiaries. Currently, NU is not projecting any change in its dividend policy. In

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[3] *See* Pepco Holdings Inc., Holding Company Act Release No. 27553 (July 24, 2002); and Progress Energy Inc., Holding Company Act Release No. 27522 (April 18, 2002).

addition, the proposed tax allocation agreement will have no impact on the rates or revenue requirements of the utility subsidiaries.

The transaction is subject to rule 54 under the Act and meets the requirements set forth in that rule. Rule 54 provides that in determining whether to approve the issue or sale of a security by a registered holding company for purposes other than the acquisition of an exempt wholesale generator ("EWG") or a foreign utility company ("FUCO"), or other transactions unrelated to EWGs or FUCOs, the Commission shall not consider the effect of the capitalization or earnings of any EWG or FUCO subsidiary on the registered holding company if the requirements of rule 53(a), (b) and (c) are satisfied.[4]

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[4] Applicants state that NU currently meets all of the conditions of rule 53(a), except for clause (1). At March 31, 2005 NU's "aggregate investment" as defined in rule 53(a)(1) in EWGs and FUCOs was approximately $448.2 million, or approximately 54.8% of NU's average "consolidated retained earnings," also as defined in rule 53(a)(1), for the four quarters ended March 31, 2005 ($817.8 million). With respect to rule 53(a)(1), however, the Commission has determined that NU's financing of its investment in EWGs in an amount not to exceed $1 billion would not have the adverse effects set forth in rule 53(c). *See* Holding Company Act Release No. 27868A (July 2, 2004) ("Current Rule 53(c) Order"). NU continues to assert that its EWG investments will not adversely affect the system. NU also asserts that it and its subsidiaries are in compliance and will continue to comply with the other provisions of rule 53(a) and (b).

Applicants state that the proposed transaction, considered in conjunction with the effect of the capitalization and earnings of NU's EWG, would not have a material adverse effect on the financial integrity of the NU system, or an adverse impact on NU's public-utility subsidiaries, their customers, or the ability of State commissions to protect the public-utility customers.

The Applicants note that the Current Rule 53(c) Order was predicated, in part, upon an assessment of NU's overall financial condition which took into account, among other factors, NU's consolidated capitalization ratio. Applicants assert that NU's current EWG investment has been profitable for all quarterly periods ending June 30, 2000 through March 31, 2005 (the EWG was acquired in March 2000).

Applicants state that the consolidated capitalization ratio of NU as of March 31, 2005, (with the term "consolidated capitalization" defined to include, where applicable, common stock equity (comprised of common stock, additional paid-in-capital, retained earnings, accumulated other comprehensive income or loss and/or treasury stock) minority interests, preferred stock, preferred securities, equity-linked securities, long-term debt, short-term debt and current maturities, with the term "debt" deemed to include rate reduction bonds and rate reduction certificates, is as follows:

The fees, commissions and expenses paid or incurred or to be incurred in connection with this Application are estimated at not more than $15,000. Applicants state that Public Service Company of New Hampshire must file a copy of the proposed tax allocation agreement with the New Hampshire Public Utilities Commission, for notice purposes, within 10 days after the date on which it is executed, and Western Massachusetts Electric Company must file a copy of the proposed tax allocation agreement, for notice purposes, with the Massachusetts Department of Telecommunications and Energy. Either commission could institute a proceeding and hold a hearing on the proposed tax allocation agreement. Applicants state that except as set forth above, no other state commission and no federal commission other than this Commission has jurisdiction over the proposed tax allocation agreement.

Due notice of the filing of the Declaration has been given in the manner described by rule 23 under the Act, and no hearing has been requested of, or ordered by, the Commission. Based

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	In Thousands	Percent
Common shareholder's equity	$2,171,377	31.4%
Preferred stock	116,200	1.7
Long-term and short-term debt	3,134,301	45.3
Rate reduction bonds	1,496,152	21.6
Total	6,918,030	100

Applicants state that if the rate reduction bonds are excluded, the consolidated capitalization ratio of NU as of March 31, 2005 is as follows:

	In Thousands	Percent
Common shareholder's equity	$2,171,377	40.1%
Preferred Stock	116,200	2.1
Long-term and short-term debt	3,134,301	57.8
Total	5,421,878	100

Applicants state that, in addition, NU's EWG has made a positive contribution to earnings by contributing $155.1 million in revenues in the 12-month period ending March 31, 2005 and net income of $44.3 million for the same period.

on the facts in the record, the Commission finds that the applicable standards of the Act are satisfied and that no adverse findings are necessary.

IT IS ORDERED, under the applicable provisions of the Act and rules under the Act, that the Declaration is permitted to become effective immediately, subject to the terms and conditions prescribed in rule 24 under the Act and provided that the Applicants will provide a rule 24 report annually following each quarter in which they file a consolidated tax return, with information showing: (1) the calculation of the portion of NU's loss that is attributable to interest expense on Acquisition Debt; and (2) the actual allocation of federal income tax liability to each of the members of the consolidated group.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

Margaret H. McFarland
Deputy Secretary