

# SECURITIES AND EXCHANGE COMMISSION

(Release No. 35-28023;70-10308)

## Order Authorizing Equity Ratio Below 30%

August 31, 2005

Western Massachusetts Electric Company (“WMECO”), a public utility subsidiary of Northeast Utilities (“NU”), a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (“Act”), has filed with the Securities and Exchange Commission (“Commission”) a declaration under sections 6(a) and 7 of the Act. The Commission issued a notice of the declaration on July 7, 2005, HCAR No. 27997. No request for a hearing was received.

WMECO is seeking authorization to maintain its common equity-to-total capitalization<sup>1</sup> ratio below the Commission’s threshold of 30% (the “30% Threshold”) when certain Rate Reduction Bonds (non-recourse securitization bonds) are included in the calculation of the ratio, through December 31, 2006 (the “Authorization Period”).<sup>2</sup>

In preparing the budget and financing plans for WMECO for 2005, management noted that there is a risk that WMECO could fall below the 30% Threshold, when the impact of the Rate Reduction Bonds is considered, at some point during the

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<sup>1</sup> The term “total capitalization” is 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 (including Rate Reduction Bonds), short-term debt and current maturities.

<sup>2</sup> Notwithstanding the request for authority through December 31, 2006, the authorization period in this matter extends only to February 8, 2006. The Energy Policy Act of 2005 repealed the Public Utility Holding Company Act of 1935, effective February 8, 2006. Therefore, the Commission grants authority in this matter only to the effective date of repeal.

Authorization Period<sup>3</sup>. According to WMECO, management forecast that the company would remain only slightly above 30% through December 31, 2005. Management's forecast anticipates that WMECO's common equity ratio will end the year at 31.7%. WMECO states, however, that there is inherent uncertainty in forecasts, and therefore WMECO is now seeking authorization through the Authorization Period for its common equity ratio to remain below the 30% Threshold when the impact of Rate Reduction Bonds is considered while remaining above 30% when the impact of Rate Reduction Bonds is excluded.

NU currently meets all of the conditions of rule 53(a), except for clause (1). As of 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), the Commission has determined that NU's financing of its investment in EWGs in an amount not to exceed \$1 billion would not have either of the adverse effects set forth in rule 53(c). (HCAR 35-27868A, July 2, 2004.) In addition NU has demonstrated that it is in compliance with the other provisions of rule 53(a) and (b).

Fees, commissions and expenses incurred in connection with the preparation and filing of the Application are estimated not to exceed \$25,000. WMECO states that no other state commission has jurisdiction with respect to any aspect of the proposed

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<sup>3</sup> Rate Reduction Bonds are securities issued in accordance with state law by special purpose subsidiary of the utility to finance a portion of a utility's cost incurred in the sale of its regulatory assets and/or renegotiation of its obligations under purchase power contracts, and are non-recourse to WMECO or the NU system.

transaction and no Federal commission other than the Commission has jurisdiction over the proposed transaction.

Due notice of the filing of the Application has been given in the manner prescribed in rule 23 under the Act and no hearing has been requested of or ordered by the Commission. Based on the facts in the record, the Commission finds that the applicable standards of the Act and the rules are satisfied and that no adverse findings are necessary.

IT IS ORDERED, under the applicable provisions of the Act and the rules under the Act that the authorization requested in the Declaration is granted and permitted to become effective to the date of repeal of the Act, subject to the terms and conditions prescribed in rule 24 under the Act.

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

Jonathan G. Katz,  
Secretary