

SECURITIES AND EXCHANGE COMMISSION

(Release No. 35-28052)

Northeast Utilities, et al. (70-9755)

Order Authorizing the Issuance of Short-Term Debt, Increase In Money Pool Limits, Addition of Money Pool Participant, Change In Investment Grade Conditions

October 28, 2005

Northeast Utilities (“NU”), a holding company registered under the Public Utility Holding Company Act of 1935, as amended (“Act”), Springfield, Massachusetts; Yankee Energy System, Inc. (“YES”), a public utility holding company subsidiary of NU exempt from registration under the Act, and Northeast Utilities Service Company, NU’s service company subsidiary, Berlin, Connecticut; NU’s direct and indirect public utility subsidiaries, The Connecticut Light and Power Company (“CL&P”) and Yankee Gas Services Company (“Yankee Gas”), Berlin, Connecticut, Western Massachusetts Electric Company, Springfield, Massachusetts (“WMECO” and with CL&P and Yankee Gas, the “Utility Borrowers”), Public Service Company of New Hampshire, Manchester, New Hampshire, and Holyoke Water Power Company (“HWP”), Berlin, Connecticut; and NU’s direct and indirect nonutility subsidiaries, Northeast Nuclear Energy Company, The Rocky River Realty Company, The Quinnehtuk Company, Properties, Inc., Yankee Energy Financial Services Company, Yankee Energy Services Company, NorConn Properties, Inc., NU Enterprises, Inc., Northeast Generation Company, Northeast Generation Services Company, E. S. Boulos Company, Woods Electrical Company, Inc., Woods Network Services, Inc., Select Energy, Inc., Select Energy New York, Inc., and Mode 1 Communications, Inc., Berlin, Connecticut; North Atlantic Energy Corporation and North Atlantic Energy Service Corporation (“NAESC”), Manchester, New Hampshire; and Select Energy Services, Inc., Natick, Massachusetts (all of the above named companies

collectively the “Applicants”) have filed with the Securities and Exchange Commission (“Commission”) a post-effective amendment to an application/declaration (“Amendment”) under sections 6(a) and 7 of the Act. The Commission issued a notice of the Amendment on September 30, 2005 (Holding Co. Act Release No. 28041).

By order dated June 30, 2004 (Holding Co. Act Release No. 27870) (“2004 Order”), the Commission granted authority for NU, YES and the Utility Borrowers to issue short-term debt securities, subject to certain conditions. NU was authorized to issue up to an aggregate of \$450 million of short-term debt at any one time outstanding through June 30, 2007 (“Authorization Period”). The 2004 Order also authorized continued operation of the NU Money Pool through the Authorization Period, based, in part, on the commitment by NU, YES and the Utility Borrowers that, apart from the securities issued for the purpose of funding money pool operations, no securities would be issued under the authority obtained under the 2004 Order unless: (i) the security to be issued, if rated, is rated investment grade; (ii) all outstanding securities of the issuer that are rated are rated investment grade; and (iii) all outstanding securities of NU and YES that are rated, are rated investment grade (“Investment Grade Conditions”). The 2004 Order also approved a Money Pool borrowing limit for HWP of \$10 million.

With this Amendment, the Applicants seek the following authorizations: to increase the amount of short-term debt that NU may incur through the Authorization Period from \$450 million to \$700 million; to delete the Investment Grade Conditions on issuance of certain securities by NU, YES and the Utility Borrowers; to add NAESC as a participant in the NU Money Pool; and to increase HWP’s Money Pool limit from \$10 million to \$35 million.

Applicants state that no further authorizations are being requested by the Amendment and all other terms and conditions in the 2004 Order will remain applicable.

According to the Applicants, management believes that the increase is necessary at this time to continue to support the credit and liquidity requirements of its regulated and competitive businesses. The Applicants also state that NU needs the additional liquidity to meet possible near-term, temporary cash needs, such as cash payments to buy out or buy down certain wholesale contracts, associated with the holding company's previously announced exit from the wholesale competitive energy business. In addition, a number of Select Energy's energy contracts require, according to Applicants, the posting of additional collateral in the form of cash or letters of credit in the event NU's credit ratings were to decline and in increasing amounts dependent upon the severity of the decline. Were NU's unsecured ratings to decline to sub-investment grade, Select Energy states that it could, under its present contracts, be asked to provide, as of March 31, 2005, approximately \$500 million of collateral or letters of credit to various unaffiliated counterparties and approximately \$154 million to several independent system operators and unaffiliated local distribution companies, which, management states, NU would currently be able to provide. In addition, according to Applicants, Standard and Poor's credit rating agency, has imposed reporting requirements industry-wide for its new liquidity tests. Standard and Poor's liquidity tests demonstrate, according to Applicants, that NU needs additional credit capacity to support its businesses in the event of certain hypothetical adverse developments affecting credit ratings and forward prices of energy commodity products.

According to the Applicants, the external short-term debt which NU is requesting authority to issue may take a variety of forms, including commercial paper and unsecured notes with banks or other institutional lenders under credit facilities that are generally available to

borrowers with comparable credit ratings. All short-term debt issued by NU as a result of this Amendment will have maturities of less than one year from the date of issuance. NU states that it will not issue any secured debt.

Commercial paper issued by NU may be issued manually or through The Depository Trust Company in the form of book entry notes in denominations of not less than \$50,000 of varying maturities. This commercial paper would typically be sold to dealers at the discount rate prevailing at the date of issuance for commercial paper of comparable quality and maturities sold to commercial paper dealers generally. The Applicants expect that the dealers acquiring the commercial paper will reoffer it at a discount to corporate and institutional investors. The Applicants state that no commercial paper will be issued by NU unless the issuer believes that the effective cost to it will be equal to or less than the effective interest rate at which it could issue short-term notes in an amount at least equal to the principal amount of the commercial paper. The commercial paper will be publicly issued and sold without registration under the Securities Exchange Act of 1933 in reliance upon one or more applicable exemptions from registration under that Act.

According to NU, the effective cost of money on the short-term debt will not exceed competitive market rates available at the time of issuance for securities having the same or reasonably similar terms and conditions issued by companies of comparable credit quality, provided that in no event will the effective cost of capital exceed 300 basis points over the comparable term London Interbank Offered Rate. Issuance expenses will not exceed 5% of the principal amount of the securities. NU states that specific terms of the short-term debt will be determined by NU at the time of issuance but that those terms will comply in all regards to the parameters of financings authorizations set forth in the Amendment. A copy of all new notes or

loan agreements executed as a result of the authority requested will be filed under cover of the next quarterly report under rule 24. NU states that, subject to the NU Aggregate Short-term Debt Limit, NU intends to renew and extend outstanding short-term debt as it matures, to refund such short-term debt with other similar short-term debt, to repay such short-term debt or to increase the amount of their short-term debt from time to time through the Authorization Period.

In a recent order issued by the Commission (Pepco Holdings, Inc., Holding Co. Act Release No. 27991, June 30, 2005), the Commission modified the investment grade conditions applicable to the issuance of securities by holding companies and their public utility subsidiaries, including the elimination of investment grade requirements for the issuance of short-term debt. Since the 2004 Order only authorized the issuance of short-term debt and interest rate hedges, the Applicants request that the Commission eliminate the Investment Grade Conditions set forth in the 2004 Order.

According to the Applicants, HWP has embarked on a capital spending program which will require it, among other things, to install additional pollution control equipment at its Mt. Tom generating facility. This program, expected to cost approximately \$17 million, plus contingencies and other requirements associated with ongoing remediation of site contamination at Mt. Tom, necessitates an increase in HWP's borrowing capacity. It has no external sources of funds at present and is close to its authorized Money Pool limit. The Money Pool represents an economic alternative for HWP's short-term funding needs. Applicants request an increase in HWP's Money Pool limit from \$10 million to \$35 million.

NAESC, which seeks authority to participate in the NU Money Pool, formerly operated the Seabrook Nuclear Station, which was sold in 2002. NAESC currently retains cash against certain future obligations, and Applicants state that NU's cash management system will be

enhanced by the addition of NAESC to the NU Money Pool on the terms and conditions set forth in the 2004 Order.

NU states that at all times during the Authorization Period it will maintain common equity (as reflected in the most recent Form 10-K or Form 10-Q filed with the Commission) of at least 30% of its consolidated capitalization (net of securitization debt). The term “consolidated 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 interest, preferred stock, preferred securities, equity linked securities, long-term debt, short-term debt and current maturities (net of securitization debt).

NU states that, as of June 30, 2005, NU’s consolidated capitalization (net of securitization debt) consisted of 38.6% common equity, 2.1% preferred stock, 59.3% long-term and short-term debt. When securitization debt (Rate Reduction Bonds) is included, NU’s consolidated capitalization as of June 30, 2005, was 30.5% common equity, 1.7% preferred stock and 46.8% debt, 21.0% Rate Reduction Bonds.

The proceeds from the issuance of short-term debt as requested in this Amendment will be used for (i) general corporate purposes, including investments by and capital expenditures of NU and its subsidiaries, including, without limitation, the funding of future investments in exempt wholesale generators (“EWGs”), foreign utility companies (“FUCOs”) (each to the extent permitted under the Act or Commission order), energy-related companies (“Rule 58 Subsidiaries”) to the extent permitted under the Act or Commission order, and exempt telecommunications companies (“ETCs”), (ii) the repayment, redemption, refunding or purchase

by NU or any subsidiary of any of its own securities from non-affiliates under rule 42, and (iii) financing working capital requirements of NU and its subsidiaries.

The proposed transactions are subject to section 32 of the Act and rules 53 and 54. Except in accordance with the Act, neither NU nor any of its subsidiaries (a) has acquired an ownership interest in an EWG or a FUCO, as defined in sections 32 and 33 of the Act, or (b) now is or as a consequence of the transactions proposed will become a party to or has or will as a consequence of the transactions proposed have a right under a service, sales, or construction contract with an EWG or a FUCO. None of the proceeds from the transactions proposed will be used by NU and its subsidiaries to acquire any securities of, or any interest in, an EWG or a FUCO.

NU currently meets all of the conditions of rule 53(a), except for clause (1). At June 30, 2005, NU's "aggregate investment," as defined in rule 53(a)(1), in EWGs and FUCOs was approximately \$448.2 million, or approximately 59.4% of NU's average "consolidated retained earnings," also as defined in rule 53(a)(1). 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 have neither of the adverse effects set forth in rule 53(c). (See Holding Co. Act Release No. 27868A (July 2, 2004(("2004 Order"))). NU asserts that its EWG investments will not adversely affect the system. In addition, NU and its subsidiaries are in compliance and will continue to comply with the other provisions of rule 53(a) and (b).

The proposed transactions, 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 NU's public-utility customers. The 2004 Order was

predicated, in part, upon an assessment of NU's overall financial condition. The consolidated capitalization ratio of NU as of June 30, 2005 (excluding securitization debt) was common shareholder's equity, 38.6%; preferred stock, 2.1%; long-term and short-term debt, 59.3%.

NU's current EWG investment, NGC (it has no FUCO investment), has been profitable for all quarterly periods ending June 30, 2000, through June 30, 2005 (NGC was acquired in March 2000).

Other than this Commission, no other state or federal commission has jurisdiction over the proposed transactions.

The fees, commissions and expenses incurred or to be incurred in connection with the preparation and filing of this Declaration are estimated not to exceed \$10,000.

Due notice of the filing of this Amendment 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 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 Amendment (70-9755) of Northeast Utilities, *et al.*, as amended, be permitted to become effective immediately, 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