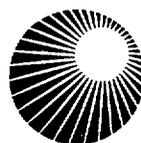


1999 Annual Report



**Public Service
of New Hampshire**

The Northeast Utilities System

Directors

David H. Boguslawski
Vice President—Energy
Delivery

John C. Collins
Chief Executive Officer
Dartmouth-Hitchcock Clinic

John H. Forsgren
Executive Vice President and
Chief Financial Officer
Northeast Utilities

William T. Frain, Jr.
President and
Chief Executive Officer

Gerald Letendre
President
Diamond Casting &
Machine Co., Inc.

Hugh C. MacKenzie
President—Retail Business
Group
Northeast Utilities

Michael G. Morris
Chairman of the Board,
President and Chief Executive
Officer
Northeast Utilities

Jane E. Newman
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The CommerceGroup, LLC

Executive Committee

of the Board of Directors

Michael G. Morris
Chairman

David H. Boguslawski

John H. Forsgren

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William T. Frain, Jr.
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Officers

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Chairman

William T. Frain, Jr.
President and
Chief Executive Officer

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Senior Vice President—PSNH

David H. Boguslawski
Vice President—Energy
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John B. Keane
Vice President—Generation
Divestiture

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Vice President and Treasurer

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Engineering and Operations

Paul E. Ramsey
Vice President—
Customer Operations

John J. Roman
Vice President and Controller

John P. Stack
Executive Director—Corporate
Accounting and Taxes

O. Kay Comendul
Secretary

Deborah L. Canyock
Assistant Controller—
Management Information and
Budgeting Services

Lori A. Mahler
Assistant Controller—
Accounting Services

William J. Starr
Assistant Controller—Taxes

Robert A. Bersak
Assistant Secretary

William J. Quinlan
Assistant Secretary

Randy A. Shoop
Assistant Treasury-Finance

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Public Service Company of New Hampshire

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition

Overview

Public Service Company of New Hampshire (PSNH or the company) is a wholly owned operating subsidiary of Northeast Utilities (NU) and is part of the Northeast Utilities system (NU system). North Atlantic Energy Corporation (NAEC) is another wholly owned subsidiary of NU. PSNH is obligated to purchase the capacity and output from NAEC's 35.98 percent joint ownership interest in the Seabrook Station (Seabrook) nuclear unit under the terms of two life-of-unit, full cost recovery contracts (Seabrook Power Contracts).

During 1999, PSNH made significant progress toward resolving industry restructuring issues in the state of New Hampshire by negotiating a global restructuring settlement that is still subject to regulatory approval. The "Agreement to Settle PSNH Restructuring" (Settlement Agreement) includes an after-tax write-off of \$225 million. However, that write-off was not recorded in 1999, as key aspects of the Settlement Agreement still required regulatory and legislative approval and it was not possible to determine the ultimate resolution of this matter at year end. Also, upon the approval and implementation of the Settlement Agreement, PSNH and NAEC will restructure the Seabrook Power Contracts to provide for the buydown of the value of the Seabrook Asset.

During 1999, PSNH's revenues increased to \$1.16 billion, up 6.7 percent from revenues of \$1.09 billion in 1998. During 1999, PSNH had net income of \$84.2 million, compared to \$91.7 million in 1998 and \$92.2 million in 1997.

Mergers

In 1998 and 1999, NU management concluded that the pace of deregulation was accelerating throughout the northeastern United States and that shareholders would benefit from NU not only remaining a major provider of electric transmission and distribution service, but also becoming an unregulated marketer of both electricity and natural gas. NU management also concluded that as a result of the changes occurring in the highly competitive electric utility industry, increased size would be crucial to achieve its objective of being a leading provider of energy products and services in the Northeast.

On October 13, 1999, NU announced an agreement to merge with Consolidated Edison, Inc. (Con Edison), a financially stronger utility based in New York. The merger will create the nation's largest electric distribution system with more than 5 million customers and one of the 15 largest natural gas distribution systems with 1.4 million customers.

NU and Con Edison filed with various state and federal regulatory bodies in January 2000 to secure approval of the merger. The two companies expect these regulatory proceedings can be completed by the end of July 2000.

Also in 1999, NU management concluded that the NU system would be stronger and customers could be better served if NU reentered the natural gas distribution business that it had exited in 1989 and examined several potential businesses in New England. By adding gas to NU's energy mix, NU will be able to broaden its services to its existing customers and will have additional opportunities for long-term growth. In June 1999, NU announced an agreement to merge with Yankee Energy System, Inc. (Yankee). The merger will return to NU, Connecticut's largest natural gas distribution system, as well as several unregulated businesses involved in energy services, collections and other areas. The Yankee merger received Yankee shareholder approval in October 1999, final Connecticut Department of Public Utility Control approval in December 1999 and Securities and Exchange Commission (SEC) approval in January 2000. The merger closed on March 1, 2000.

Liquidity

During 1999, net cash flows provided by operations were \$199.1 million, compared to \$217.6 million in 1998 and \$231.7 million in 1997. The decrease in 1999 is primarily related to a decrease in net income and increased tax payments.

Net cash flows used in financing activities included \$31.6 million in 1999, compared to \$204.3 million in 1998 and \$121.9 million in 1997. This included \$25 million paid in 1999 to retire long-term debt and preferred stock, compared to \$195 million in 1998 and \$25 million in 1997. Payments made for preferred stock dividends were \$6.6 million, \$9.3 million and \$11.9 million for 1999, 1998 and 1997, respectively. There were no cash dividends on common shares paid in 1999 and 1998 and \$85 million in 1997.

Including construction expenditures and investments in nuclear decommissioning trusts, net cash flows used in investing activities were \$45.8 million in 1999, compared to \$46.9 million in 1998 and \$16.3 million in 1997.

PSNH's access to capital also benefited from the continued progress toward the resolution of all restructuring issues in New Hampshire. During 1999, PSNH's securities received several upgrades from three credit rating agencies. PSNH's bonds were upgraded to investment grade by Standard & Poor's (S&P) for the first time since early 1994. At year end, all securities were under review for possible upgrades, or on "credit watch" with positive implications by S&P, Moody's Investors Service and Fitch IBCA.

PSNH's \$75 million revolving credit agreement was terminated on April 14, 1999. PSNH currently funds its operations through cash on hand and operating cash flows. As of December 31, 1999, PSNH had \$182.6 million of cash and cash equivalents. On April 14, 1999, PSNH

renewed bank letters of credit that support nearly \$110 million of taxable variable-rate pollution control bonds.

During 2000, pending the approval of the Settlement Agreement and enactment of legislation, PSNH hopes to begin the process of securitizing approximately \$725 million of approved stranded costs. Securitization involves issuing rate reduction bonds with interest rates lower than the company's weighted average cost of capital. Proceeds from securitization will be used to significantly reduce the capitalization of PSNH and other purposes as set forth in the Settlement Agreement.

Restructuring

The process of restructuring the electric utility industry in New Hampshire has not yet been resolved; however, significant progress has been made over the past year. In August 1999, NU, PSNH and the state of New Hampshire signed the Settlement Agreement which, once approved and implemented, will resolve a number of pending regulatory and court proceedings related to PSNH. The Settlement Agreement is awaiting approval of the New Hampshire Public Utilities Commission and is subject to legislative approval for securitization. Some of the key components of the agreement for PSNH include an after-tax write-off of \$225 million of stranded costs; the recovery of the remaining stranded costs; the securitization of \$725 million of approved stranded costs; a reduction in rates of an average of 18.3 percent; the opening of the New Hampshire electricity market to competition; and the sale of generation assets and wholesale power entitlements with transition service being available to customers for three years.

Upon the approval and implementation of the Settlement Agreement, PSNH and NAEC will restructure the Seabrook Power Contract to provide for the buydown of the value of NAEC's Seabrook asset to \$100 million. Subsequent to the contract buydown, NAEC will continue to bill PSNH for recovery of the remaining Seabrook cost of \$100 million. The Settlement Agreement also requires NAEC to sell via public auction its share of Seabrook, with the sale to occur no later than December 31, 2003. Upon a successful sale of NAEC's share of Seabrook, the existing Seabrook Power Contracts between PSNH and NAEC will be terminated. For further information regarding commitments and contingencies related to restructuring, see Note 10A, "Commitments and Contingencies - Restructuring" to the financial statements.

Nuclear Generation

Seabrook

Seabrook achieved an annual capacity factor of 86.4 percent in 1999. However, since returning to service on May 13, 1999, after a 48-day refueling and maintenance outage, Seabrook has achieved a 99 percent capacity factor through December 31, 1999. PSNH receives 35.98 percent of Seabrook's output under long-term contracts with NAEC.

NAEC anticipates auctioning its 35.98 percent share of Seabrook with the 4.06 percent owned by its affiliate, The Connecticut Light and Power Company, after approval of the Settlement Agreement.

Millstone 3

PSNH has a 2.85 percent ownership share of the Millstone 3 nuclear unit. Millstone 3 received the appropriate Nuclear Regulatory Commission approvals, resumed operation in July 1998 and achieved an annual capacity factor of 81.7 percent in 1999. After a 60-day refueling and maintenance outage, Millstone 3 returned to service on June 29, 1999, and has achieved a 98.1 percent capacity factor through December 31, 1999.

An auction of the NU system's ownership interests in the Millstone units is expected in 2000 with a closing in 2001. Based on regulatory decisions received in 1999, management expects to recover all of its remaining nuclear stranded costs from retail customers.

Yankee Companies

On June 1, 1999, the Federal Energy Regulatory Commission accepted the offer of settlement which was filed on January 15, 1999, by the Maine Yankee Atomic Power Company (MYAPC). The significant aspects of the settlement allowed MYAPC to collect \$33.1 million annually to pay for decommissioning and spent fuel, approved its return on equity of 6.5 percent, permitted full recovery of MYAPC's unamortized investment, including fuel, and set an incentive budget for decommissioning at \$436.3 million.

PSNH is a 4 percent shareholder and sponsor company of the Vermont Yankee Nuclear Power Corporation (VYNPC). On October 15, 1999, VYNPC agreed to sell its unit for \$22 million to an unaffiliated company. Among other commitments, the acquiring company agreed to assume the decommissioning cost of the unit after it is taken out of service, and the VYNPC owners have agreed to fund the uncollected decommissioning cost to a negotiated amount at the time of the closing of the sale. VYNPC's owners have also agreed either to enter into a new purchased-power agreement with the acquiring company or to buy out such future power payment obligations by making a fixed payment to them. PSNH has elected the buyout option. The VYNPC owners' obligations to close and pay such amounts are conditioned upon their receipt of satisfactory regulatory approval of the transaction, including provision for adequate recovery of these payments.

Nuclear Decommissioning

The staff of the SEC has questioned certain of the current accounting practices of the electric utility industry regarding the recognition, measurement and classification of decommissioning costs for nuclear units in their financial statements.

Currently, the Financial Accounting Standards Board plans to review the accounting for obligations associated with the retirement of long-lived assets, including the decommissioning of nuclear units. If current accounting practices for nuclear decommissioning change, the annual provision for decommissioning could increase relative to 1999, and the estimated cost for decommissioning could be recorded as a liability with recognition of an increase in the cost of the related nuclear unit. However, management does not believe that such a change will have a material impact on PSNH's financial statements due to its

current and future ability to recover decommissioning costs through rates.

Spent Nuclear Fuel Disposal Costs

The United States Department of Energy (DOE) originally was scheduled to begin accepting delivery of spent fuel in 1998. However, delays in confirming the suitability of a permanent storage site continually have postponed plans for the DOE's long-term storage and disposal site. Extended delays or a default by the DOE could lead to consideration of costly alternatives. PSNH has the primary responsibility for the interim storage of its share of spent nuclear fuel for Millstone 3. The facilities for Millstone 3 are expected to provide adequate storage for its projected life with the addition of new storage racks. Seabrook is expected to have spent fuel storage capacity until at least 2010. Meeting spent fuel storage requirements beyond these periods could require new and separate storage facilities. For further information regarding spent nuclear fuel disposal costs, see Note 10D, "Commitments and Contingencies - Spent Nuclear Fuel Disposal Costs," to the financial statements.

Other Matters

Environmental Matters

PSNH is subject to environmental laws and regulations structured to mitigate or remove the effect of past operations and to improve or maintain the quality of the environment. For further information regarding environmental matters, see Note 10C, "Commitments and Contingencies - Environmental Matters," to the financial statements.

Other Commitments and Contingencies

PSNH is subject to other commitments and contingencies primarily relating to nuclear litigation, nuclear insurance contingencies, its construction program, long-term contractual arrangements, the New England Power Pool generation pricing and its deferred receivable from an affiliate company. For further information regarding these other commitments and contingencies, see Note 10, "Commitments and Contingencies," to the financial statements.

Year 2000 Issues

The transition into the year 2000 was a success for the NU system and PSNH. Its mission to provide safe, reliable energy to its customers and to ensure continued operability of critical business functions was not affected by any year 2000 related issues.

The projected total cost of the year 2000 program is estimated at \$21 million for the NU system. The total cost to date was funded through operating cash flows. The NU system has incurred and expensed \$20 million related to year 2000 readiness efforts.

Forward Looking Statements

This discussion and analysis includes forward looking statements, which are statements of future expectations and not facts. Words such as *estimates, expects, anticipates, intends, plans,* and similar expressions identify forward looking statements. Actual results or outcomes could differ materially as a result of further actions by state and federal regulatory bodies, competition and industry restructuring, changes in economic conditions, changes in historical weather patterns, changes in laws, developments in legal or public policy doctrines, technological developments, and other presently unknown or unforeseen factors.

RESULTS OF OPERATIONS

The components of significant income statement variances for the past two years are provided in the table below.

Income Statement Variances (Millions of Dollars)

| | <u>1999 over/(under) 1998</u> | | <u>1998 over/(under) 1997</u> | |
|---|-------------------------------|----------------|-------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Operating Revenues | \$73 | 7% | \$(21) | (2)% |
| Operating Expenses: | | | | |
| Fuel, purchased and net interchange power | 86 | 14 | 44 | 8 |
| Other operation and maintenance | 11 | 7 | (2) | (1) |
| Depreciation | 2 | 5 | 1 | 2 |
| Amortization of regulatory assets, net | 8 | 30 | (30) | (53) |
| Federal and state income taxes | (31) | (44) | (16) | (18) |
| Taxes other than income taxes | - | - | (1) | (1) |
| Operating Income | (7) | (5) | (13) | (9) |
| Equity in earnings of regional nuclear generating companies | (2) | (58) | 1 | 93 |
| Other, net | (4) | (38) | 9 | (a) |
| Interest charges, net | (1) | (1) | (7) | (15) |
| Net Income | (7) | (8) | - | - |

(a) Percent greater than 100.

Operating Revenues

Operating revenues increased by \$73 million or 7 percent in 1999, primarily due to higher retail revenues (\$43 million), higher wholesale energy and capacity sales and transmission revenues (\$30 million). Retail kilowatt-hour sales increased by 5.3 percent.

Operating revenues decreased \$21 million in 1998, primarily due to the 1997 retail rate decrease. Retail kilowatt-hour sales were 2.3 percent higher for 1998 and contributed approximately \$9 million to operating revenues.

Fuel, Purchased and Net Interchange Power

Fuel, purchased and net interchange power expense increased in 1999, primarily due to higher purchased-power expenses (\$48 million) and higher deferred expenses (\$25 million) associated with the company's fuel clause and higher capacity costs for Seabrook (\$8 million). Seabrook's capacity costs are higher due to costs associated with the refueling outage in 1999 and the amortization of the return that was deferred by PSNH through November 1998.

Fuel, purchased and net interchange power expense increased in 1998, primarily due to higher costs associated with the Seabrook Power Contract as a result of the amortization of Seabrook phase-in costs that began in June 1998 (\$57 million), partially offset by lower costs at the Millstone 3 and Maine Yankee nuclear units (\$6 million).

Other Operation and Maintenance

Other operation and maintenance (O&M) expenses increased in 1999, primarily due to the recognition of environmental insurance proceeds which reduced O&M expense in 1998 (\$12 million), higher fossil maintenance expenses (\$3 million) and higher transmission expenses (\$2 million), partially offset by lower storm costs in 1999 (\$6 million).

Other O&M expenses decreased in 1998, primarily due to the recognition of environmental insurance proceeds (\$12 million), partially offset by higher costs related to the January ice storm, net of insurance proceeds (\$8 million).

Amortization of Regulatory Assets, Net

Amortization of regulatory assets, net increased in 1999, primarily due to an increase in the amortization of the Seabrook deferred return which began in June 1998. The reduction of the acquisition premium amortization (\$21 million) was offset by the completion of the amortization of net operating loss carryforwards (\$21 million).

Amortization of regulatory assets, net decreased in 1998, primarily due to the completion of the amortization of a portion of the company's acquisition premium (\$40 million), partially offset by the additional amortization of Seabrook phase-in costs (\$10 million).

Federal and State Income Taxes

Federal and state income taxes decreased in 1999, primarily due to the utilization of net operating loss carryforwards.

Federal and state income taxes decreased in 1998, primarily due to lower taxable income.

Equity Earnings of Regional Nuclear Generating Companies

Equity in earnings of regional nuclear generating companies decreased in 1999 and 1998, primarily due to lower earnings from the Connecticut Yankee Atomic Power Company.

Other, Net

Other, net decreased in 1999, primarily due to the settlement with the New Hampshire Electric Cooperative which required a \$6.2 million write-off.

Other, net increased in 1998, primarily due to the amortization of the taxes associated with the Seabrook phase-in costs which began in December 1997.

Interest Charge, Net

The change in interest charges, net in 1999 were not significant compared to 1998.

Interest charges, net decreased in 1998, primarily due to the maturity of bonds (\$170 million) in May 1998.

Public Service Company of New Hampshire

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
of Public Service Company of New Hampshire:

We have audited the accompanying balance sheets of Public Service Company of New Hampshire (a New Hampshire corporation and a wholly owned subsidiary of Northeast Utilities) as of December 31, 1999 and 1998, and the related statements of income, comprehensive income, common stockholder's equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Service Company of New Hampshire as of December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the company will continue as a going concern. As discussed in Note 10A, the company, Northeast Utilities, and the state of New Hampshire are involved in litigation regarding the proposed implementation of restructuring legislation. The restructuring legislation as currently contemplated would require the company to discontinue the application of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation". The discontinuance would result in the company being in technical default under its current financial covenants, which would, if not waived or renegotiated, give rise to the rights of lenders to accelerate the payment of approximately \$516 million of the company's indebtedness and approximately \$405 million of an affiliate's indebtedness. Although a settlement agreement on restructuring has been reached among the company, the state of New Hampshire, and others, implementation is subject to significant contingencies, including New Hampshire legislative, federal and state regulatory, and financial lender approvals. These conditions raise

Public Service Company of New Hampshire

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

substantial doubt about the company's ability to continue as a going concern. The financial statements referred to above do not include any adjustments that might result from the outcome of this uncertainty.

/s/ ARTHUR ANDERSEN LLP
ARTHUR ANDERSEN LLP

Hartford, Connecticut
January 25, 2000

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PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

STATEMENTS OF INCOME

| FOR THE YEARS ENDED DECEMBER 31, | 1999 | 1998 | 1997 |
|--|------------------------|--------------|--------------|
| | (Thousands of Dollars) | | |
| Operating Revenues..... | \$ 1,160,572 | \$ 1,087,247 | \$ 1,108,459 |
| Operating Expenses: | | | |
| Operation - | | | |
| Fuel, purchased and net interchange power..... | 691,743 | 605,518 | 561,197 |
| Other..... | 129,041 | 118,565 | 133,911 |
| Maintenance..... | 52,481 | 51,734 | 38,320 |
| Depreciation..... | 47,695 | 45,342 | 44,377 |
| Amortization of regulatory assets, net..... | 34,915 | 26,758 | 56,557 |
| Federal and state income taxes..... | 36,810 | 65,079 | 86,450 |
| Taxes other than income taxes..... | 43,282 | 43,052 | 43,623 |
| Total operating expenses..... | 1,035,967 | 956,048 | 964,435 |
| Operating Income..... | 124,605 | 131,199 | 144,024 |
| Other Income/(Loss): | | | |
| Equity in earnings of regional nuclear generating companies and subsidiary company..... | 1,112 | 2,649 | 1,373 |
| Other, net..... | 5,681 | 9,222 | 698 |
| Income taxes..... | (3,914) | (7,473) | (2,391) |
| Other income/(loss), net..... | 2,879 | 4,398 | (320) |
| Income before interest charges..... | 127,484 | 135,597 | 143,704 |
| Interest Charges: | | | |
| Interest on long-term debt..... | 42,728 | 43,317 | 51,259 |
| Other interest..... | 547 | 594 | 273 |
| Interest charges, net..... | 43,275 | 43,911 | 51,532 |
| Net Income..... | \$ 84,209 | \$ 91,686 | \$ 92,172 |

STATEMENTS OF COMPREHENSIVE INCOME

| | | | |
|---|-----------|-----------|-----------|
| Net Income..... | \$ 84,209 | \$ 91,686 | \$ 92,172 |
| Other comprehensive income, net of tax: | | | |
| Unrealized gains on securities..... | 70 | 1,198 | - |
| Minimum pension liability adjustments..... | - | (194) | - |
| Other comprehensive income, net of tax..... | 70 | 1,004 | - |
| Comprehensive Income..... | \$ 84,279 | \$ 92,690 | \$ 92,172 |

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

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

BALANCE SHEETS

| AT DECEMBER 31 | 1999 | 1998 |
|--|------------------------|------------------|
| | (Thousands of Dollars) | |
| ASSETS | | |
| ----- | | |
| Utility Plant, at cost: | | |
| Electric..... | \$ 1,939,856 | \$ 1,927,341 |
| Less: Accumulated provision for depreciation..... | 674,155 | 631,584 |
| | ----- | ----- |
| Unamortized acquisition costs..... | 1,265,701 | 1,295,757 |
| Construction work in progress..... | 324,437 | 352,855 |
| Nuclear fuel, net..... | 17,160 | 20,735 |
| | ----- | ----- |
| Nuclear fuel, net..... | 1,734 | 1,323 |
| Total net utility plant..... | ----- | ----- |
| | 1,609,032 | 1,670,670 |
| Other Property and Investments: | | |
| Nuclear decommissioning trusts, at market..... | 6,880 | 5,580 |
| Investments in regional nuclear generating companies and subsidiary company, at equity..... | 18,855 | 19,836 |
| Other, at cost..... | 3,149 | 4,319 |
| | ----- | ----- |
| | 28,884 | 29,735 |
| Current Assets: | | |
| Cash and cash equivalents..... | 182,588 | 60,885 |
| Receivables, less the accumulated provision for uncollectible accounts of \$1,359 in 1999 and and \$2,041 in 1998..... | 79,290 | 89,044 |
| Accounts receivable from affiliated companies..... | 9,091 | 12,018 |
| Taxes receivable from affiliated companies..... | 11,661 | - |
| Accrued utility revenues..... | 48,822 | 42,145 |
| Fuel, materials, and supplies, at average cost..... | 38,076 | 36,642 |
| Recoverable energy costs - current portion..... | 73,721 | 65,257 |
| Prepayments and other..... | 18,121 | 22,744 |
| | ----- | ----- |
| | 461,370 | 328,735 |
| Deferred Charges: | | |
| Regulatory assets..... | 490,921 | 610,222 |
| Deferred receivable from affiliated company..... | 12,984 | 22,728 |
| Unamortized debt expense..... | 11,896 | 13,995 |
| Other..... | 7,346 | 5,510 |
| | ----- | ----- |
| | 523,147 | 652,455 |
| | ----- | ----- |
| Total Assets..... | \$ 2,622,433 | \$ 2,681,595 |
| | ===== | ===== |

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

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

BALANCE SHEETS

| AT DECEMBER 31 | 1999 | 1998 |
|---|------------------------|---------------------|
| | (Thousands of Dollars) | |
| CAPITALIZATION AND LIABILITIES | | |
| Capitalization: | | |
| Common stock, \$1 par value - authorized 100,000,000 shares; 1,000 shares outstanding in 1999 and 1998..... | \$ 1 | \$ 1 |
| Capital surplus, paid in..... | 424,654 | 424,250 |
| Retained earnings..... | 319,938 | 252,912 |
| Accumulated other comprehensive income..... | 1,074 | 1,004 |
| Total common stockholder's equity..... | 745,667 | 678,167 |
| Preferred stock subject to mandatory redemption..... | 25,000 | 50,000 |
| Long-term debt..... | 516,485 | 516,485 |
| Total capitalization..... | 1,287,152 | 1,244,652 |
| Obligations Under Seabrook Power Contracts and Other Capital Leases..... | 624,477 | 703,411 |
| Current Liabilities: | | |
| Long-term debt and preferred stock - current portion.... | 25,000 | 25,000 |
| Obligations under Seabrook Power Contracts and other capital leases - current portion..... | 101,676 | 138,812 |
| Accounts payable..... | 38,685 | 26,227 |
| Accounts payable to affiliated companies..... | 38,229 | 28,410 |
| Accrued taxes..... | 33,443 | 82,743 |
| Accrued interest..... | 6,294 | 5,894 |
| Accrued pension benefits..... | 45,504 | 46,004 |
| Other..... | 10,184 | 8,540 |
| | 299,015 | 361,630 |
| Deferred Credits and Other Long-term Liabilities: | | |
| Accumulated deferred income taxes..... | 266,644 | 225,091 |
| Accumulated deferred investment tax credits..... | 12,532 | 3,460 |
| Deferred contractual obligations..... | 56,544 | 66,400 |
| Deferred revenue from affiliated company..... | 12,984 | 22,728 |
| Other..... | 63,085 | 54,223 |
| | 411,789 | 371,902 |
| Total Capitalization and Liabilities..... | \$ 2,622,433 | \$ 2,681,595 |

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

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

| | Common Stock | Capital Surplus, Paid In | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---------------------------------------|-----------------|--------------------------------|----------------------|---|------------|
| (Thousands of Dollars) | | | | | |
| Balance at January 1, 1997..... | \$ 1 | \$423,058 | \$175,254 | \$ - | \$ 598,313 |
| Net income for 1997..... | | | 92,172 | | 92,172 |
| Cash dividends on preferred stock.... | | | (11,925) | | (11,925) |
| Cash dividends on common stock..... | | | (85,000) | | (85,000) |
| Capital stock expenses, net..... | | 655 | | | 655 |
| Balance at December 31, 1997..... | 1 | 423,713 | 170,501 | - | 594,215 |
| Net income for 1998..... | | | 91,686 | | 91,686 |
| Cash dividends on preferred stock.... | | | (9,275) | | (9,275) |
| Capital stock expenses, net..... | | 537 | | | 537 |
| Other comprehensive income..... | | | | 1,004 | 1,004 |
| Balance at December 31, 1998..... | 1 | 424,250 | 252,912 | 1,004 | 678,167 |
| Net income for 1999..... | | | 84,209 | | 84,209 |
| Cash dividends on preferred stock.... | | | (6,625) | | (6,625) |
| Capital stock expenses, net..... | | 404 | | | 404 |
| Allocation of benefits - ESOP..... | | | (10,558) | | (10,558) |
| Other comprehensive income..... | | | | 70 | 70 |
| Balance at December 31, 1999..... | \$ 1 | \$424,654 | \$319,938 | \$ 1,074 | \$ 745,667 |

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

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

STATEMENTS OF CASH FLOWS

| (Thousands of Dollars) | For the Years Ended December 31, | | |
|--|----------------------------------|-------------|-----------|
| | 1999 | 1998 | 1997 |
| Operating Activities: | | | |
| Net income..... | \$ 84,209 | \$ 91,686 | \$ 92,172 |
| Adjustments to reconcile to net cash provided by operating activities: | | | |
| Depreciation..... | 47,695 | 45,342 | 44,377 |
| Deferred income taxes and investment tax credits, net..... | (5,297) | 78,366 | 21,645 |
| Amortization of recoverable energy costs, net..... | 27,065 | 2,065 | (12,336) |
| Amortization of regulatory assets, net..... | 34,915 | 26,758 | 56,557 |
| Amortization/(deferral) of Seabrook capital costs..... | 16,920 | (31,587) | (8,376) |
| Allocation of ESOP benefits..... | (10,558) | - | - |
| Other sources/(uses) of cash..... | 32,117 | (20,360) | (17,536) |
| Changes in working capital: | | | |
| Receivables and accrued utility revenues..... | 6,004 | 21,536 | 9,407 |
| Fuel, materials and supplies..... | (1,434) | 3,519 | 4,691 |
| Accounts payable..... | 22,277 | 729 | (14,897) |
| Accrued taxes..... | (49,300) | 13,298 | 69,364 |
| Other working capital (excludes cash)..... | (5,494) | (13,710) | (13,365) |
| Net cash flows provided by operating activities..... | 199,119 | 217,642 | 231,703 |
| Financing Activities: | | | |
| Reacquisitions and retirements of long-term debt..... | - | (170,000) | - |
| Reacquisitions and retirements of preferred stock..... | (25,000) | (25,000) | (25,000) |
| Cash dividends on preferred stock..... | (6,625) | (9,275) | (11,925) |
| Cash dividends on common stock..... | - | - | (85,000) |
| Net cash flows used in financing activities..... | (31,625) | (204,275) | (121,925) |
| Investing Activities: | | | |
| Investment in plant: | | | |
| Electric utility plant..... | (46,096) | (43,780) | (33,570) |
| Nuclear fuel..... | (1,168) | (307) | 5 |
| Net cash flows used for investments in plant..... | (47,264) | (44,087) | (33,565) |
| Investment in NU system Money Pool..... | - | - | 18,250 |
| Investment in nuclear decommissioning trusts..... | (678) | (641) | (490) |
| Other investment activities, net..... | 2,151 | (2,213) | (529) |
| Net cash flows used in investing activities..... | (45,791) | (46,941) | (16,334) |
| Net increase/(decrease) in cash for the period..... | 121,703 | (33,574) | 93,444 |
| Cash and cash equivalents - beginning of period..... | 60,885 | 94,459 | 1,015 |
| Cash and cash equivalents - end of period..... | \$ 182,588 | \$ 60,885 | \$ 94,459 |
| Supplemental Cash Flow Information: | | | |
| Cash paid during the year for: | | | |
| Interest, net of amounts capitalized..... | \$ 39,895 | \$ 42,677 | \$ 51,775 |
| Income taxes..... | \$ 38,511 | \$ 18,948 | \$ 10,612 |
| (Decrease)/increase in obligations: | | | |
| Seabrook Power Contracts..... | \$ (115,065) | \$ (78,939) | \$ 6,197 |

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. About Public Service Company of New Hampshire

Public Service Company of New Hampshire (PSNH or the company) along with The Connecticut Light and Power Company (CL&P), Western Massachusetts Electric Company (WMECO), North Atlantic Energy Corporation (NAEC), and Holyoke Water Power Company (HWP) are the operating companies comprising the Northeast Utilities system (NU system) and are wholly owned by Northeast Utilities (NU). The NU system serves in excess of 30 percent of New England's electric needs and is one of the 20 largest electric utility systems in the country as measured by revenues. The NU system furnishes franchised retail electric service in New Hampshire, Connecticut, and western Massachusetts through PSNH, CL&P and WMECO. NAEC sells all of its entitlement to the capacity and output of Seabrook Station (Seabrook) nuclear unit to PSNH under the terms of two life-of-unit, full cost recovery contracts (Seabrook Power Contracts). HWP, also is engaged in the production and distribution of electric power.

NU is registered with the Securities and Exchange Commission (SEC) as a holding company under the Public Utility Holding Company Act of 1935 (1935 Act) and the NU system, including PSNH, is subject to provisions of the 1935 Act. Arrangements among the NU system companies, outside agencies and other utilities covering interconnections, interchange of electric power and sales of utility property are subject to regulation by the Federal Energy Regulatory Commission (FERC) and/or the SEC. PSNH is subject to further regulation for rates, accounting and other matters by the FERC and/or applicable state regulatory commissions.

Several wholly owned subsidiaries of NU provide support services for the NU system companies including PSNH, and, in some cases, for other New England utilities. Northeast Utilities Service Company (NUSCO) provides centralized accounting, administrative, information resources, engineering, financial, legal, operational, planning, purchasing, and other services to the NU system companies, including PSNH. Northeast Nuclear Energy Company acts as agent for the NU system companies and other New England utilities in operating the Millstone nuclear units. North Atlantic Energy Service Corporation has operational responsibility for Seabrook.

On October 13, 1999, NU and Consolidated Edison, Inc. (Con Edison) announced that they have agreed to a merger to combine the two companies. For further information, see Note 14, "Merger Agreement with Con Edison."

NOTES TO FINANCIAL STATEMENTS

B. Presentation

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain reclassifications of prior years' data have been made to conform with the current year's presentation.

All transactions among affiliated companies are on a recovery of cost basis which may include amounts representing a return on equity and are subject to approval by various federal and state regulatory agencies.

C. New Accounting Standards

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities. This statement will require derivative instruments utilized by the NU system companies to be recognized as assets or liabilities at fair value.

In June 1999, the FASB delayed the adoption date of SFAS No. 133 until January 1, 2001.

There may be an impact on earnings upon adoption of SFAS No. 133 which management has not estimated at this time.

D. Investments and Jointly Owned Electric Utility Plant

Regional Nuclear Generating Companies: PSNH owns common stock in four regional nuclear companies (Yankee Companies). PSNH's ownership interests in the Yankee Companies at December 31, 1999 and 1998, which are accounted for on the equity basis due to PSNH's ability to exercise significant influence over their operating and financial policies are 5 percent of the Connecticut Yankee Atomic Power Company (CYAPC), 7 percent of the Yankee Atomic Electric Company (YAEC), 5 percent of Maine Yankee Atomic Power Company (MYAPC), and 4 percent of Vermont Yankee Nuclear Power Corporation (VYNPC). PSNH's total equity investment in the Yankee Companies at December 31, 1999 and 1998 is \$12.3 million and \$13.4 million, respectively. Each Yankee Company owns a single nuclear generating unit. However, VYNPC is the only unit still in operation at December 31, 1999.

Millstone: PSNH has a 2.85 percent joint ownership interest in Millstone 3, a 1,154 megawatt (MW) nuclear generating unit. At December 31, 1999 and 1998, plant-in-service included \$119.3 million and \$118.8 million, respectively, and the accumulated

NOTES TO FINANCIAL STATEMENTS

provision for depreciation included \$39 million and \$35.5 million, respectively, related to PSNH's share of Millstone 3.

Wyman Unit 4: PSNH has a 3.14 percent ownership interest in Wyman Unit 4, a 632 MW oil-fired generating unit. At December 31, 1999 and 1998, plant-in-service included \$6.1 million in each year and the accumulated provision for depreciation included \$4.2 million and \$4 million, respectively.

E. Depreciation

The provision for depreciation is calculated using the straight-line method based on estimated remaining useful lives of depreciable utility plant-in-service, adjusted for salvage value and removal costs, as approved by the appropriate regulatory agency where applicable. Except for major facilities, depreciation rates are applied to the average plant-in-service during the period. Major facilities are depreciated from the time they are placed in service. When plant is retired from service, the original cost of plant, including costs of removal, less salvage, is charged to the accumulated provision for depreciation. The costs of closure and removal of nonnuclear facilities are accrued over the life of the plant as a component of depreciation. The depreciation rates for the several classes of electric plant-in-service are equivalent to a composite rate of 3.7 percent in 1999, 3.6 percent in 1998 and 3.7 percent in 1997.

At December 31, 1999 and 1998, the accumulated provision for depreciation included \$40.4 million and \$37.3 million, respectively, accrued for the cost of removal, net of salvage, for nonnuclear generation property.

F. Revenues

Revenues are based on authorized rates applied to each customer's use of electricity. In general, rates can be changed only through a formal proceeding before the appropriate regulatory commission. Regulatory commissions also have authority over the terms and conditions of nontraditional rate-making arrangements. At the end of each accounting period, PSNH accrues a revenue estimate for the amount of energy delivered but unbilled.

G. PSNH Acquisition Costs

PSNH acquisition costs represent the aggregate value placed by the 1989 Rate Agreement with the state of New Hampshire (Rate Agreement) on PSNH's assets in excess of the net book value of PSNH's non-Seabrook assets, plus the \$700 million value assigned to Seabrook by the Rate Agreement as part of the bankruptcy resolution on June 5, 1992, (Acquisition Date). The Rate Agreement provides for the recovery through rates, with a return, of the PSNH acquisition costs. The unrecovered balance was \$324.4 million and \$352.9 million, at December 31, 1999 and 1998, respectively, and is being recovered ratably over a 20-year

NOTES TO FINANCIAL STATEMENTS

period ending May 1, 2011, in accordance with the Rate Agreement. Through December 31, 1999 and 1998, \$668 million and \$640 million, respectively, have been collected.

H. Regulatory Accounting and Assets

The accounting policies of PSNH and the accompanying financial statements conform to generally accepted accounting principles applicable to rate-regulated enterprises and reflect the effects of the rate-making process in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." Assuming a cost-of-service based regulatory structure, regulators may permit incurred costs, normally treated as expenses, to be deferred and recovered through future revenues. Through their actions, regulators may also reduce or eliminate the value of an asset, or create a liability. If any portion of PSNH's operations were no longer subject to the provisions of SFAS No. 71, PSNH would be required to write off all of its related regulatory assets and liabilities, unless there is a formal transition plan that provides for the recovery, through established rates, for the collection of these costs through a portion of the business which would remain regulated on a cost-of-service basis. At the time of transition, PSNH would be required to determine any impairment to the carrying costs of deregulated plant and inventory assets.

Based on a current evaluation of the various factors and conditions that are expected to impact future cost recovery, management continues to believe it is probable that PSNH will recover its investments in long-lived assets, including regulatory assets. In addition, all material regulatory assets are earning a return. The components of PSNH's regulatory assets are as follows:

| At December 31, | 1999 | 1998 |
|---|-----------------------|----------------|
| | (Millions of Dollars) | |
| Recoverable energy costs, net | \$120.7 | \$156.3 |
| Income taxes, net | 166.2 | 139.7 |
| Unrecovered contractual obligations ... | 56.5 | 66.4 |
| Deferred costs - nuclear plants | 144.4 | 244.6 |
| Other | <u>3.1</u> | <u>3.2</u> |
| | <u>\$490.9</u> | <u>\$610.2</u> |

At this time, management continues to believe that the application of SFAS No. 71 for PSNH remains appropriate. If the "Agreement to Settle PSNH Restructuring" (Settlement Agreement), as filed, is approved by the New Hampshire Public Utilities Commission (NHPUC) and implemented, then PSNH will discontinue the application of SFAS No. 71 for the generation portion of its business and record an after-tax write-off of \$225 million. Additionally, PSNH will make a payment to NAEC to buydown the Seabrook Power Contracts to \$100 million.

NOTES TO FINANCIAL STATEMENTS

PSNH's transmission and distribution business will continue to be rate-regulated on a cost-of-service basis as the Settlement Agreement allows for the recovery of the remaining regulatory assets through that portion of the business.

I. Income Taxes

The tax effect of temporary differences (differences between the periods in which transactions affect income in the financial statements and the periods in which they affect the determination of taxable income) is accounted for in accordance with the rate-making treatment of the applicable regulatory commissions.

The tax effect of temporary differences, including timing differences accrued under previously approved accounting standards, that give rise to the accumulated deferred tax obligation is as follows:

| At December 31, | 1999 | 1998 |
|--|-----------------------|----------------|
| | (Millions of Dollars) | |
| Accelerated depreciation and other plant-related differences | \$102.4 | \$100.8 |
| Net operating loss carryforwards | - | (25.6) |
| Regulatory assets - income tax gross up | 62.0 | 52.4 |
| Other | <u>102.2</u> | <u>97.5</u> |
| | <u>\$266.6</u> | <u>\$225.1</u> |

As of December 31, 1999, PSNH had an Investment Tax Credit carryforward of \$23 million, which if unused, expires in 2004.

J. Recoverable Energy Costs

Under the Energy Policy Act of 1992 (Energy Act), PSNH is assessed for its proportionate share of the costs of decontaminating and decommissioning uranium enrichment plants owned by the United States Department of Energy (DOE) (D&D Assessment). The Energy Act requires that regulators treat D&D Assessments as a reasonable and necessary current cost of fuel, to be fully recovered in rates like any other fuel cost. PSNH is currently recovering these costs through rates. As of December 31, 1999 and 1998, PSNH's total D&D deferrals were approximately \$0.2 million in each year.

The Rate Agreement includes a fuel and purchased-power adjustment clause (FPPAC) permitting PSNH to pass through to retail customers, for a 10-year period that began in May 1991, the retail portion of differences between the fuel and purchased-power costs assumed in the Rate Agreement and PSNH's

NOTES TO FINANCIAL STATEMENTS

actual costs, which include the costs related to the Seabrook Power Contracts and the Clean Air Act Amendment. The cost components of the FPPAC are subject to a prudence review by the NHPUC. At December 31, 1999 and 1998, PSNH had \$120.5 million and \$156 million, respectively, of noncurrent recoverable energy costs deferred under the FPPAC. If the Settlement Agreement is approved, these FPPAC costs will be recovered through a transition charge.

In addition, under the Rate Agreement, charges made by NAEC through the Seabrook Power Contracts, including the deferred Seabrook capital expenses, are to be collected by PSNH through the FPPAC. Beginning on June 1, 1998, the Seabrook deferred capital expenses began to be recovered over a 36-month period.

K. Deferred Costs - Nuclear Plants

Under the Rate Agreement, the plant costs of Seabrook were phased into rates over a 7-year period beginning May 15, 1991. Total costs deferred under the phase-in plan were \$288 million. This plan is accounted for in compliance with SFAS No. 92, "Regulated Enterprises - Accounting for Phase-In Plans." The Rate Agreement provides for these costs to be fully recovered from PSNH's customers by May 2001.

L. Unrecovered Contractual Obligations

Under the terms of contracts with the Yankee companies, the shareholder-sponsor companies, including PSNH, are each responsible for their proportionate share of the remaining costs of the units, including decommissioning. As management expects that PSNH will be allowed to recover these costs from its customers, PSNH has recorded a regulatory asset, with a corresponding obligation on its balance sheet.

M. Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand and short-term cash investments which are highly liquid in nature and have original maturities of three months or less.

2. SEABROOK POWER CONTRACTS

PSNH and NAEC have entered into two power contracts that obligate PSNH to purchase NAEC's 35.98 percent ownership of the capacity and output of Seabrook for the term of Seabrook's operating license. Under these power contracts, PSNH is obligated to pay NAEC's cost of service during this period, regardless of whether Seabrook is operating. NAEC's cost of service includes all of its Seabrook-related costs, including operation and maintenance (O&M) expenses, fuel expense, income and property tax expense, depreciation expense, certain overhead and other costs, and a return on its allowed investment.

NOTES TO FINANCIAL STATEMENTS

In August 1999, NU, PSNH and the state of New Hampshire signed the Settlement Agreement which, once approved and implemented, will resolve a number of pending regulatory and court proceedings related to PSNH. The Settlement Agreement is awaiting approval of the NHPUC and is subject to legislative approval for the issuance of rate reduction bonds (securitization). The Settlement Agreement also requires NAEC to sell via public auction its share of Seabrook, with the sale to occur no later than December 31, 2003. Upon the approval and implementation of the Settlement Agreement, PSNH and NAEC will restructure the power contracts to provide for the buydown of the value of the Seabrook asset to \$100 million. Upon a successful sale of NAEC's share of Seabrook, the existing Seabrook Power Contracts between PSNH and NAEC will be terminated. However, PSNH will continue to be responsible for funding NAEC's ownership share of Seabrook's decommissioning liability.

Currently, PSNH has included its right to buy power from NAEC on its balance sheet as part of utility plant and regulatory assets with a corresponding obligation. At December 31, 1999, this right to buy power was valued at \$723.1 million.

Under the current Seabrook Power Contracts, if Seabrook is shut down prior to the expiration of its operating license, PSNH will be unconditionally required to pay NAEC termination costs for 39 years, less the period during which Seabrook has operated. These termination costs will reimburse NAEC for its share of Seabrook shut-down and decommissioning costs, and will pay NAEC a return of and on any undepreciated balance of its initial investment over the remaining term of the power contracts, and the return of and on any capital additions to the plant made after the Acquisition Date over a period of five years after shut down (net of any tax benefits to NAEC attributable to the cancellation).

Contract payments charged to operating expenses in 1999, 1998 and 1997 were \$280 million, \$272 million and \$188 million, respectively. Interest included in the contract payments in 1999, 1998 and 1997 was \$49 million, \$54 million and \$57 million, respectively.

NOTES TO FINANCIAL STATEMENTS

Future minimum payments, excluding executory costs, such as property taxes, state use taxes, insurance and maintenance, under the terms of the contracts, as of December 31, 1999, were approximately:

| <u>Year</u> | <u>Seabrook Power Contracts</u> (Millions of Dollars) |
|---|--|
| 2000 | \$ 193.0 |
| 2001 | 116.8 |
| 2002 | 77.5 |
| 2003 | 75.2 |
| 2004 | 72.9 |
| After 2005 | <u>1,006.8</u> |
| Future minimum payments | 1,542.2 |
| Less amount representing interest | <u>819.1</u> |
| Present value of Seabrook Power Contracts payments | <u>\$ 723.1</u> |

3. LEASES

PSNH has entered into lease agreements, some of which are capital leases, for the use of data processing and office equipment, vehicles and office space. The provisions of these lease agreements generally provide for renewal options.

Capital lease rental payments charged to operating expense were \$1.5 million in 1999 and \$1.6 million in 1998 and 1997. Interest included in capital lease rental payments was \$0.4 million in 1999, \$0.2 million in 1998 and \$0.3 million in 1997. Operating lease rental payments charged to expense were \$3.1 million in 1999, \$5.4 million in 1998 and \$5.7 million in 1997.

Public Service Company of New Hampshire

NOTES TO FINANCIAL STATEMENTS

Future minimum rental payments, excluding executory costs such as property taxes, state use taxes, insurance and maintenance, under long-term noncancelable leases, as of December 31, 1999, are:

| Year | Capital Leases | Operating Leases |
|--|-----------------------|------------------|
| | (Millions of Dollars) | |
| 2000 | \$1.2 | \$ 7.6 |
| 2001 | 1.2 | 7.1 |
| 2002 | 0.4 | 4.4 |
| 2003 | 0.4 | 3.0 |
| 2004 | 0.4 | 2.5 |
| After 2004 | <u>1.1</u> | <u>3.9</u> |
| Future minimum lease payments | 4.7 | <u>\$28.5</u> |
| Less amount representing interest . | <u>1.7</u> | |
| Present value of future minimum lease payments | <u>\$3.0</u> | |

4. NUCLEAR DECOMMISSIONING AND PLANT CLOSURE COSTS

Millstone and Seabrook: Under the terms of the Rate Agreement, PSNH is obligated to pay NAEC's share of Seabrook's decommissioning costs, even if the unit is shut down prior to the expiration of its operating license. Accordingly, NAEC bills PSNH directly for its share of the costs of decommissioning Seabrook. PSNH records its Seabrook decommissioning costs as a component of purchased-power expense. Under the Rate Agreement, these costs are recovered through base rates. The Seabrook decommissioning costs will continue to be increased annually by its respective escalation rates until the unit is sold. Under New Hampshire law, Seabrook decommissioning funding requirements are set by the New Hampshire Nuclear Decommissioning Financing Committee (NDFC). During April 1999, the NDFC issued an order that adjusted the decommissioning collection period and funding levels assuming that Seabrook's anticipated energy producing life was 25 years from the date it went into commercial operation. Decommissioning collections are now expected to be completed by October 2015, as opposed to 2026, for the decommissioning collection period only. The cost of funding decommissioning Seabrook is now accrued over the estimated remaining accelerated funding period that was ordered by the NDFC. This is eleven years earlier than the service life established by Seabrook's Nuclear Regulatory Commission's operating license.

Millstone 3 and Seabrook's service lives are expected to end during the years 2025 and 2026, respectively, and upon retirement, must be decommissioned. Current decommissioning studies conclude that complete and immediate dismantlement as soon as practical after

NOTES TO FINANCIAL STATEMENTS

retirement continues to be the most viable and economic method of decommissioning a unit. These studies are reviewed and updated periodically to reflect changes in decommissioning requirements, costs, technology, and inflation. Changes in requirements or technology, the timing of funding or dismantling or adoption of a decommissioning method other than immediate dismantlement would change decommissioning cost estimates and the amounts required to be recovered. PSNH attempts to recover sufficient amounts through its allowed rates to cover its expected decommissioning costs.

PSNH's ownership share of the estimated cost of decommissioning Millstone 3 and NAEC's ownership share of Seabrook, in year end 1999 dollars, is \$17.6 million and \$203.3 million, respectively. Nuclear decommissioning costs are accrued over the expected service life of Millstone 3 and are included in depreciation expense. Nuclear decommissioning expenses for PSNH's ownership share of Millstone 3 amounted to \$0.5 million in 1999 and \$0.4 million in 1998 and 1997. Nuclear decommissioning, as a cost of removal, is included in the accumulated provision for depreciation.

External decommissioning trusts have been established for the costs of decommissioning the Millstone units. PSNH payments for NAEC's ownership share of the cost of decommissioning Seabrook are paid by NAEC to an independent decommissioning financing fund managed by the state of New Hampshire. Funding of the estimated decommissioning costs assumes leveled collections for the Millstone units and escalated collections for Seabrook and after-tax earnings on the Millstone and Seabrook decommissioning funds of 5.5 percent and 6.5 percent, respectively.

As of December 31, 1999 and 1998, PSNH collected a total of \$3.5 million and \$3 million, respectively, through rates toward the future decommissioning costs of its share of Millstone 3, all of which have been transferred to external decommissioning trusts. As of December 31, 1999 and 1998, NAEC has paid approximately \$32.7 million and \$25.6 million (including payments made prior to the Acquisition Date by PSNH) into Seabrook's decommissioning fund. Earnings on the decommissioning trusts increase the decommissioning trust balances and the accumulated reserves for depreciation. Unrealized gains and losses associated with the decommissioning trusts and financing funds also impact the balance of the trusts and the accumulated reserve for depreciation. The fair values of the amounts in the external decommissioning trusts for Millstone 3 were \$6.9 million and \$5.6 million for 1999 and 1998, respectively.

Yankee Companies: VYNPC owns and operates a nuclear generating unit with a service life that is expected to end in 2012. PSNH's ownership share of estimated costs, in year end 1999 dollars, of decommissioning this unit is \$17.2 million. On October 15, 1999, VYNPC agreed to sell the unit for \$22 million to an unaffiliated company. Among other commitments, the acquiring company agreed to assume the decommissioning cost of the unit after it is taken out of service, and the VYNPC owners have agreed to fund the uncollected

NOTES TO FINANCIAL STATEMENTS

decommissioning cost to a negotiated amount at the time of the closing of the sale.

As of December 31, 1999 and 1998, PSNH's remaining estimated obligation, including decommissioning for the units owned by CYAPC, YAEC and MYAPC, which have been shut down, was \$56.5 million and \$66.4 million, respectively.

5. **SHORT-TERM DEBT**

Limits: PSNH is authorized under an order of the NHPUC to incur short-term borrowings up to a maximum of \$68.3 million.

Money Pool: Certain subsidiaries of NU, including PSNH, are members of the Northeast Utilities System Money Pool (Pool). The Pool provides a more efficient use of the cash resources of the NU system and reduces outside short-term borrowings. NUSCO administers the Pool as agent for the member companies. Short-term borrowing needs of the member companies are first met with available funds of other member companies, including funds borrowed by NU parent. NU parent may lend to the Pool but may not borrow. Funds may be withdrawn from or repaid to the Pool at any time without prior notice. Investing and borrowing subsidiaries receive or pay interest based on the average daily federal funds rate. Borrowings based on loans from NU parent, however, bear interest at NU parent's cost and must be repaid based upon the terms of NU parent's original borrowing. At December 31, 1999 and 1998, PSNH had no outstanding borrowings from the Pool. Due to the conditions placed on PSNH by lenders and the NHPUC during April 1998, PSNH is presently restricted from lending money to the Pool. Maturities of short-term debt obligations were for periods of three months or less.

6. **PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION**

Details of preferred stock subject to mandatory redemption are:

| Description | Shares | | December 31, | |
|---|-------------|-------------------|---------------|---------------|
| | Outstanding | December 31, 1999 | 1999 | 1998 |
| (Millions of Dollars) | | | | |
| 10.60% Series A of 1991 | 2,000,000 | | \$50.0 | \$75.0 |
| Less preferred stock to be redeemed within one year.... | 1,000,000 | | <u>25.0</u> | <u>25.0</u> |
| | | | <u>\$25.0</u> | <u>\$50.0</u> |

The Series A preferred stock is not subject to optional redemption by PSNH. It is subject to an annual sinking fund requirement of \$25 million each year, which began on June 30, 1997, sufficient to retire annually 1,000,000 shares at \$25 per share. In case of default on dividends or sinking fund payments, no payments may be

Public Service Company of New Hampshire

NOTES TO FINANCIAL STATEMENTS

made on any junior stock by way of dividends or otherwise (other than in shares of junior stock) so long as the default continues. If PSNH is in arrears in the payment of dividends on any outstanding shares of preferred stock, PSNH would be prohibited from redeeming or purchasing less than all of the outstanding preferred stock.

7. LONG-TERM DEBT

Details of long-term debt outstanding are:

| At December 31, | 1999 | 1998 |
|---|-----------------------|----------------|
| | (Millions of Dollars) | |
| Pollution Control Revenue Bonds: | | |
| 7.65% Tax-Exempt Series A, due 2021.... | \$ 66.0 | \$ 66.0 |
| 7.50% Tax-Exempt Series B, due 2021.... | 109.0 | 109.0 |
| 7.65% Tax-Exempt Series C, due 2021.... | 112.5 | 112.5 |
| 6.00% Tax-Exempt Series D, due 2021.... | 75.0 | 75.0 |
| 6.00% Tax-Exempt Series E, due 2021.... | 44.8 | 44.8 |
| Adjustable Rate, Series D, due 2021 (a) | 39.5 | 39.5 |
| Adjustable Rate, Series E, due 2021 (a) | <u>69.7</u> | <u>69.7</u> |
| Long-term debt | <u>\$516.5</u> | <u>\$516.5</u> |

(a) On April 14, 1999, PSNH renewed bank letters of credit that support nearly \$110 million of taxable variable-rate pollution control bonds.

There are no cash sinking fund requirements or debt maturities for the years 2000 through 2004. There are annual renewal and replacement fund requirements equal to 2.25 percent of the average of net depreciable utility property owned by PSNH at the reorganization date, plus cumulative gross property additions thereafter. PSNH expects to meet these future fund requirements by certifying property additions. Any deficiency would need to be satisfied by the deposit of cash or bonds.

Concurrent with the issuance of PSNH's Series A and B first mortgage bonds, PSNH entered into financing arrangements with the Business Finance Authority of the State of New Hampshire (BFA). Pursuant to these arrangements, the BFA issued seven series of Pollution Control Revenue Bonds (PCRBS) and loaned the proceeds to PSNH. PSNH's obligation to repay each series of PCRBS is secured by the first mortgage bonds. Each such series of first mortgage bonds contains similar terms and provisions as the applicable series of PCRBS. For financial reporting purposes, these bonds would not be considered outstanding unless PSNH failed to meet its obligations under the PCRBS.

The average effective interest rates on the variable-rate pollution control notes ranged from 2.2 percent to 6.1 percent in 1999 and from 3.1 percent to 5.6 percent in 1998.

Public Service Company of New Hampshire

NOTES TO FINANCIAL STATEMENTS

8. INCOME TAX EXPENSE

The components of the federal and state income tax provisions were charged/(credited) to operations as follows:

| For the Years Ended December 31, | 1999 | 1998 | 1997 |
|----------------------------------|-----------------------|---------------|---------------|
| | (Millions of Dollars) | | |
| Current income taxes: | | | |
| Federal..... | \$41.4 | \$(6.6) | \$67.1 |
| State..... | <u>4.6</u> | <u>0.8</u> | <u>0.1</u> |
| Total current..... | <u>46.0</u> | <u>(5.8)</u> | <u>67.2</u> |
| Deferred income taxes, net: | | | |
| Federal..... | 4.6 | 78.0 | 21.0 |
| State..... | <u>(2.2)</u> | <u>0.9</u> | <u>1.2</u> |
| Total deferred | <u>2.4</u> | <u>78.9</u> | <u>22.2</u> |
| Investment tax credits, net..... | <u>(7.7)</u> | <u>(0.5)</u> | <u>(0.5)</u> |
| Total income tax expense..... | <u>\$40.7</u> | <u>\$72.6</u> | <u>\$88.9</u> |

The components of total income tax expense are classified as follows:

| For the Years Ended December 31, | 1999 | 1998 | 1997 |
|----------------------------------|-----------------------|---------------|---------------|
| | (Millions of Dollars) | | |
| Income taxes charged to | | | |
| operating expenses..... | \$36.8 | \$65.1 | \$86.5 |
| Other income taxes..... | <u>3.9</u> | <u>7.5</u> | <u>2.4</u> |
| Total income tax expense..... | <u>\$40.7</u> | <u>\$72.6</u> | <u>\$88.9</u> |

Deferred income taxes are comprised of the tax effects of temporary differences as follows:

| For the Years Ended December 31, | 1999 | 1998 | 1997 |
|----------------------------------|-----------------------|----------------|---------------|
| | (Millions of Dollars) | | |
| Depreciation..... | \$ (6.5) | \$(12.1) | \$(1.9) |
| Regulatory deferral..... | (12.6) | 22.6 | 28.3 |
| State net operating loss | | | |
| carryforward..... | 29.5 | 69.2 | - |
| Regulatory disallowance..... | (2.3) | - | - |
| Contractual settlements..... | (6.7) | - | - |
| Other..... | <u>1.0</u> | <u>(0.8)</u> | <u>(4.2)</u> |
| Deferred income taxes, net..... | <u>\$ 2.4</u> | <u>\$ 78.9</u> | <u>\$22.2</u> |

NOTES TO FINANCIAL STATEMENTS

A reconciliation between income tax expense and the expected tax expense at 35 percent of pretax income is as follows:

| For the Years Ended December 31, | 1999 | 1998 | 1997 |
|---|-----------------------|---------------|---------------|
| | (Millions of Dollars) | | |
| Expected federal income tax | \$43.7 | \$57.5 | \$63.4 |
| Tax effect on differences: | | | |
| Depreciation..... | 0.9 | (2.2) | 1.1 |
| Amortization of regulatory assets..... | 9.9 | 17.3 | 31.3 |
| Investment tax credit amortization..... | (7.7) | (0.5) | (0.5) |
| State income taxes, net of federal benefit..... | 1.6 | 1.0 | 0.8 |
| Adjustment for prior years' taxes... | - | (0.9) | (0.6) |
| Adjustment to tax asset valuation allowance..... | (7.4) | - | - |
| Other, net..... | <u>(0.3)</u> | <u>0.4</u> | <u>(6.6)</u> |
| Total income tax expense..... | <u>\$40.7</u> | <u>\$72.6</u> | <u>\$88.9</u> |

9. EMPLOYEE BENEFITS

A. Pension Benefits and Postretirement Benefits

Other Than Pensions

The NU system's subsidiaries, including PSNH, participate in a uniform noncontributory defined benefit retirement plan covering substantially all regular NU system employees. Benefits are based on years of service and employees' highest eligible compensation during 60 consecutive months of employment. PSNH's portion of the NU system's pension (credit)/cost, part of which was (credited)/charged to utility plant, was \$(0.5) million in 1999, \$(0.1) million in 1998 and \$1.3 million in 1997.

Currently, PSNH annually funds an amount at least equal to that which will satisfy the requirements of the Employee Retirement Income Security Act and Internal Revenue Code (the Code).

The NU system companies, including PSNH, also provide certain health care benefits, primarily medical and dental, and life insurance benefits through a benefit plan to retired employees. These benefits are available for employees retiring from PSNH who have met specified service requirements. For current employees and certain retirees, the total benefit is limited to two times the 1993 per retiree health care cost. These costs are charged to expense over the future estimated work life of the employee. PSNH annually funds postretirement costs through external trusts with amounts that have been rate-recovered and which also are tax deductible under the Code.

Pension and trust assets are invested primarily in domestic and international equity securities and bonds.

Public Service Company of New Hampshire

NOTES TO FINANCIAL STATEMENTS

The following table represents information on the plans' benefit obligation, fair value of plan assets, and the respective plans' funded status:

| (Millions of Dollars) | At December 31, | | | |
|-------------------------------------|-------------------|-------------------|-------------------------|------------------|
| | Pension Benefits | | Postretirement Benefits | |
| | 1999 | 1998 | 1999 | 1998 |
| Change in benefit obligation | | | | |
| Benefit obligation | | | | |
| at beginning of year..... | \$ (201.0) | \$ (188.0) | \$ (50.1) | \$ (46.6) |
| Service cost..... | (4.9) | (4.3) | (1.0) | (0.9) |
| Interest Cost..... | (14.3) | (13.2) | (3.6) | (3.4) |
| Plan amendment..... | (11.2) | - | - | - |
| Transfers..... | 0.5 | (0.7) | - | - |
| Actuarial gain/(loss)..... | 19.1 | (5.0) | (1.5) | (2.8) |
| Benefits paid..... | 10.3 | 10.2 | 5.0 | 3.6 |
| Benefit obligation | | | | |
| at end of year..... | \$ (201.5) | \$ (201.0) | \$ (51.2) | \$ (50.1) |
| Change in plan assets | | | | |
| Fair value of plan assets | | | | |
| at beginning of year..... | \$ 213.2 | \$ 195.6 | \$ 27.3 | \$ 22.9 |
| Actual return on | | | | |
| plan assets..... | 30.4 | 27.1 | 3.4 | 3.2 |
| Employer contribution..... | - | - | 4.9 | 4.8 |
| Benefits paid..... | (10.3) | (10.2) | (5.0) | (3.6) |
| Transfers..... | 0.5 | 0.7 | - | - |
| Fair value of plan assets | | | | |
| at end of year..... | \$ 233.8 | \$ 213.2 | \$ 30.6 | \$ 27.3 |
| Funded status | | | | |
| at December 31..... | \$ 32.3 | \$ 12.2 | \$ (20.6) | \$ (22.8) |
| Unrecognized transition | | | | |
| obligation..... | 3.3 | 3.7 | 38.2 | 41.2 |
| Unrecognized prior | | | | |
| service cost..... | 16.9 | 7.0 | - | - |
| Unrecognized net gain..... | (98.0) | (68.9) | (17.6) | (18.4) |
| Accrued benefit cost..... | \$ (45.5) | \$ (46.0) | \$ - | \$ - |

Public Service Company of New Hampshire

NOTES TO FINANCIAL STATEMENTS

The following actuarial assumptions were used in calculating the plans' year end funded status:

| | At December 31, | | | |
|--------------------------------------|------------------|-------|-------------------------|-------|
| | Pension Benefits | | Postretirement Benefits | |
| | 1999 | 1998 | 1999 | 1998 |
| Discount rate..... | 7.75% | 7.00% | 7.75% | 7.00% |
| Compensation/progression rate | 4.75 | 4.25 | 4.75 | 4.25 |
| Health care cost trend rate (a)..... | N/A | N/A | 5.57 | 5.22 |

(a) The annual per capita cost of covered health care benefits was assumed to decrease to 4.90 percent by 2001.

The components of net periodic benefit (credit)/cost are:

| (Millions of Dollars) | For the Years Ended December 31, | | | | | |
|---|----------------------------------|-----------------|---------------|-------------------------|---------------|---------------|
| | Pension Benefits | | | Postretirement Benefits | | |
| | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| Service cost..... | \$ 4.9 | \$ 4.3 | \$ 4.0 | \$ 1.0 | \$ 0.9 | \$ 0.8 |
| Interest cost..... | 14.3 | 13.2 | 13.4 | 3.6 | 3.4 | 3.4 |
| Expected return on plan assets..... | (17.7) | (15.6) | (13.9) | (2.1) | (1.8) | (1.4) |
| Amortization of unrecognized transition obligation..... | 0.3 | 0.3 | 0.3 | 2.9 | 2.9 | 2.9 |
| Amortization of prior service cost..... | 1.3 | 0.5 | 0.5 | - | - | - |
| Amortization of actuarial gain | (3.6) | (2.8) | (2.0) | - | - | - |
| Other amortization, net..... | - | - | - | (0.5) | (0.5) | (0.8) |
| Settlements..... | - | - | (1.0) | - | - | - |
| Net periodic benefit (credit)/cost..... | \$ (0.5) | \$ (0.1) | \$ 1.3 | \$ 4.9 | \$ 4.9 | \$ 4.9 |

Public Service Company of New Hampshire

NOTES TO FINANCIAL STATEMENTS

For calculating pension and postretirement benefit costs, the following assumptions were used:

| | For the Years Ended December 31, | | | | | |
|---|----------------------------------|-------|-------|-------------------------|-------|-------|
| | Pension Benefits | | | Postretirement Benefits | | |
| | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| Discount rate..... | 7.00% | 7.25% | 7.75% | 7.00% | 7.25% | 7.75% |
| Expected long-term rate of return..... | 9.50 | 9.50 | 9.25 | N/A | N/A | N/A |
| Compensation/progression rate..... | 4.25 | 4.25 | 4.75 | 4.25 | 4.25 | 4.75 |
| Long-term rate of return - Health assets, net of tax..... | N/A | N/A | N/A | 7.50 | 7.75 | 7.50 |
| Life assets..... | N/A | N/A | N/A | 9.50 | 9.50 | 9.25 |

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The effect of changing the assumed health care cost trend rate by one percentage point in each year would have the following effects:

| (Millions of Dollars) | One Percentage Point Increase | One Percentage Point Decrease |
|---|-------------------------------|-------------------------------|
| Effect on total service and interest cost components..... | \$0.3 | \$(0.3) |
| Effect on postretirement benefit obligation..... | \$3.3 | \$(3.0) |

The trust holding the health plan assets is subject to federal income taxes.

B. Employee Stock Ownership Plan

In June 1999, PSNH paid NU parent \$10.6 million for NU shares issued from 1992 through 1998 on behalf of their employees in accordance with NU's 401(k) plan. Each operating company, including PSNH, appropriately charged retained earnings for this payment, as compensation expense had already been recorded in the respective years at the fair market value of the shares allocated.

NOTES TO FINANCIAL STATEMENTS

10. COMMITMENTS AND CONTINGENCIES

A. Restructuring

In August 1999, NU, PSNH and the state of New Hampshire signed a Settlement Agreement intended to settle a number of pending regulatory and court proceedings related to PSNH. Parties to the agreement included the governor of New Hampshire, the Governor's Office of Energy and Community Service, the New Hampshire attorney general, certain members of the staff of the NHPUC, PSNH and NU. The Settlement Agreement was submitted to the NHPUC on August 2, 1999 and is awaiting approval. If approved by the NHPUC, the Settlement Agreement would resolve 11 NHPUC dockets and PSNH's federal lawsuit which had enjoined the state of New Hampshire from implementing its restructuring legislation, would require PSNH to write off \$225 million after-tax of its stranded costs and would allow for the recovery of the remaining amount. Also, implementation of the Settlement Agreement is contingent upon securitization. Securitization requires the initial approval of the NHPUC and final approval from the New Hampshire Legislature via enactment of appropriate legislation. Other approvals are also required from various federal and state regulatory agencies and financial lenders. Under the terms of the Settlement Agreement, on the effective date, PSNH's rates will be reduced from current levels by an average of 18.3 percent. Due to the number of approvals required and still pending to implement the Settlement Agreement, management continues to believe the application of SFAS No. 71 is appropriate for PSNH at this time.

The Settlement Agreement also requires PSNH to sell its generation assets and certain power contracts, including PSNH's current purchased-power contracts with NAEC for the output from Seabrook. The net proceeds from all sales will be used to recover a portion of PSNH's stranded costs. The sales would be accomplished through an auction process subject to approval by the NHPUC. Following the divestiture, the transmission and distribution portion of the business will continue to be cost-of-service based.

Phase I of the proceeding regarding the Settlement Agreement allowed proponents to provide sufficient record for the NHPUC to compare the Settlement Agreement to a range of reasonable outcomes in the other associated dockets. The NHPUC also determined during Phase I that the Con Edison merger is relevant to the Settlement Agreement and intervening parties should have discovery in Phase II to evaluate the impact of the merger on the Settlement Agreement. Phase II allowed opponents to file testimony concerning the Settlement Agreement and then allowed proponents to conduct discovery and file rebuttal testimony. A decision on the Settlement Agreement is expected in the first quarter of 2000.

NOTES TO FINANCIAL STATEMENTS

B. Environmental Matters

The NU system, including PSNH, is subject to environmental laws and regulations intended to mitigate or remove the effect of past operations and improve or maintain the quality of our environment. As such, the NU system and PSNH have active environmental auditing and training programs and believe they are in compliance with the current laws and regulations.

However, the normal course of operations may necessarily involve activities and substances that expose PSNH to potential liabilities of which management cannot determine the outcome. Additionally, management cannot determine the outcome for liabilities that may be imposed for past acts, even though such past acts may have been lawful at the time they occurred. Management does not believe, however, that this will have a material impact on PSNH's financial statements.

Based upon currently available information for the estimated remediation costs as of December 31, 1999 and 1998, the liability recorded by PSNH for its estimated environmental remediation costs amounted to \$9.5 million and \$7.9 million, respectively.

C. Spent Nuclear Fuel Disposal Costs

Under the Nuclear Waste Policy Act of 1982, PSNH must pay the DOE for the disposal of spent nuclear fuel and high-level radioactive waste. The DOE is responsible for the selection and development of repositories for, and the disposal of, spent nuclear fuel and high-level radioactive waste. Fees for nuclear fuel burned are billed currently to customers and paid to the DOE on a quarterly basis.

D. Nuclear Insurance Contingencies

Insurance policies covering PSNH's ownership share of the NU system's nuclear facilities have been purchased for the primary cost of repair, replacement or decontamination of utility property, certain extra costs incurred in obtaining replacement power during prolonged accidental outages and the excess cost of repair, replacement or decontamination or premature decommissioning of utility property.

PSNH is subject to retroactive assessments if losses under those policies exceed the accumulated funds available to the insurer. The maximum potential assessments, including costs resulting from PSNH's contracts with NAEC, with respect to losses arising during the current policy year for the primary property insurance program, the replacement power policies and the excess property damage policies are \$0.2 million, \$1.2 million and \$4.1 million, respectively. In addition, insurance has been purchased in the aggregate amount of \$200 million on an industry basis by the NU system for coverage of worker claims.

NOTES TO FINANCIAL STATEMENTS

Under certain circumstances, in the event of a nuclear incident at one of the nuclear facilities covered by the federal government's third-party liability indemnification program, the NU system, including PSNH, could be assessed liabilities in proportion to its ownership interest in each of its nuclear units up to \$83.9 million. The NU system's payment of this assessment would be limited to, in proportion to its ownership interest in each of its nuclear units, \$10 million in any one year per nuclear unit. In addition, if the sum of all claims and costs from any one nuclear incident exceeds the maximum amount of financial protection, the NU system would be subject to an additional 5 percent or \$4.2 million liability, in proportion to its ownership interests in each of its nuclear units. Under the terms of the Seabrook Power Contracts, PSNH could be obligated to pay for any assessment charged to NAEC as a cost of service. Based upon its ownership interest in Millstone 3 and NAEC's ownership interest in Seabrook, PSNH's maximum liability, including any additional assessments, would be \$33.8 million per incident, of which payments would be limited to \$3.9 million per year. In addition, through purchased-power contracts with VYNPC, PSNH would be responsible for up to an additional assessment of \$3.5 million per incident, of which payments would be limited to \$0.3 million per year.

E. Construction Program

PSNH currently forecasts construction expenditures of \$314.3 million for the years 2000-2004, including \$51.6 million for 2000. PSNH estimates that nuclear fuel requirements for its share of Millstone 3 will be \$3.2 million for the years 2000-2004, including \$1.2 million for 2000.

F. Long-Term Contractual Arrangements

Yankee Companies: The NU system companies relied on VYNPC for 1.5 percent of their capacity under long-term contracts. Under the terms of its agreement, PSNH paid its ownership (or entitlement) shares of costs, which included depreciation, O&M expenses, taxes, the estimated cost of decommissioning, and a return on invested capital. These costs were recorded as purchased-power expenses and recovered through PSNH's rates. PSNH's cost of purchases under contracts with VYNPC amounted to \$7.5 million in 1999, \$7 million in 1998 and \$6.2 million in 1997. VYNPC has agreed to sell its nuclear unit. Upon completion of the sale, this long-term contract will be terminated.

Nonutility Generators (NUGs): PSNH is obligated under various arrangements for the purchase of capacity and energy from NUGs. For the years ended December 31, 1999 and 1998, 13 percent and for the year ended December 31, 1997, 14 percent, of NU system electricity requirements were met by NUGs. PSNH's total cost of purchases under these arrangements amounted to \$139.8 million in 1999, \$139.1 million in 1998 and \$133.1 million in 1997. The company expects to renegotiate the terms of these contracts through either a contract buydown or buyout. The company expects

NOTES TO FINANCIAL STATEMENTS

any payments to the NUGs as a result of any successful renegotiations to be recovered from the company's customers.

Hydro-Quebec: Along with other New England utilities, PSNH has entered into an agreement to support transmission and terminal facilities to import electricity from the Hydro-Quebec system in Canada. PSNH is obligated to pay, over a 30-year period ending in 2020, its proportionate share of the annual O&M expenses and capital costs of those facilities.

New Hampshire Electric Cooperative (NHEC): PSNH entered into a buy-back agreement to purchase the capacity and energy of the NHEC's share of Seabrook and to pay all of NHEC's Seabrook costs for a 10-year period, which began on July 1, 1990. The total cost of purchases under this agreement was \$33 million in 1999, \$29.7 million in 1998 and \$23.4 million in 1997. These costs are recoverable through the FPPAC. The estimated annual cost of this agreement for year 2000 was \$14.6 million.

Estimated Annual Costs: The estimated annual costs of PSNH's significant long-term contractual arrangements, absent the effects of any contract terminations or buydowns are as follows:

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|--------------------|-----------------------|--------|--------|--------|--------|
| | (Millions of Dollars) | | | | |
| VYNPC | \$ 3.5 | \$ 0.5 | \$ 0.5 | \$ 0.5 | \$ 0.5 |
| NUGs | 145.1 | 150.0 | 154.6 | 159.3 | 163.7 |
| Hydro-Quebec | 9.7 | 9.4 | 9.2 | 8.9 | 8.6 |

G. New England Power Pool (NEPOOL) Generation Pricing

Disputes with respect to interpretation and implementation of the NEPOOL market rules have arisen with respect to various competitive product markets. In certain cases, PSNH stands to gain as a result of resolution of such disputes. In other cases, PSNH could incur additional costs as the result of resolution of the disputes. The various disputes are in various stages of resolution through alternative dispute resolution and regulatory review. It is too early to tell the level of potential gain or loss that may result upon resolution of these issues.

H. Deferred Receivable from Affiliated Company

At the time PSNH emerged from bankruptcy on May 16, 1991, in accordance with the phase-in under the Rate Agreement, it began to accrue a deferred return on a portion of its Seabrook investment. From May 16, 1991, to the Acquisition Date, PSNH accrued a deferred return of \$50.9 million. On the Acquisition Date, PSNH sold the \$50.9 million deferred return to NAEC as part of the Seabrook-related assets.

NOTES TO FINANCIAL STATEMENTS

At the time PSNH transferred the deferred return to NAEC, it realized, for income tax purposes, a gain that was deferred under the consolidated income tax rules. Beginning December 1, 1997, the gain is being amortized into income for income tax purposes, as the deferred return of \$50.9 million, and the associated income taxes of \$32.9 million, are being collected by NAEC through the Seabrook Power Contracts. As NAEC recovers the \$32.9 million in years eight through ten of the Rate Agreement, corresponding payments are being made to PSNH. The balance of the deferred receivable from NAEC at December 31, 1999 and 1998, was \$13 million and \$22.7 million, respectively.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each of the following financial instruments:

Cash and cash equivalents: The carrying amounts approximate fair value due to the short-term nature of cash and cash equivalents.

Supplemental Executive Retirement Plan (SERP) Investments: PSNH's portion of the investments held for the benefit of the SERP are recorded at fair value. The investments having a cost basis of \$0.3 million held for benefit of the SERP were recorded at their fair market values at December 31, 1999 and 1998, of \$2.2 million.

Nuclear decommissioning trusts: PSNH's portion of the investments held in the NU system companies' nuclear decommissioning trusts were marked-to-market by \$2.2 million as of December 31, 1999, and \$1.6 million as of December 31, 1998, with corresponding offsets to the accumulated provision for depreciation. The amounts adjusted in 1999 and 1998 represent cumulative net unrealized gains. The cumulative gross unrealized holding losses were immaterial for both 1999 and 1998.

NOTES TO FINANCIAL STATEMENTS

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Nuclear decommissioning trusts: PSNH's portion of the investments held in the NU system companies' nuclear decommissioning trusts were marked-to-market by \$2.2 million as of December 31, 1999, and \$1.6 million as of December 31, 1998, with corresponding offsets to the accumulated provision for depreciation. The amounts adjusted in 1999 and 1998 represent cumulative net unrealized gains. The cumulative gross unrealized holding losses were immaterial for both 1999 and 1998.

Public Service Company of New Hampshire

NOTES TO FINANCIAL STATEMENTS

Preferred stock and long-term debt: The fair value of PSNH's fixed-rate securities is based upon the quoted market price for those issues or similar issues. Adjustable rate securities are assumed to have a fair value equal to their carrying value. The carrying amounts of PSNH's financial instruments and the estimated fair values are as follows:

| (Millions of Dollars) | At December 31, 1999 | |
|--|----------------------|------------|
| | Carrying Amount | Fair Value |
| Preferred stock subject to mandatory redemption..... | \$ 50.0 | \$ 52.0 |
| Other long-term debt..... | 516.5 | 517.4 |

| (Millions of Dollars) | At December 31, 1998 | |
|--|----------------------|------------|
| | Carrying Amount | Fair Value |
| Preferred stock subject to mandatory redemption..... | \$ 75.0 | \$ 78.0 |
| Other long-term debt..... | 516.5 | 535.4 |

12. OTHER COMPREHENSIVE INCOME

The accumulated balance for each other comprehensive income item is as follows:

| (Thousands of Dollars) | December 31, 1998 | Current Period Change | December 31, 1999 |
|--|-------------------|-----------------------|-------------------|
| Unrealized gains on securities..... | \$1,198 | \$70 | \$1,268 |
| Minimum pension liability adjustments.... | (194) | - | (194) |
| Accumulated other comprehensive income..... | \$1,004 | \$70 | \$1,074 |

Public Service Company of New Hampshire

NOTES TO FINANCIAL STATEMENTS

| | December 31, 1997 | Current Period Change | December 31, 1998 |
|--|----------------------|-----------------------------|----------------------|
| (Thousands of Dollars) | | | |
| Unrealized gains on securities..... | \$ - | \$1,198 | \$1,198 |
| Minimum pension liability adjustments.... | - | (194) | (194) |
| Accumulated other comprehensive income..... | \$ - | \$1,004 | \$1,004 |

The changes in the components of other comprehensive income are reported net of the following income tax effects:

| | 1999 | 1998 | 1997 |
|---|--------------|----------------|-------------|
| (Thousands of Dollars) | | | |
| Unrealized gains on securities..... | \$ 39 | \$(660) | \$ - |
| Minimum pension liability adjustments.... | - | 107 | - |
| Other comprehensive income..... | \$ 39 | \$(553) | \$ - |

13. SEGMENT INFORMATION

Effective January 1, 1999, the NU system companies, including PSNH, adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The NU system is organized between regulated utilities and unregulated energy services. PSNH is included in the regulated utilities segment of the NU system and has no other reportable segments.

14. MERGER AGREEMENT WITH CON EDISON

On October 13, 1999, NU and Con Edison announced that they have agreed to a merger to combine the two companies. The shareholders of NU will receive \$25 per share in a combination of cash and Con Edison common stock.

NU shareholders also have the right to receive an additional \$1 per share if a definitive agreement to sell its interests (other than that now held by PSNH) in Millstone 2 and 3 is entered into and recommended by the Utility Operations and Management Unit of the Connecticut Department of Public Utility Control on or prior to the later of December 31, 2000, or the closing of the merger. Further, the value of the amount of cash or common stock to be received by NU shareholders is subject to increase by an amount of \$0.0034 per share per day for each day that the transaction does not close after August 5, 2000.

NOTES TO FINANCIAL STATEMENTS

Upon completion of the merger, NU will become a wholly owned subsidiary of Con Edison. The purchase is subject to the approval of the shareholders of both companies and several regulatory agencies. The companies anticipate that these regulatory procedures can be completed by July 2000.

Public Service Company of New Hampshire

| SELECTED FINANCIAL DATA | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|-------------|-------------|-------------|-------------|------------|
| (Thousands of Dollars) | | | | | |
| Operating Revenues..... | \$1,160,572 | \$1,087,247 | \$1,108,459 | \$1,110,169 | \$ 979,971 |
| Operating Income..... | 124,605 | 131,199 | 144,024 | 155,758 | 155,628 |
| Net Income..... | 84,209 | 91,686 | 92,172 | 97,465 | 83,255 |
| Cash Dividends on Common Stock..... | - | - | 85,000 | 52,000 | 52,000 |
| Total Assets..... | 2,622,433 | 2,681,595 | 2,837,159 | 2,851,212 | 2,920,487 |
| Long-Term Debt (a)..... | 516,485 | 516,485 | 686,485 | 686,485 | 858,985 |
| Preferred Stock Subject to Mandatory Redemption (a) .. | 50,000 | 75,000 | 100,000 | 125,000 | 125,000 |
| Obligations Under Seabrook Power Contracts and Other Capital Leases (a)..... | 726,153 | 842,223 | 921,813 | 914,617 | 915,288 |

QUARTERLY FINANCIAL DATA (Unaudited)

| 1999 | Quarter Ended | | | |
|------------------------|------------------|------------------|------------------|------------------|
| | March 31 | June 30 | September 30 | December 31 |
| (Thousands of Dollars) | | | | |
| Operating Revenues | <u>\$286,799</u> | <u>\$286,824</u> | <u>\$310,739</u> | <u>\$276,210</u> |
| Operating Income | <u>\$ 35,449</u> | <u>\$ 29,419</u> | <u>\$ 34,666</u> | <u>\$ 25,071</u> |
| Net Income | <u>\$ 25,281</u> | <u>\$ 20,695</u> | <u>\$ 25,584</u> | <u>\$ 12,649</u> |
| <hr/> | | | | |
| 1998 | | | | |
| Operating Revenues | <u>\$261,745</u> | <u>\$250,784</u> | <u>\$286,614</u> | <u>\$288,104</u> |
| Operating Income | <u>\$ 18,769</u> | <u>\$ 42,406</u> | <u>\$ 37,434</u> | <u>\$ 32,590</u> |
| Net Income | <u>\$ 6,791</u> | <u>\$ 31,601</u> | <u>\$ 29,892</u> | <u>\$ 23,402</u> |

(a) Includes portions due within one year.

Public Service Company of New Hampshire

STATISTICS (Unaudited)

| | Gross Electric Utility Plant December 31, (Thousands of Dollars) (a) | kWh Sales (Millions) | Average Annual Use Per Residential Customer (kWh) | Electric Customers (Average) | Employees December 31, |
|------|--|----------------------------|--|------------------------------------|---------------------------|
| 1999 | \$2,283,187 | 12,832 | 6,665 | 427,694 | 1,258 |
| 1998 | 2,302,254 | 12,579 | 6,347 | 421,602 | 1,265 |
| 1997 | 2,312,628 | 13,340 | 6,528 | 407,642 | 1,254 |
| 1996 | 2,382,009 | 13,601 | 6,567 | 407,082 | 1,279 |
| 1995 | 2,469,474 | 11,001 | 6,524 (b) | 406,077 | 1,339 |

(a) Includes unamortized acquisition costs.

(b) Effective January 1, 1996, the amounts shown reflect billed and unbilled sales. The 1995 amounts have been restated to reflect this change.

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Public Service Company of New Hampshire

First Mortgage Bonds

Trustee and Interest Paying Agent
First Union National Bank
21 South Street
Morristown, New Jersey 07960

Preferred Stock

Transfer Agent, Dividend Disbursing Agent and Registrar
Northeast Utilities Service Company Shareholder Services
P.O. Box 5006
Hartford, Connecticut 06102-5006

2000 Dividend Payment Dates

10.60% Series A

March 31, June 30, September 30, and December 31

Address General Correspondence in Care of:

Northeast Utilities Service Company
Investor Relations Department
P.O. Box 270
Hartford, Connecticut 06141-0270
Telephone: (860) 665-5000

Data contained in this Annual Report are submitted for the sole purpose of providing information to present security holders about the Company.

General Offices
1000 Elm Street
P.O. Box 330
Manchester, New Hampshire 03105-0330