Northeast
Utilities System

107 Selden Street, Berlin, CT 06037

Northeast Utilities Service Company
P.O. Box 270
Hartford, CT 06141-0270
(860) 665-5000

April 25, 2002

Director
Nuclear Reactor Regulation
U. S. Nuclear Regulatory Commission
Washington, DC 20555

Dear Sir/Madam:

In Accordance with paragraph 50.71(b) of 10CFR, Part 50, enclosed is one copy of the 2001 Annual Financial Reports for The Connecticut Light and Power Company, Western Massachusetts Electric Company, and Public Service Company of New Hampshire, license holders.

Please acknowledge receipt by returning the duplicate of this letter in the stamped, self-addressed envelope enclosed for your convenience.

Respectfully yours,

MJ Blackbu

M. J. Blackburn
Associate Accountant
Northeast Utilities Service Company

MJB
Enclosures

c: S. J. Sinnott

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Northeast Utilities System

P.O. Box 270
Hartford, CT 06141-0270

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Northeast Utilities
Attn: Meredith Blackburn
Corporate Accounting - NUEG
P.O. Box 270
Hartford, CT 06141-0270

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Associate Accountant
Northeast Utilities Service Company

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Enclosures

c: S. J. Sinnott

RECEIPT ACKNOWLEDGED

Dated:______________________ By:______________________

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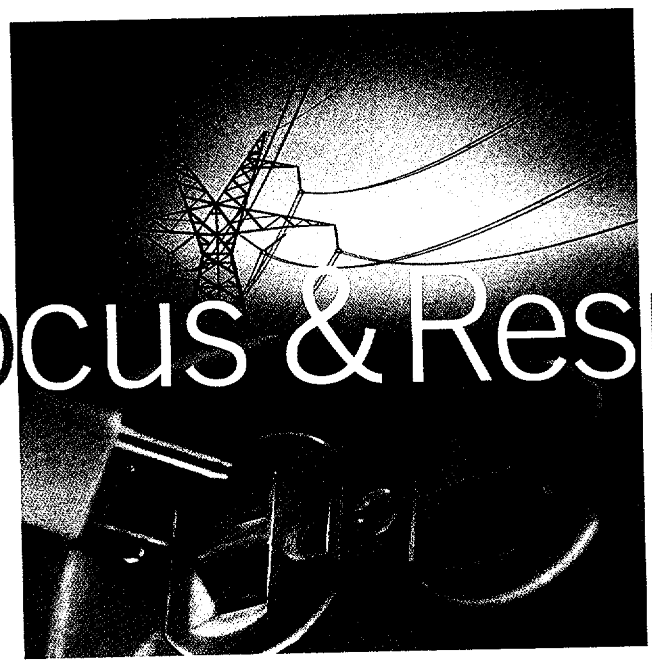
Public Service of New Hampshire



Focus & Results

2001 Annual Report

Directors

David H. Boguslawski
Vice President - Transmission Business
Northeast Utilities Service Company

John C. Collins
Chief Executive Officer
Dartmouth - Hitchcock Clinic

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

Cheryl W. Grisé
President - Utility Group
Northeast Utilities

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

Gary A. Long
President and Chief Operating Officer
Public Service Company of New Hampshire

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

Jane E. Newman
Executive Dean
Harvard University
John F. Kennedy School of Government

Executive Committee of the Board of Directors

Michael G. Morris, Chairman
David H. Boguslawski
John H. Forsgren
Cheryl W. Grisé
Gary A. Long, Alternate

Officers

Michael G. Morris
Chairman and Chief Executive Officer

Gary A. Long
President and Chief Operating Officer

David H. Boguslawski
Vice President - Transmission Business

John M. MacDonald
Vice President - Operations

David R. McHale
Vice President and Treasurer

Paul E. Ramsey
Vice President - Customer Services

John P. Stack
Vice President-Accounting and Controller

Roger C. Zaklukiewicz
Vice President - Transmission Engineering and Operations

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 Treasurer-Finance

2001 Annual Report

Public Service Company of New Hampshire and Subsidiaries

Index

Contents | Page

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Public Service Company of New Hampshire and Subsidiaries

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 subsidiary of Northeast Utilities (NU) and is part of the Northeast Utilities system (NU system). PSNH's earnings before preferred dividends totaled $81.8 million in 2001, compared with a loss of $146.7 million in 2000 and earnings of $84.2 million in 1999. The PSNH results included an after-tax gain of $15.5 million associated with the Millstone sale in 2001 and an after-tax $214.2 million extraordinary charge associated with electric industry restructuring in 2000. Management expects operating results at PSNH to continue to decline in 2002, reflecting the effects of a full year of electric utility restructuring.

Future Outlook

During 2000, PSNH and the state of New Hampshire were able to reach a settlement regarding restructuring, which was subsequently approved by the New Hampshire Public Utilities Commission (NHPUC). The "Agreement to Settle PSNH Restructuring," (Settlement Agreement) ended several years of uncertainty related to restructuring and the recovery of stranded costs for PSNH and the state of New Hampshire. On May 1, 2001, PSNH implemented industry restructuring allowing its customers to begin choosing their electric suppliers (competition day). On that date, PSNH's customers received an overall rate reduction of more than 10 percent, in addition to the 5 percent reduction they received on October 1, 2000.

In April 2001, legislation was passed in the state of New Hampshire, related to transition and default service and the sale of generation assets by PSNH that effectively amended the previously approved Settlement Agreement. The legislation requires PSNH to supply transition service to its residential and small commercial customers until at least February 1, 2006, and requires that transition service be provided at fixed rates for certain classes of customers until February 1, 2004. The legislation also requires PSNH to delay the sale of its fossil and hydroelectric generation assets until no sooner then February 1, 2004.

PSNH will initially supply transition and default service from its generation assets, and when necessary, through supplemental power purchases. PSNH will use the net revenues from the sale of transition and default service to recover non-securitized stranded costs when those revenues exceed service costs. PSNH will be permitted, subject to NHPUC review, to defer and recover as non-securitized stranded costs, generation service costs in excess of transition and default service revenues. As a result of the Settlement Agreement and the legislation passed in April 2001, PSNH expects that its financial performance will be relatively stable and predictable in 2002, absent any unexpected significant adverse events.

Liquidity

The year 2001 was marked by tremendous inflows of cash into the NU system and PSNH as a result of the securitization of stranded costs and the sale of the Millstone units. PSNH's liquidity benefited from the issuance of $525 million in rate reduction bonds and the receipt of approximately $25 million from the sale of the Millstone units. The largest share of the proceeds was used for buydown of the Seabrook Power Contracts. Capital lease obligations declined to $110.3 million at the end of 2001 from $629.2 million at the end of 2000. PSNH's long-term debt other than rate reduction bonds decreased to $407.3 million at the end of 2001 from $431.6 million at the end of 2000. PSNH also repaid all of its preferred stock in 2001.

PSNH paid approximately another $50 million in December 2001 to buyout other purchased-power contracts and issued an equivalent amount of rate reduction bonds in January 2002, to pay for those costs. PSNH continues to negotiate buyout or buydown arrangements with other plant operators and may require additional funds if successfully renegotiated agreements are approved by the NHPUC and result in upfront payments.

The remaining proceeds were used primarily to return equity capital to NU parent. Including both return of capital and common dividends, PSNH paid $287 million to NU parent in 2001.

On December 19, 2001, PSNH refinanced $287.5 million of tax-exempt pollution control revenue bonds by issuing $109 million of insured lower fixed-rate bonds and $178.5 million of insured variable-rate bonds. At current rates, that refinancing is expected to save PSNH in excess of $10 million annually.

Including capital lease obligations, but excluding rate reduction bonds, as these bonds are nonrecourse to PSNH, PSNH's capitalization ratio was 63.7 percent debt and 36.3 percent common equity at the end of 2001, compared with 64.4 percent debt, 1.5 percent preferred securities and 34.1 percent common equity at the end of 2000. The improved capitalization ratio and lowered overall risk profile resulted in a series of upgrades of the NU system securities through 2001. At the end of 2001, senior debt ratings on PSNH's securities were A3, BBB+ and BBB. Overall, these ratings were the highest for PSNH securities in decades and those ratings are expected to continue to enhance PSNH's access to low-cost capital.

PSNH's net cash flows provided by operating activities increased to $251.2 million in 2001, compared with $190.9 million in 2000 and $199.2 million in 1999. In 2001, cash flows provided by operating activities, increased primarily due to the tax impact of the buydown of the Seabrook Power Contracts. The level of common dividends totaled $27 million in 2001, as compared to $50 million in 2000 and no common dividends in 1999. The level of preferred dividends decreased to $1.3 million in 2001, compared with $4 million in 2000 and $6.6 million in 1999, reflecting PSNH's reduced preferred stock outstanding. PSNH currently forecasts construction expenditures of up to $110 million for the year 2002.

Over the coming years, PSNH is expected to pay out most of its earnings in the form of dividends to the parent company. There may also be an additional dividend to NU near the end of 2002, depending on the amount of cash received as a result of the sale of Seabrook.

Beyond 2001, management expects that current debt levels at PSNH may decline, contingent upon the results of the sale of North Atlantic Energy Corporation's (NAEC) share of Seabrook.

Capital investments in electric utility plant at PSNH totaled $92.6 million in 2001, as compared to $69.5 million in 2000. The company anticipates no material increase in capital expenditures in the next several years.

Restructuring and Rate Matters

On May 1, 2001, PSNH implemented industry restructuring allowing its customers to begin choosing their electric suppliers (competition day). They also received an overall reduction of more than 10 percent, in addition to the 5 percent reduction they received on October 1, 2000.

On May 22, 2001, the Governor of New Hampshire signed a bill modifying the state's 1996 and 2000 electric utility industry restructuring laws. The revisions delay the sale of PSNH's fossil and hydroelectric generation assets to no sooner than 33 months after restructuring takes effect, or February 1, 2004. The revisions also fixed the charges retail customers will pay PSNH for electric supply, or transition service.

PSNH and NAEC have entered into two contracts where PSNH is obligated to purchase NAEC's 35.98 percent ownership of the capacity and output of Seabrook. The 2001 amended restructuring bill requires the NHPUC to complete the sale of NAEC's share of Seabrook in an expeditious manner. In late 2001, the NHPUC and the Connecticut Department of Public Utility Control named J.P. Morgan as the selling agent for all owners seeking to sell their Seabrook shares. Those owners, which include NAEC with its 35.98 percent share, collectively own approximately 88 percent of Seabrook. J.P. Morgan expects to consummate the sale in late 2002. NAEC's proceeds will be used to repay all $90 million of NAEC's outstanding debt and return all NAEC's equity, which totaled $35 million as of December 31, 2001, to NU. Following the sale of NAEC's share of Seabrook, the Seabrook Power

Contracts will be terminated. PSNH will use these proceeds to more quickly amortize stranded costs.

On October 10, 2000, NU reached an agreement with an unaffiliated joint owner of Seabrook under which that joint owner would include its aggregate 15 percent ownership share of Seabrook in the upcoming sale. Under the terms of the agreement, in the event that the sale yields proceeds for that joint owner of more than $87.2 million, NU and that joint owner would share the excess proceeds. Should those sales proceeds be less than $87.2 million, NU would make up the difference below that amount up to a maximum of $17.4 million. The agreement also limits any top-off amount required to be funded by that joint owner for decommissioning as part of the sale process at the amount required by the Nuclear Regulatory Commission regulations.

For further information regarding commitments and contingencies related to restructuring, see Note 10A, "Commitments and Contingencies - Restructuring," to the consolidated financial statements.

Regional Transmission Organization

The Federal Energy Regulatory Commission (FERC) has required all transmission owning utilities, including PSNH, to voluntarily start forming regional transmission organizations (RTO) or to state why this process has not begun. In July 2001, the FERC stated that the three existing Northeastern Independent System Operators (ISO) (PJM, New York and New England) should work together to form one RTO. The FERC initiated a mediation effort between all interested parties to begin the process of forming such an entity.

NU has been discussing with the other transmission owners in the three pool area the potential to form an Independent Transmission Company (ITC). The ITC would be a for-profit entity and would perform certain transmission functions required by the FERC including tariff control, system planning and system operations. The remaining functions required by the FERC would be performed by the ISO and deal with the energy market and short-term reliability. Together, the ITC and ISO form the FERC desired RTO.

In January 2002, the New York and New England ISOs announced their intention to form an RTO. NU is working with the other transmission owners in these two power pools to create an ITC. The agreements needed to create the ITC and to define the working relationships among the ISO, the ITC and the transmission owners should be created in 2002 and will allow the ITC to begin operation shortly thereafter. The ITC and/or ISO will have the responsibility to collect the revenue requirements of each transmission owning entity from the market place through FERC approved tariffs. The creation of the ITC and/or RTO will require a FERC rate case and the impact on NU's return on equity as a result of this rate case cannot be estimated at this time.

Nuclear Plant Performance and Other Matters

Seabrook: Seabrook operated at a capacity factor of 85.9 percent in 2001. After returning from a scheduled refueling outage in January 2001, Seabrook operated at a capacity factor of 93.4 percent. Seabrook is scheduled to undergo a refueling outage in the spring of 2002. PSNH is obligated to purchase the capacity and output from NAEC's 35.98 percent joint ownership in Seabrook under the Seabrook Power Contracts.

Vermont Yankee: In August 2001, the owners of Vermont Yankee announced they would sell the unit to an unaffiliated company for $180 million, including $145 million for the plant and materials and supplies and $35 million for the nuclear fuel. PSNH owns 4 percent of the unit, and under the terms of the sale, will continue to buy 4 percent of the plant's output through March 2012 at a range of fixed prices. The sale requires several regulatory approvals and is scheduled to close during the first half of 2002.

Millstone: On March 31, 2001, PSNH, The Connecticut Light and Power Company and Western Massachusetts Electric Company sold their ownership interests in Millstone 3 to a subsidiary of Dominion Resources, Inc., Dominion Nuclear Connecticut, Inc. (DNCI).

Nuclear Decommissioning

In connection with the aforementioned sale of the Millstone units, DNCI has agreed to assume responsibility for decommissioning those units.

For further information regarding nuclear decommissioning, see Note 11, "Nuclear Decommissioning and Plant Closure Costs," to the consolidated financial statements.

Spent Nuclear Fuel Disposal Costs

The United States Department of Energy (DOE) originally was scheduled to begin accepting delivery of spent nuclear fuel on January 31, 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 spent nuclear fuel prior to divestiture of its remaining operating nuclear units, Seabrook and Vermont Yankee, as well as the three nuclear units currently undergoing decommissioning, Connecticut Yankee, Maine Yankee and Yankee Rowe.

For further information regarding spent nuclear fuel disposal costs, see Note 10C, "Commitments and Contingencies - Spent Nuclear Fuel Disposal Costs," to the consolidated financial statements.

Other Matters

Critical Accounting Policies: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, assumptions and at times difficult, subjective or complex judgments. Accounting policies related to the recoverability of certain regulatory assets and the assumptions used in developing the pension and postretirement benefit obligations are the accounting principles that management believes are critical and could have a significant impact on PSNH's consolidated financial statements.

Regulatory Assets: The accounting policies of the NU system's regulated operating companies historically reflect the effects of the rate-making process in accordance with Statement of Financial Accounting and Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Through its cost-of-service rate regulated transmission and distribution business, PSNH is currently recovering its investments in long-lived assets, including regulatory assets, and management believes that the application of SFAS No. 71 to that portion of their business continues to be appropriate. Management must reaffirm this conclusion at each balance sheet date. If, as a result of a change in circumstances, it is determined that any portion of these investments is no longer recoverable under SFAS No. 71, that portion would be written off. Such a write-off could have a material impact on PSNH's consolidated financial statements. Management currently believes that all long-lived assets, including regulatory assets, are recoverable.

Pension and Postretirement Benefit Obligations: PSNH participates in a uniform noncontributory defined benefit retirement plan covering substantially all regular NU system employees and also provides certain health care benefits, primarily medical and dental, and life insurance benefits through a benefit plan to retired employees. For each of these plans, the development of the benefit obligation, fair value of plan assets, funded status, and net periodic benefit credit or cost is based on several significant assumptions. These assumptions primarily relate to the application of a discount rate, expected long-term rate of return and other trend rates. If these assumptions were changed, the resultant change in benefit obligations, fair values of plan assets, funded status, and net periodic benefit credits or costs could have a material impact on PSNH's consolidated financial statements.

For further information regarding these types of activities, see Note 1G, "Regulatory Accounting and Assets," and Note 8, "Pension Benefits and Postretirement Benefits Other Than Pensions," to the consolidated financial statements.

Environmental Matters: The NU system, including 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 10B, "Commitments and Contingencies - Environmental Matters," to the consolidated financial statements.

Other Commitments and Contingencies: For further information regarding other commitments and contingencies, see Note 10, "Commitments and Contingencies," to the consolidated financial statements.

Contractual Obligations and Commercial Commitments: Aggregated information regarding PSNH's contractual obligations and commercial commitments as of December 31, 2001, is summarized as follows:

(Millions of Dollars)	2002	2003	2004	2005	2006	Totals
Notes payable to banks	$ 60.5	$ -	$ -	$ -	$ -	$ 60.5
Capital leases	0.4	0.4	0.4	0.4	0.3	1.9
Operating leases	5.9	4.3	3.8	3.2	2.8	20.0
Long-term contractual obligations	151.6	154.7	159.0	160.3	154.8	780.4
Totals	$218.4	$159.4	$163.2	$163.9	$157.9	$862.8

For further information regarding PSNH's contractual obligations and commercial commitments, see Note 3, "Short-Term Debt," Note 4, "Leases," and Note 10E, "Long-Term Contractual Arrangements," to the consolidated financial statements.

Forward Looking Statements: This discussion and analysis includes forward looking statements, which are statements of future expectations and not facts including, but not limited to, statements regarding future earnings, refinancings, the use of proceeds from restructuring, and the recovery of operating costs. 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)			
	2001 over/(under) 2000		2000 over/(under) 1999	
	Amount	Percent	Amount	Percent
Operating Revenues	($120)	(9)%	$ 131	11%
Operating Expenses:				
Fuel, purchased and net interchange power	(140)	(16)	162	23
Other operation	1	1	(5)	(4)
Maintenance	9	19	(5)	(10)
Depreciation	(4)	(9)	(4)	(8)
Amortization of regulatory assets, net	20	43	11	31
Taxes other than income taxes	(4)	(9)	(1)	(3)
Total operating expenses	(118)	(10)	(158)	16
Operating Income	(2)	(1)	(27)	(16)
Other income/(loss), net	22	(a)	9	(a)
Interest expense, net	13	36	(5)	(13)
Income before income tax expense	7	7	(13)	(10)
Income tax expense	(7)	(15)	4	10
Income before extraordinary loss	14	21	(17)	(20)
Extraordinary loss	214	(a)	(214)	-
Net income/(loss)	$ 228	(a)	$(231)	(a)

(a) percent greater than 100.

Operating Revenues

Operating revenue decreased $120 million or 9 percent in 2001, primarily due to lower retail and wholesale revenues. Retail revenues decreased $75 million, primarily due to 5 and 11 percent rate decreases that were effective October 1, 2000 and May 1, 2001, respectively ($89 million), partially offset by higher retail sales ($14 million). Retail kilowatt-hour (kWh) sales increased 1.2 percent. Wholesale revenues decreased $43 million due to lower sales of capacity and energy.

Operating revenues increased by $131 million or 11 percent in 2000, primarily due to higher wholesale and retail revenues. Wholesale revenues increased by $128 million primarily due to higher wholesale energy and capacity sales. Retail revenues were higher primarily due to higher retail sales ($12 million), partially offset by a rate decrease as part of PSNH restructuring ($8 million). Retail kWh sales increased by 2.1 percent.

Fuel, Purchased and Net Interchange Power
Fuel, purchased and net interchange power expense decreased in 2001, primarily due to lower purchased power expenses and lower expenses from NAEC as a result of the buydown of the Seabrook Power Contracts.

Fuel, purchased and net interchange power expense increased in 2000, primarily due to higher wholesale energy sales.

Other Operation and Maintenance
Other operation and maintenance (O&M) expenses increased $10 million in 2001, primarily due to higher fossil and hydro expenses ($12 million) and higher transmission and distribution expenses ($2 million), partially offset by lower nuclear expenses ($2 million) and lower administrative and general expenses ($1 million).

Other O&M expenses decreased in 2000, primarily due to lower transmission and distribution expenses ($6 million) and lower fossil maintenance expenses ($5 million).

Depreciation
Depreciation expense decreased in 2001, primarily due to lower fixed assets resulting from the sale of Millstone unit three at the end of the first quarter 2001.

Depreciation expense decreased in 2000, primarily due to an increase in Distribution Plant depreciable lives.

Amortization of Regulatory Assets, Net
Amortization of regulatory assets, net increased in 2001, primarily due to higher amortizations related to restructuring.

Amortization of regulatory assets, net increased in 2000, primarily due to the completion of the amortization of regulatory obligations related to net operating loss carryforwards in 1999 as a result of the Global Settlement.

Taxes Other Than Income Taxes
Taxes other than income taxes decreased in 2001, primarily due to lower New Hampshire franchise taxes in 2001.

There were no significant changes to taxes other than income taxes in 2000.

Other Income/(Loss), Net
Other Income/(loss), net increased in 2001 as a result of PSNH's sale of its ownership in Millstone 3.

Other income/(loss), net increased in 2000, primarily due to the 1999 settlement with the New Hampshire Electric Cooperative which resulted in a $6.2 million write-off in 1999.

Interest Expense, Net

Interest expense, net increased in 2001, primarily due to interest associated with the issuance of rate reduction bonds in 2001, partially offset by lower interest on long-term debt resulting from the retirement and refinancing of long-term debt.

Interest on long-term debt decreased in 2000, primarily due to refinancing of long-term debt to lower interest rates.

Income Tax Expense

Income tax expense decreased in 2001, primarily due to the additional investment tax credits amortization associated with Seabrook.

Income tax expense increased in 2000, primarily due to 1999 utilization of net operating loss carryforwards.

Extraordinary Loss

The extraordinary loss in 2000 is due to an after-tax write-off by PSNH of approximately $225 million of stranded costs under an industry restructuring settlement with the state of New Hampshire, combined with other positive effects relating to the discontinuation of SFAS No. 71 ($11 million).

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Public Service Company of New Hampshire and subsidiaries (a New Hampshire corporation and a wholly owned subsidiary of Northeast Utilities) as of December 31, 2001 and 2000, and the related consolidated statements of income, comprehensive income, common stockholder's equity and cash flows for each of the three years in the period ended December 31, 2001. 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 auditing standards generally accepted in the United States. 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 and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP
ARTHUR ANDERSEN LLP

Hartford, Connecticut
January 22, 2002

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PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31,	2001	2000	1999
	(Thousands of Dollars)		
Operating Revenues	$ 1,171,686	$ 1,291,332	$ 1,160,589
Operating Expenses:			
Operation -			
Fuel, purchased and net interchange power	713,668	853,563	691,743
Other	123,533	122,268	127,635
Maintenance	56,276	47,429	52,481
Depreciation	39,741	43,873	47,695
Amortization of regulatory assets, net	65,445	45,874	34,915
Taxes other than income taxes	38,375	42,321	43,409
Total operating expenses	1,037,038	1,155,328	997,878
Operating Income	134,648	136,004	162,711
Other Income, Net	36,643	14,360	5,837
Income Before Interest and Income Tax Expense	171,291	150,364	168,548
Interest Expense:			
Interest on long-term debt	30,201	37,510	42,728
Interest on rate reduction bonds	20,721	-	-
Other interest	22	47	547
Interest expense, net	50,944	37,557	43,275
Income Before Income Tax Expense	120,347	112,807	125,273
Income Tax Expense	38,571	45,256	41,064
Income Before Extraordinary Loss	81,776	67,551	84,209
Extraordinary loss, net of tax benefit of $155,783	-	(214,217)	-
Net Income/(Loss)	$ 81,776	$ (146,666)	$ 84,209

STATEMENTS OF COMPREHENSIVE INCOME

Net Income/(Loss)	$ 81,776	$ (146,666)	$ 84,209
Other comprehensive (loss)/income, net of tax:			
Unrealized (losses)/gains on securities	(801)	133	70
Comprehensive Income/(Loss)	$ 80,975	$ (146,533)	$ 84,279

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

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

At December 31,	2001	2000
	(Thousands of Dollars)	
ASSETS		
Current Assets:		
Cash	$ 1,479	$ 116,482
Receivables, less accumulated provision for uncollectible accounts of $1,737 in 2001 and $1,869 in 2000	70,540	71,992
Accounts receivable from affiliated companies	13,055	2,239
Taxes receivable	-	10,005
Unbilled revenues	29,268	41,844
Fuel, materials and supplies, at average cost	42,047	28,760
Prepayments and other	10,211	14,783
	166,600	286,105
Property, Plant and Equipment:		
Electric utility	1,447,955	1,506,168
Other	6,221	8,588
	1,454,176	1,514,756
Less: Accumulated provision for depreciation	689,397	714,792
	764,779	799,964
Construction work in progress	44,961	27,251
Nuclear fuel, net	-	1,924
	809,740	829,139
Deferred Debits and Other Assets:		
Regulatory assets	1,046,760	924,847
Nuclear decommissioning trusts, at market	-	7,362
Other	71,414	34,843
	1,118,174	967,052
Total Assets	$ 2,094,514	$ 2,082,296

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

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

At December 31,	2001	2000
	(Thousands of Dollars)	
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes payable to banks	$ 60,500	$ -
Notes payable to affiliated company	23,000	-
Preferred stock - current portion	-	24,268
Obligations under Seabrook Power Contracts and other capital leases - current portion	24,164	537,528
Accounts payable	32,285	45,892
Accounts payable to affiliated companies	18,727	54,008
Accrued taxes	2,281	657
Accrued interest	9,428	4,962
Other	25,164	13,112
	195,549	680,427
Rate Reduction Bonds	507,381	-
Obligations under Seabrook Power Contracts and Other Capital Leases	86,111	91,702
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	423,050	179,928
Accumulated deferred investment tax credits	12,015	27,348
Deferred contractual obligations	37,712	41,499
Accrued pension	37,326	41,216
Other	46,260	63,597
	556,363	353,588
Capitalization:		
Long-Term Debt	407,285	407,285
Common stock, $1 par value - authorized 100,000,000 shares; 388 shares outstanding in 2001 and 1,000 shares outstanding in 2000	-	1
Capital surplus, paid in	165,000	424,909
Retained earnings	176,419	123,177
Accumulated other comprehensive income	406	1,207
Common Stockholder's Equity	341,825	549,294
Total Capitalization	749,110	956,579
Commitments and Contingencies (Note 10)		
Total Liabilities and Capitalization	$ 2,094,514	$ 2,082,296

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

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

	Common Stock	Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total (a)
			(Thousands of Dollars)		
Balance at January 1, 1999	$ 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 (b)			(10,558)		(10,558)
Other comprehensive income				70	70
Balance at December 31, 1999	1	424,654	319,938	1,074	745,667
Net loss for 2000			(146,666)		(146,666)
Cash dividends on preferred stock			(3,962)		(3,962)
Cash dividends on common stock			(50,000)		(50,000)
Capital stock expenses, net		255			255
Allocation of benefits - ESOP (b)			3,867		3,867
Other comprehensive income				133	133
Balance at December 31, 2000	1	424,909	123,177	1,207	549,294
Net income for 2001			81,776		81,776
Cash dividends on preferred stock			(1,286)		(1,286)
Cash dividends on common stock			(27,000)		(27,000)
Repurchase of common stock	(1)	(259,999)			(260,000)
Capital stock expenses, net		90			90
Allocation of benefits - ESOP (b)			(248)		(248)
Other comprehensive loss				(801)	(801)
Balance at December 31, 2001	$ -	$ 165,000	$ 176,419	$ 406	$ 341,825

(a) The company has no dividend restrictions. However, the company has two tests it must meet before it can pay out any dividends. The most restrictive of which limits the company to paying out no greater than $99.6 million of equity at December 31, 2001.

(b) In June 1999, PSNH paid NU parent $10.6 million for NU shares issued from 1992 through 1998 on behalf of its employees in accordance with NU's 401(k) plan. This transaction resulted in a reduction of the NU parent loss and a tax benefit to PSNH. The amount in 2000 represents the remaining previously allocated 1993 through 1999 NU parent losses.

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

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2001	2000	1999
		(Thousands of Dollars)	
Operating activities:			
Income before extraordinary loss	$ 81,776	$ 67,551	$ 84,209
Adjustments to reconcile to net cash flows provided by operating activities:			
Depreciation	39,741	43,873	47,695
Deferred income taxes and investment tax credits, net	195,422	(521)	(5,304)
Net (deferral)/amortization of recoverable energy costs, net.	(21,234)	(35,886)	27,065
Amortization of regulatory assets, net	65,445	45,874	34,915
Net other (uses)/sources of cash	(83,746)	43,412	38,601
Changes in working capital:			
Receivables and unbilled revenues, net	3,212	20,597	5,987
Fuel, materials and supplies	(13,287)	9,316	(1,434)
Accounts payable	(48,888)	23,110	22,307
Accrued taxes	1,624	(33,048)	(49,385)
Other working capital (excludes cash)	31,095	6,646	(5,496)
Net cash flows provided by operating activities	251,160	190,924	199,160
Investing Activities:			
Investments in regulated plant:			
Electric utility plant	(92,626)	(69,500)	(46,096)
Nuclear fuel	(37)	(1,153)	(1,168)
Net cash flows used for investments in regulated plant	(92,663)	(70,653)	(47,264)
Investments in nuclear decommissioning trusts	(137)	(686)	(678)
Other investment activities, net	(30,906)	2,268	2,214
Net proceeds from the sale of utility plant	24,888	-	-
Buyout of IPP contract	(48,164)	-	-
Net cash flows used in investing activities	(146,982)	(69,071)	(45,728)
Financing Activities:			
Repurchase of common stock	(260,000)	-	-
Issuance of long-term debt	287,485	-	-
Issuance of rate reduction bonds	525,000	-	-
Retirement of rate reduction bonds	(17,619)	-	-
Net increase in short-term debt	83,500	-	-
Reacquisitions and retirements of long-term debt	(287,485)	(109,200)	-
Reacquisitions and retirements of preferred stock	(24,268)	(25,732)	(25,000)
Buydown of capital lease obligation	(497,508)	-	-
Cash dividends on preferred stock	(1,286)	(3,962)	(6,625)
Cash dividends on common stock	(27,000)	(50,000)	-
Net cash flows used in financing activities	(219,181)	(188,894)	(31,625)
Net (decrease)/increase in cash	(115,003)	(67,041)	121,807
Cash - beginning of year	116,482	183,523	61,716
Cash - end of year	$ 1,479	$ 116,482	$ 183,523
Supplemental Cash Flow Information:			
Cash paid during the year for:			
Interest, net of amounts capitalized	$ 47,369	$ 38,819	$ 39,895
Income taxes	$ 168,021	$ 22,575	$ 38,942
Decrease in obligations:			
Seabrook Power Contracts	$ (517,998)	$ (96,208)	$ (115,065)

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

NOTES TO CONSOLIDATED 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), Holyoke Water Power Company (HWP), and Yankee Energy System, Inc. (Yankee) are the operating companies comprising the Northeast Utilities system (NU system) and are wholly owned by Northeast Utilities (NU). 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 nuclear unit (Seabrook) to PSNH under the terms of two life-of-unit, full cost recovery contracts (Seabrook Power Contacts). HWP also is engaged in the production of electric power. Yankee, the parent company of Yankee Gas Services Company (Yankee Gas), is Connecticut's largest natural gas distribution system.

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 the 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 the New Hampshire Public Utilities Commission (NHPUC).

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, engineering, financial, information resources, legal, operational, planning, purchasing, and other services to the NU system companies, including PSNH. North Atlantic Energy Service Corporation has operational responsibility for Seabrook. In addition, PSNH has established two special purpose subsidiaries whose operations are solely related to the issuance of rate reduction bonds.

B. Presentation

The consolidated financial statements of PSNH include the accounts of all subsidiaries. Intercompany transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 and the NHPUC.

C. New Accounting Standards

Asset Retirement Obligations: In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs and applies to (a) all entities and (b) legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and/or the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 is effective for PSNH's 2003 calendar year. Upon adoption of SFAS No. 143, there may be an impact on PSNH's consolidated financial statements which management has not estimated at this time.

Long-Lived Assets: In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement modifies financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 is effective for PSNH's 2002 calendar year. Currently, management does not expect the adoption of SFAS No. 144 to have a material impact on PSNH's consolidated financial statements.

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, 2001 and 2000, which are accounted for on the equity method 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, 2001 and 2000 is $8.5 million and $10 million, respectively. Each Yankee Company owns a single nuclear generating unit. However, VYNPC was the only unit still in operation at December 31, 2001.

Wyman Unit 4: PSNH has a 3.14 percent ownership interest in Wyman Unit 4, a 632 megawatt oil-fired generating unit. At December 31, 2001 and 2000, plant-in-service included $6.1 million and the accumulated provision for depreciation included $4.5 million and $4.3 million, respectively, related to Wyman Unit 4.

E. Depreciation

The provision for depreciation is calculated using the straight-line method based on the 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. Depreciation rates are applied to plant-in-service from the time they are placed in service. When plant is retired from service, the original cost of the plant, including costs of removal less salvage, is charged to the accumulated provision for depreciation. The depreciation rates for the several classes of electric plant-in-service are equivalent to a composite rate of 3 percent in 2001, 3.2 percent in 2000 and 3.7 percent in 1999.

F. Revenues

Revenues are based on authorized rates applied to each customer's use of energy. In general, rates can be changed only through a formal proceeding before the NHPUC. 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. Regulatory Accounting and Assets

The accounting policies of PSNH conform to accounting principles generally accepted in the United States applicable to rate-regulated enterprises and historically reflect the effects of the rate-making process in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation."

PSNH's transmission and distribution business continues to be cost-of-service rate regulated, and management believes the application of SFAS No. 71 continues to be appropriate. Management also believes it is probable that PSNH will recover its investments in long-lived assets, including regulatory assets. PSNH has three categories of stranded costs. Part 1 costs are securitized regulatory assets that are recovered over the life of the rate reduction bonds. Part 2 costs are ongoing costs consisting of nuclear decommissioning and independent power producer costs that are recovered as incurred, over the time period PSNH is responsible for those costs. Part 3 costs are nonsecuritized regulatory assets which must be recovered by a recovery end date to be determined in accordance with the "Agreement to Settle PSNH Restructuring" (Settlement Agreement) or which will be written off as stipulated by that Settlement Agreement. Based on current projections, PSNH expects to fully recover all of its Part 3 costs by the recovery end date.

In addition, all material regulatory assets are earning a return. The components of PSNH's regulatory assets are as follows:

At December 31,	2001	2000
	(Millions of Dollars)	
Recoverable nuclear costs	$ 29.0	$484.7
Securitized regulatory assets	498.2	-
Income taxes, net	99.4	68.1
Unrecovered contractual obligations	38.8	41.5
Recoverable energy costs, net	251.6	230.3
Other	129.8	100.2
Totals	$1,046.8	$924.8

In March 2001, PSNH recorded a regulatory asset in the amount of $46.5 million in conjunction with the sale of the Millstone units. A portion of the Millstone regulatory asset has been securitized and the remaining unamortized balance of $29 million as of December 31, 2001, is included in recoverable nuclear costs.

In 2000, PSNH discontinued the application of SFAS No. 71 for its generation business, and created a regulatory asset for Seabrook over market generation, which was classified as recoverable nuclear costs. The unamortized balance of the regulatory asset created was $484.7 million as of December 31, 2000. In April 2001, PSNH issued rate reduction bonds in the amount of $525 million. PSNH used the majority of this amount to buydown its power contracts with NAEC. The Seabrook over market generation was securitized at that time and was reclassified as a securitized regulatory asset as of December 31, 2001.

PSNH, under the terms of contracts with the Yankee Companies, is responsible for its proportionate share of the remaining costs of the units, including decommissioning. These amounts are recorded as unrecovered contractual obligations. A portion of these obligations was securitized in 2001 and is included in securitized regulatory assets.

PSNH, under the Energy Policy Act of 1992 (Energy Act), 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, 2001 and 2000, the PSNH's total D&D Assessment deferrals were $0.2 million, and have been recorded as recoverable energy costs, net.

In conjunction with the implementation of restructuring under the Settlement Agreement on May 1, 2001, the fuel and purchased-power adjustment clause (FPPAC) was discontinued. At December 31, 2001 and 2000, PSNH had $251.4 million and $230.1 million, respectively, of recoverable energy costs deferred under the FPPAC, including previous deferrals of purchases from independent power producers. Under the Settlement Agreement, the FPPAC deferrals are recovered as a Part 3 regulatory asset through a transition charge, subject to a prudence determination by the NHPUC.

H. 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 including the impacts of the buydown of the Seabrook Power Contracts and the sale of the Millstone units, is as follows:

At December 31,	2001	2000
	(Millions of Dollars)	
Accelerated depreciation and other plant-related differences	$ 85.8	$ 93.8
Regulatory assets:		
Securitized contract termination costs and other	177.9	-
Income tax gross-up	37.8	25.1
Other	121.6	61.0
Totals	$423.1	$179.9

I. Other Income, Net

The components of PSNH's other income, net items are as follows:

	For the Years Ended December 31,		
	2001	2000	1999
	(Millions of Dollars)		
Gain related to Millstone sale	$25.9	$ -	$ -
Other, net	10.7	14.4	5.8
Totals	$36.6	$14.4	$5.8

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.

With the implementation of the Settlement Agreement, PSNH and NAEC restructured the power contracts and bought down the value of the Seabrook plant asset, as defined within the Settlement Agreement, to $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. NAEC expects to sell its investment in Seabrook around the end of 2002 through a public auction. Upon a successful sale of NAEC's share of Seabrook, the existing Seabrook Power Contracts between PSNH and NAEC will be terminated.

PSNH has included its right to buy power from NAEC on its balance sheet as part of utility plant with a corresponding obligation. Under the current Seabrook Power Contracts which will be terminated following the sale of Seabrook, 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, excluding the buydown of the Seabrook plant asset in 2001, charged to operating expenses in 2001, 2000 and 1999 were

$158.6 million, $268 million and $280 million, respectively. Interest included in the contract payments in 2001, 2000 and 1999 was $21.8 million, $44 million and $49 million, respectively.

3. **SHORT-TERM DEBT**

Limits: The amount of short-term borrowings that may be incurred by PSNH is subject to periodic approval by either the SEC under the 1935 Act or by the respective state regulators. PSNH is authorized by the NHPUC to incur short-term borrowings up to a maximum of $100 million.

Credit Agreement: On November 16, 2001, PSNH, CL&P, WMECO, and Yankee Gas entered into a 364-day unsecured revolving credit facility for $350 million. PSNH may draw up to $100 million under the facility, subject to the maximum facility limit of $350 million. Unless extended, the credit facility will expire on November 15, 2002. At December 31, 2001 and 2000, there were $60.5 million and no borrowings, respectively, in borrowings under these facilities.

Under the aforementioned credit agreement, PSNH may borrow at fixed or variable rates plus an applicable margin based upon certain debt ratings, as rated by the lower of Standard and Poor's or Moody's Investors Service. The weighted average interest rate on PSNH's notes payable to banks outstanding on December 31, 2001 was 2.9 percent.

This credit agreement provides that PSNH must comply with certain financial and nonfinancial covenants as are customarily included in such agreements, including, but not limited to, consolidated debt ratios and interest coverage ratios. PSNH currently is and expects to remain in compliance with these covenants.

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, 2001 and 2000, PSNH had $23 million in borrowings from and no borrowings from/lendings to the Pool, respectively. The interest rate on borrowings from the Pool at December 31, 2001 was 1.5 percent.

4. 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 $0.7 million in 2001, $1 million in 2000, and $1.5 million in 1999. Interest included in capital lease rental payments was $0.3 million in 2001 and 2000, and $0.4 million in 1999. Operating lease rental payments charged to expense were $3.9 million in 2001, $3.5 million in 2000, and $3.1 million in 1999.

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, 2001, are as follows:

Year	Capital Leases	Operating Leases
	(Millions of Dollars)	
2002	$0.4	$ 5.9
2003	0.4	4.3
2004	0.4	3.8
2005	0.4	3.2
2006	0.3	2.8
After 2006	0.4	4.6
Future minimum lease payments	2.3	$24.6
Less amount representing interest	0.9	
Present value of future minimum lease payments	$1.4	

5. PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION

Details of preferred stock subject to mandatory redemption are as follows:

Description	Shares Outstanding December 31, 2001	December 31, 2001	December 31, 2000
		(Millions of Dollars)	
10.60% Series A of 1991	-	$ -	$24.3
Less preferred stock to be redeemed within one year	-	-	24.3
Totals....................	-	$ -	$ -

6. LONG-TERM DEBT

Details of long-term debt outstanding are as follows:

At December 31,	2001	2000
	(Millions of Dollars)	
Pollution Control Revenue Bonds:		
7.65% Tax-Exempt Series A, due 2021	$ -	$ 66.0
7.50% Tax-Exempt Series B, due 2021	-	109.0
7.65% Tax-Exempt Series C, due 2021	-	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 A, due 2021	89.3	-
Adjustable Rate, Series B, due 2021	89.3	-
5.45% Tax-Exempt Series C, due 2021	108.9	-
Long-term debt	$407.3	$407.3

There are no cash sinking fund requirements or debt maturities for the years 2002 through 2006. 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.

Essentially, all utility plant of PSNH is subject to the liens of the company's first mortgage bond indenture.

PSNH entered into financing arrangements with the Business Finance Authority (BFA) of the state of New Hampshire. Pursuant to which the BFA issued five 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 bond insurance and 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 first mortgage 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 was 1.6 percent in 2001 and ranged from 5.9 percent to 6.8 percent in 2000.

7. 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,	2001	2000	1999
	(Millions of Dollars)		
Current income taxes:			
Federal	$(143.5)	$41.8	$41.4
State	(13.4)	4.0	5.0
Total current	(156.9)	45.8	46.4
Deferred income taxes, net:			
Federal	197.3	6.7	4.6
State	13.5	0.8	(2.2)
Total deferred	210.8	7.5	2.4
Investment tax credits, net	(15.3)	(8.0)	(7.7)
Total income tax expense	$ 38.6	$45.3	$41.1

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

For the Years Ended December 31,	2001	2000	1999
	(Millions of Dollars)		
Depreciation	$ 1.9	$(1.0)	$ (6.5)
Regulatory deferral	13.3	6.9	(12.6)
State net operating loss carryforward	-	-	29.5
Regulatory disallowance	2.3	-	(2.3)
Contractual settlements	6.7	-	(6.7)
Securitized contract costs and other	177.9	-	-
Other	8.7	1.6	1.0
Deferred income taxes, net	$210.8	$ 7.5	$ 2.4

A reconciliation between income tax expense and the expected tax expense at the statutory rate is as follows:

For the Years Ended December 31,	2001	2000	1999
	(Millions of Dollars)		
Expected federal income tax...........	$42.1	$39.4	$43.7
Tax effect of differences:			
Depreciation.........................	0.7	0.3	0.9
Amortization of regulatory assets.................	6.3	9.9	9.9
Investment tax credit amortization......................	(15.3)	(8.0)	(7.7)
State income taxes, net of federal benefit..................	0.1	2.9	1.6
Adjustment to tax asset valuation allowance...............	-	-	(7.4)
Seabrook intercompany gains and losses.......................	-	5.0	0.8
Allocation of parent company loss...	-	(4.2)	-
Other, net..........................	4.7	-	(0.7)
Total income tax expense.............	$38.6	$45.3	$41.1

8. PENSION BENEFITS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The NU system companies, 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 the employees' highest eligible compensation during 60 consecutive months of employment. PSNH's portion of the NU system's pension credit, part of which was credited to utility plant, was $4.7 million in 2001, $4.3 million in 2000 and $0.5 million in 1999.

Currently, PSNH's policy is to annually fund an amount at least equal to that which will satisfy the requirements of the Employee Retirement Income Security Act and Internal Revenue 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 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.

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

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

	At December 31,			
	Pension Benefits		Postretirement Benefits	
(Millions of Dollars)	2001	2000	2001	2000
Change in benefit obligation				
Benefit obligation at beginning of year......	$(211.1)	$(201.5)	$(52.9)	$(51.2)
Service cost................	(5.0)	(4.8)	(1.1)	(0.9)
Interest Cost...............	(15.8)	(15.0)	(4.3)	(3.9)
Transfers..................	0.1	0.1	-	-
Actuarial loss..............	(9.5)	(1.0)	(12.4)	(1.1)
Benefits paid...............	15.1	11.1	5.3	4.2
Settlements and other.......	(1.7)	-	(0.1)	-
Benefit obligation at end of year............	$(227.9)	$(211.1)	$(65.5)	$(52.9)
Change in plan assets				
Fair value of plan assets at beginning of year......	$ 221.8	$ 233.8	$ 32.4	$ 30.6
Actual return on plan assets...............	(10.0)	(0.8)	(2.9)	1.5
Employer contribution.......	-	-	4.3	4.5
Benefits paid...............	(15.1)	(11.1)	(5.3)	(4.2)
Transfers..................	(0.1)	(0.1)	-	-
Fair value of plan assets at end of year............	$ 196.6	$ 221.8	$ 28.5	$ 32.4
Funded status at December 31............	$ (31.3)	$ 10.7	$(37.0)	$(20.5)
Unrecognized transition obligation................	2.7	3.0	32.2	35.3
Unrecognized prior service cost	14.1	15.5	-	-
Unrecognized net (gain)/loss...............	(22.8)	(70.4)	4.6	(14.8)
Accrued benefit cost........	$ (37.3)	$ (41.2)	$ (0.2)	$ -

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

	At December 31,			
	Pension Benefits		Postretirement Benefits	
	2001	2000	2001	2000
Discount rate............	7.25%	7.50%	7.25%	7.50%
Compensation/ progression rate.......	4.25	4.50	4.25	4.50
Health care cost trend rate (a).........	N/A	N/A	11.00	5.26

(a) The annual per capita cost of covered health care benefits was assumed to decrease to 5.00 percent by 2007.

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

	For the Years Ended December 31,					
	Pension Benefits			Postretirement Benefits		
(Millions of Dollars)	2001	2000	1999	2001	2000	1999
Service cost......	$ 5.0	$ 4.8	$ 4.9	$ 1.1	$ 0.9	$ 1.0
Interest cost.....	15.8	15.0	14.3	4.3	3.9	3.6
Expected return on plan assets..	(20.9)	(19.7)	(17.7)	(2.9)	(2.6)	(2.1)
Amortization of unrecognized net transition obligation......	0.3	0.3	0.3	2.9	2.9	2.9
Amortization of prior service cost...........	1.3	1.3	1.3	-	-	-
Amortization of actuarial gain .	(5.4)	(6.0)	(3.6)	-	-	-
Other amortization, net.............	-	-	-	(1.1)	(0.6)	(0.5)
Settlements and other...........	(0.8)	-	-	-	-	-
Net periodic benefit (credit)/cost...	$(4.7)	$ (4.3)	$ (0.5)	$ 4.3	$ 4.5	$ 4.9

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

	For the Years Ended December 31,					
	Pension Benefits			Postretirement Benefits		
	2001	2000	1999	2001	2000	1999
Discount rate............	7.50%	7.75%	7.00%	7.50%	7.75%	7.00%
Expected long-term rate of return...........	9.50	9.50	9.50	N/A	N/A	N/A
Compensation/ progression rate.........	4.50	4.75	4.25	4.50	4.75	4.25
Long-term rate of return -						
Health assets, net of tax...........	N/A	N/A	N/A	7.50	7.50	7.50
Life assets............	N/A	N/A	N/A	9.50	9.50	9.50

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.......	$0.2	$(0.2)
Effect on postretirement benefit obligation............	$3.0	$(2.7)

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

9. NUCLEAR GENERATION ASSETS DIVESTITURE

On March 31, 2001, PSNH, CL&P and WMECO sold their ownership interests in Millstone 3 to a subsidiary of Dominion Resources, Inc., Dominion Nuclear Connecticut, Inc. (DNCI). This sale included all of the respective joint ownership interests of PSNH, CL&P and WMECO in Millstone 3. PSNH received approximately $25 million of cash proceeds from the sale and applied the proceeds to taxes and reductions of debt and equity. As part of the sale, DNCI assumed responsibility for decommissioning the three Millstone units.

10. COMMITMENTS AND CONTINGENCIES

A. Restructuring

In July 2001, the NHPUC opened a docket to review the FPPAC cost accruals between August 2, 1999, and April 30, 2001. Hearings at the NHPUC are expected to be held during the spring of 2002. Under the Settlement Agreement, the FPPAC deferrals are recovered as a Part 3 regulatory asset through a stranded cost recovery charge. At December 31, 2001 and 2000, PSNH had $183.3 million and $145.9 million, respectively, of recoverable deferred energy costs deferred under the FPPAC, excluding previous deferrals of purchases from independent power producers. Management does not expect the outcome of these hearings to have a material impact on its earnings.

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 the environment. As such, the NU system, including PSNH, has active environmental auditing and training programs and believes it is substantially 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 consolidated financial statements.

Based upon currently available information for the estimated remediation costs as of December 31, 2001 and 2000, the liability recorded by PSNH for its estimated environmental remediation costs amounted to $11.4 million and $9.7 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 on or after April 7, 1983, are billed currently to customers and paid to the DOE on a quarterly basis. PSNH remains responsible for fees to be paid for fuel burned until the divestiture of the Millstone and Seabrook nuclear units.

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 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, $1.3 million and $0.5 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.

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, including PSNH 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 NAEC's ownership interest in Seabrook, PSNH's maximum liability, including any additional assessments, would be $31.3 million per incident, of which payments would be limited to $3.6 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.

PSNH expects to terminate its nuclear insurance upon the divestiture of its remaining nuclear units.

E. Long-Term Contractual Arrangements

Yankee Companies: 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. PSNH's cost of purchases under contracts with VYNPC amounted to $6.5 million in 2001, $6.4 million in 2000 and $7.5 million in 1999. VYNPC is in the process of selling its nuclear unit. Upon completion of the sale, it is expected that these long-term contracts will be replaced with different contracts with the new buyer.

Energy Procurement Contracts: PSNH has entered into various arrangements for the purchase of capacity and energy. PSNH's total cost of purchases under these arrangements amounted to $144.4 million in 2001, $144.9 million in 2000 and $139.8 million in 1999.

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.

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

	2002	2003	2004	2005	2006	Totals
			(Millions of Dollars)			
VYNPC	$ 7.7	$ 7.3	$ 8.4	$ 8.5	$ 7.7	$ 39.6
Energy Procurement Contracts	135.5	139.3	142.8	144.3	140.4	702.3
Hydro-Quebec	8.4	8.1	7.8	7.5	6.7	38.5
Totals	$151.6	$154.7	$159.0	$160.3	$154.8	$780.4

11. NUCLEAR DECOMMISSIONING AND PLANT CLOSURE COSTS

Seabrook: 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. These costs are recovered through a stranded cost recovery charge. 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's decommissioning funding requirements are set by the New Hampshire Nuclear Decommissioning Financing Committee (NDFC). During November 2001, the NDFC issued an order that decreased the decommissioning funding requirements from previously approved levels as a result of revisions in the decommissioning standard required by state statutes and an increase in the NDFC's estimate of the energy producing life of Seabrook to 2026. As a result, nuclear decommissioning costs are being accrued over the expected service life of the unit.

PSNH's estimated cost of decommissioning NAEC's ownership share of Seabrook, in year end 2001 dollars, is $199.9 million. 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.

As of December 31, 2001 and 2000, NAEC has paid approximately $46.6 million and $39.6 million, respectively, (including payments made prior to the acquisition date by PSNH) into Seabrook's decommissioning fund. Earnings on the decommissioning trust increase the decommissioning trust balance and the accumulated provision for depreciation. Unrealized gains and losses associated with the decommissioning trust also impact the balance of the trust and the accumulated provision for depreciation. The fair values of the amounts in the Seabrook external decommissioning trust were $55.5 million and $50.8 million at December 31, 2001 and 2000, respectively. Upon divestiture, the balance in the Seabrook decommissioning trust will be transferred to the buyer.

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 2001 dollars, of decommissioning this unit is $18.9 million. In August 2001, VYNPC agreed to sell its nuclear generating unit for $180 million, including $35 million for nuclear fuel, to an unaffiliated company. Among other commitments, the acquiring company agreed to assume the obligation to decommission the unit after it is taken out of service and provide the current level of output from the unit through 2012. The sale is subject to the approval of the Vermont Public Service Board, the Nuclear Regulatory Commission, the FERC, and other regulatory authorities. The closing on the sale is expected to be in the first half of 2002.

As of December 31, 2001 and 2000, PSNH's remaining estimated obligation, including decommissioning for the units owned by CYAPC, YAEC and MYAPC, which have been shut down was $37.7 million and $41.5 million, respectively.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Nuclear Decommissioning Trusts: PSNH's portion of the investments held in the NU system companies' nuclear decommissioning trusts were transferred to DNCI in 2001 in conjunction with the sale of the Millstone units. These investments were marked-to-market by a positive $2.3 million as of December 31, 2000, with corresponding offsets to the accumulated provision for depreciation.

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:

	At December 31, 2001	
(Millions of Dollars)	Carrying Amount	Fair Value
Long-term debt -		
Other long-term debt	$407.3	$410.0
Rate reduction bonds	507.4	519.4

	At December 31, 2000	
(Millions of Dollars)	Carrying Amount	Fair Value
Preferred stock subject to mandatory redemption	$ 24.3	$ 25.5
Long-term debt -		
Other long-term debt	407.3	401.9

13. OTHER COMPREHENSIVE INCOME

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

(Millions of Dollars)	December 31, 2000	Current Period Change	December 31, 2001
Unrealized gains on securities..............	$1.4	$(0.8)	$0.6
Minimum pension liability adjustments....	(0.2)	-	(0.2)
Accumulated other comprehensive income/(loss)	$1.2	$(0.8)	$0.4

(Millions of Dollars)	December 31, 1999	Current Period Change	December 31, 2000
Unrealized gains on securities..............	$1.3	$0.1	$1.4
Minimum pension liability adjustments....	(0.2)	-	(0.2)
Accumulated other comprehensive income.....	$1.1	$0.1	$1.2

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

(Millions of Dollars)	2001	2000	1999
Unrealized gains on securities..............	$0.4	$ -	$ -
Minimum pension liability adjustments....	-	-	-
Other comprehensive income..................	$0.4	$ -	$ -

14. SEGMENT INFORMATION

The NU system is organized between regulated utilities (electric and gas since March 1, 2000) and competitive energy subsidiaries. PSNH is included in the regulated utilities segment of the NU system and has no other reportable segments.

Public Service Company of New Hampshire and Subsidiaries

SELECTED CONSOLIDATED FINANCIAL DATA

	2001	2000	1999	1998	1997
			(Thousands of Dollars)		
Operating Revenues..........	$1,171,686	$1,291,332	$1,160,589	$1,087,247	$1,108,459
Net Income/(Loss)...........	81,776	(146,666)	84,209	91,686	92,172
Cash Dividends on Common Stock..............	27,000	50,000	-	-	85,000
Total Assets................	2,094,514	2,082,296	2,622,433	2,681,595	2,837,159
Rate Reduction Bonds........	507,381	-	-	-	-
Long-Term Debt(a)...........	407,285	407,285	516,485	516,485	686,485
Preferred Stock Subject to Mandatory Redemption (a)..	-	24,268	50,000	75,000	100,000
Obligations Under Seabrook Power Contracts and Other Capital Leases (a)........	110,275	629,230	726,153	842,223	921,813

QUARTERLY FINANCIAL DATA (Unaudited)

	Quarter Ended			
2001	March 31	June 30	September 30	December 31
	(Thousands of Dollars)			
Operating Revenues	$340,835	$286,799	$299,711	$ 244,341
Operating Income	$ 23,222	$ 31,008	$ 45,564	$ 34,854
Net Income	$ 28,362	$ 15,517	$ 21,630	$ 16,267
2000				
Operating Revenues	$328,707	$326,471	$337,878	$ 298,276
Operating Income	$ 38,577	$ 37,407	$ 33,724	$ 26,296
Net Income/(Loss)	$ 17,431	$ 14,252	$ 28,733	$(207,082)

(a) Includes portions due within one year.

Public Service Company of New Hampshire and Subsidiaries

CONSOLIDATED STATISTICS (Unaudited)

	Gross Electric Utility Plant December 31, (Thousands of Dollars)	kWh Sales (Millions)	Average Annual Use Per Residential Customer (kWh)	Electric Customers (Average)	Employees December 31,
2001	$1,492,916	14,953	6,868	439,750	1,241
2000	1,535,343	17,143	6,644	433,937	1,227
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

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Public Service of New Hampshire
General Offices
780 North Commercial Street
P.O. Box 330
Manchester, New Hampshire 03101

Public Service of New Hampshire

The Northeast Utilities System

Public Service Company of New Hampshire

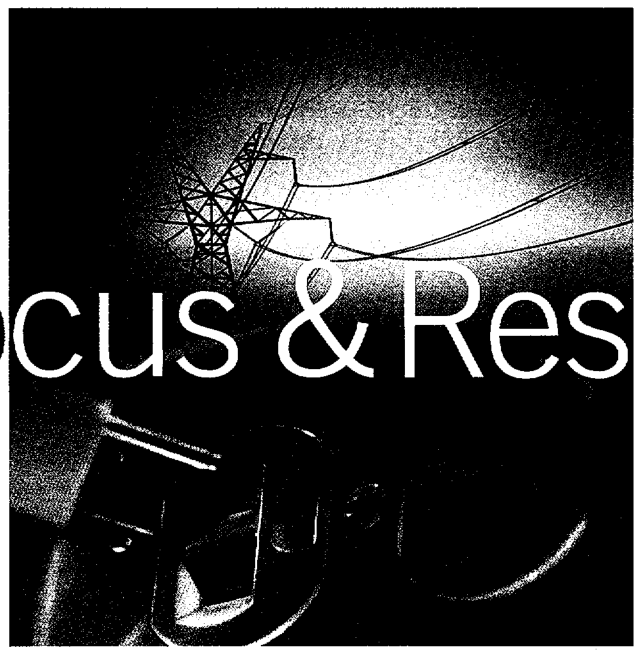
Pollution Control Revenue Bonds

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

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.

Western Massachusetts Electric Company



Focus & Results

2001 Annual Report

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Vice President - Transmission Business
Northeast Utilities Service Company

James E. Byrne
Partner
Finneran, Byrne & Drechsler, LLP

John H. Forsgren
Vice Chairman, Executive Vice President and
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Northeast Utilities

Cheryl W. Grisé
President - Utility Group
Northeast Utilities

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Friendly Ice Cream Corporation

Michael G. Morris
Chairman of the Board, President and
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Melinda M. Phelps
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David H. Boguslawski
John H. Forsgren
Cheryl W. Grisé
Kerry J. Kuhlman

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Chairman and Chief Executive Officer

Kerry J. Kuhlman
President and Chief Operating Officer

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Vice President - Transmission Business

David R. McHale
Vice President and Treasurer

John P. Stack
Vice President - Accounting and Controller

Roger C. Zaklukiewicz
Vice President - Transmission Engineering
and Operations

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Clerk

O. Kay Comendul
Assistant Clerk

William J. Quinlan
Assistant Clerk

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

Lori A. Mahler
Assistant Controller - Accounting Services

William J. Starr
Assistant Controller - Taxes

Randy A. Shoop
Assistant Treasurer - Finance

2001 Annual Report

Western Massachusetts Electric Company and Subsidiary

Index

Contents

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Western Massachusetts Electric Company and Subsidiary

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

FINANCIAL CONDITION

Overview

Western Massachusetts Electric Company's (WMECO or the company) earnings before preferred dividends totaled $15 million in 2001, compared with $35.3 million in 2000 and $2.9 million in 1999. WMECO is an operating company in the Northeast Utilities system (NU system) and is wholly owned by Northeast Utilities (NU). Earnings at WMECO decreased primarily because the sale of Millstone three months into 2001 removed a significant source of earnings as compared with 2000.

Future Outlook

In 2001, as a result of completing industry restructuring, WMECO has evolved into an energy delivery company, delivering electricity to customers that is produced by other companies and sometimes bought by customers through intermediaries. Customers in Massachusetts currently have the option of choosing alternative power suppliers or relying on WMECO to acquire the power for them through standard offer service. WMECO renegotiated its standard offer supply contracts on an annual basis. As a result, in January 2001, WMECO instituted approximately a 17 percent overall rate increase for its customers taking standard offer service reflecting a sharp increase in prices paid to third-party suppliers during 2001. In December 2001, however, these rates were reduced by 14 percent, primarily reflecting a reduction in WMECO's standard offer service supply costs in 2002. The significant reduction in supply costs in 2002 will result in a material reduction in WMECO's operating revenues and purchased power costs in 2002, but should not have a significant impact on financial performance since electric supply costs are passed through to customers. As a result, WMECO expects that its financial performance will be relatively stable and predictable in 2002, absent significant adverse events, such as a catastrophic storm.

Liquidity

The year 2001 was marked by tremendous inflows of cash into the NU system and WMECO as a result of the securitization of stranded costs and the sale of the Millstone units. WMECO's liquidity benefited from the issuance of $155 million in rate reduction certificates and the receipt of approximately $175 million from the sale of the Millstone units. The largest share of the proceeds from the Millstone sale was used for the repayment of debt and preferred securities. As a result, WMECO's combined short-term and long-term debt other than rate reduction bonds decreased to $160.4 million at the end of 2001 from

$310 million at the end of 2000. WMECO repaid all of its preferred stock in 2001.

Of the $155 million of rate reduction certificates issued by WMECO, $99.7 million was related to the buyout of high-cost, long-term purchased-power contracts.

The remaining proceeds from the Millstone sale were used primarily to pay state and federal income taxes on the Millstone sale and return equity capital to NU parent. Including both return of capital and common dividends, WMECO paid $37 million to NU parent in 2001.

Primarily as a result of the Millstone sale and the issuance of rate reduction certificates, WMECO's consolidated capitalization ratio was significantly stronger at the end of 2001 than it was a year earlier. Including capital lease obligations, but excluding rate reduction bonds, as these bonds are nonrecourse to WMECO, WMECO's capitalization ratio was 51.6 percent debt and 48.4 percent common equity at the end of 2001, compared with 61.8 percent debt, 6.7 percent preferred securities and 31.5 percent common equity at the end of 2000. The improved capitalization ratio and lowered overall risk profile resulted in a series of upgrades of the NU system securities through 2001. At the end of 2001, senior debt ratings on WMECO's securities were A3 and BBB+. Overall, these ratings were the highest for WMECO securities in decades and are expected to continue to enhance WMECO's access to low-cost capital.

WMECO's net cash flows provided by operating activities decreased to $64.9 million in 2001, compared with $71.5 million in 2000 and $21.8 million in 1999. In 2001, cash flows provided by operating activities, decreased primarily due to industry restructuring and the Millstone sale in March 2001. The level of common dividends totaled $22 million in 2001, as compared to $12 million in 2000 and no common dividends in 1999. The level of preferred dividends decreased to $0.4 million in 2001, compared with $2.8 million in 2000 and $3.3 million in 1999, reflecting WMECO's reduced preferred stock outstanding. WMECO currently forecasts construction expenditures of up to $25 million for the year 2002.

Over the coming years, management expects WMECO to pay out substantially all of its earnings as dividends to the parent company. In 2002, WMECO may make additional dividend payments to NU to help achieve its target leverage ratio of approximately 55 percent, excluding rate reduction bonds. As of December 31, 2001, WMECO's capitalization included total debt of approximately 52 percent, excluding rate reduction bonds.

Current debt levels at WMECO are expected to remain stable in future years.

Capital investments in electric utility plant at WMECO totaled $30.9 million in 2001, as compared to $27.3 million in 2000. The company anticipates no material increase in capital expenditures in the next several years.

Restructuring and Rate Matters

Massachusetts has experienced a continued expansion in the number of customers securing their electric supply through competitive suppliers. In January 2001, WMECO instituted approximately a 17 percent overall rate increase for its customers taking standard offer service. The increase reflected a sharp increase, from approximately $0.045 per kilowatt-hour (kWh) to approximately $0.073 per kWh, in prices paid to third-party suppliers during 2001. In December 2001, however, the Massachusetts Department of Telecommunications and Energy approved approximately a 14 percent reduction in WMECO's overall rates for standard offer service customers, primarily reflecting a reduction in WMECO's standard offer service supply costs in 2002 to approximately $0.048 per kWh. The significant reduction in supply costs in 2002 will result in a material reduction in WMECO's operating revenues and purchased power costs in 2002, but should not have a significant impact on financial performance since electric supply costs are passed through to customers.

For further information regarding commitments and contingencies related to restructuring, see Note 10A, "Commitments and Contingencies - Restructuring," to the consolidated financial statements.

Regional Transmission Organization

The Federal Energy Regulatory Commission (FERC) has required all transmission owning utilities, including WMECO, to voluntarily start forming regional transmission organizations (RTO) or to state why this process has not begun. In July 2001, the FERC stated that the three existing Northeastern Independent System Operators (ISO) (PJM, New York and New England) should work together to form one RTO. The FERC initiated a mediation effort between all interested parties to begin the process of forming such an entity.

NU has been discussing with the other transmission owners in the three pool area the potential to form an Independent Transmission Company (ITC). The ITC would be a for-profit entity and would perform certain transmission functions required by the FERC including tariff control, system planning and system operations. The remaining functions required by the FERC would be performed by the ISO and deal with the energy market and short-term reliability. Together, the ITC and ISO form the FERC desired RTO.

In January 2002, the New York and New England ISOs announced their intention to form an RTO. NU is working with the other transmission owners in these two power pools to create an ITC. The agreements needed to create the ITC and to define the working relationships among the ISO, the ITC and the transmission owners should be created in 2002 and will allow the ITC to begin operation shortly thereafter. The ITC and/or ISO will have the responsibility to collect the revenue requirements of each transmission owning entity from the market place through FERC approved tariffs. The creation of the ITC and/or RTO will require a FERC rate case and the impact on NU's return on equity as a result of this rate case cannot be estimated at this time.

Nuclear Plant Performance and Other Matters

Vermont Yankee: In August 2001, the owners of Vermont Yankee announced they would sell the unit to an unaffiliated company for $180 million, including $145 million for the plant and materials and supplies and $35 million for the nuclear fuel. WMECO owns 2.5 percent of the unit, and under the terms of the sale, will continue to buy 2.5 percent of the plant's output through March 2012 at a range of fixed prices. The sale requires several regulatory approvals and is scheduled to close during the first half of 2002.

Millstone: On March 31, 2001, WMECO and The Connecticut Light and Power Company (CL&P) consummated the sale of Millstone 1 and 2 to a subsidiary of Dominion Resources, Inc., Dominion Nuclear Connecticut, Inc. (DNCI). Additionally, WMECO, CL&P and Public Service Company of New Hampshire sold their ownership interests in Millstone 3 to DNCI. On October 5, 2001, NU issued a report, following an extensive search, concerning two missing fuel pins at the retired Millstone 1 nuclear unit, which was sold to DNCI on March 31, 2001. As of December 31, 2001, costs related to this search for WMECO totaled $1.3 million. The report concluded that the pins are currently located in one of four facilities licensed to store low or high-level nuclear waste and that they are not a threat to public health and safety. A follow-up review by the Nuclear Regulatory Commission (NRC) commenced shortly after the report was filed and resulted in a NRC sponsored public meeting on January 15, 2002. In February 2002, the NRC issued a written inspection report which concluded that NU's investigation was thorough and complete, and that its conclusions were reasonable and supportable.

Nuclear Decommissioning

In connection with the aforementioned sale of the Millstone units, DNCI has agreed to assume responsibility for decommissioning those units.

For further information regarding nuclear decommissioning, see Note 11, "Nuclear Decommissioning and Plant Closure Costs," to the consolidated financial statements.

Spent Nuclear Fuel Disposal Costs

The United States Department of Energy (DOE) originally was scheduled to begin accepting delivery of spent nuclear fuel on January 31, 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. WMECO has the primary responsibility for the interim storage of its spent nuclear fuel prior to divestiture of its remaining operating nuclear unit, Vermont Yankee, as well as the three nuclear units currently undergoing decommissioning, Connecticut Yankee, Maine Yankee and Yankee Rowe.

For further information regarding spent nuclear fuel disposal costs, see Note 10C, "Commitments and Contingencies - Spent Nuclear Fuel Disposal Costs," to the consolidated financial statements.

Other Matters

Critical Accounting Policies: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, assumptions and at times difficult, subjective or complex judgments. Accounting policies related to the recoverability of certain regulatory assets and the assumptions used in developing the pension and postretirement benefit obligations are the accounting principles that management believes are critical and could have a significant impact on WMECO's consolidated financial statements.

Regulatory Assets: The accounting policies of the NU system's regulated operating companies historically reflect the effects of the rate-making process in accordance with Statement of Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Through its cost-of-service rate regulated transmission and distribution business, WMECO is currently recovering its investments in long-lived assets, including regulatory assets, and management believes that the application of SFAS No. 71 to that portion of their business continues to be appropriate. Management must reaffirm this conclusion at each balance sheet date. If, as a result of a change in circumstances, it is determined that any portion of these investments is no longer recoverable under SFAS No. 71, that portion would be written off. Such a write-off could have a material impact on WMECO's consolidated financial statements. Management currently believes that all long-lived assets, including regulatory assets, are recoverable.

Pension and Postretirement Benefit Obligations: WMECO participates in a uniform noncontributory defined benefit retirement plan covering substantially all regular NU system employees and also provides certain health care benefits, primarily medical and dental, and life insurance benefits through a benefit plan to retired employees. For each of these plans, the development of the benefit obligation, fair value of plan assets, funded status, and net periodic benefit credit or cost is based on several significant assumptions. These assumptions primarily relate to the application of a discount rate, expected long-term rate of return and other trend rates. If these assumptions were changed, the resultant change in benefit obligations, fair values of plan assets, funded status, and net periodic benefit credits or costs could have a material impact on WMECO's consolidated financial statements.

For further information regarding these types of activities, see Note 1G, "Regulatory Accounting and Assets," and Note 8, "Pension Benefits and Postretirement Benefits Other Than Pensions," to the consolidated financial statements.

Environmental Matters: The NU system, including WMECO, 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 10B, "Commitments and Contingencies - Environmental Matters," to the consolidated financial statements.

Other Commitments and Contingencies: For further information regarding other commitments and contingencies, see Note 10, "Commitments and Contingencies," to the consolidated financial statements.

Contractual Obligations and Commercial Commitments: Aggregated information regarding WMECO's contractual obligations and commercial commitments as of December 31, 2001, is summarized as follows:

(Millions of Dollars)	2002	2003	2004	2005	2006	Totals
Notes payable to banks	$50.0	$ -	$ -	$ -	$ -	$ 50.0
Operating leases	3.5	3.2	3.0	2.9	2.6	15.2
Long-term contractual obligations	10.7	10.4	10.9	10.9	10.1	53.0
Totals	$64.2	$13.6	$13.9	$13.8	$12.7	$118.2

For further information regarding WMECO's contractual obligations and commercial commitments, see Note 2, "Short-Term Debt," Note 3, "Leases," and Note 10E, "Long-Term Contractual Arrangements," to the consolidated financial statements.

Forward Looking Statements: This discussion and analysis includes forward looking statements, which are statements of future expectations and not facts including, but not limited to, statements regarding future earnings, refinancings, the use of proceeds from restructuring, and the recovery of operating costs. 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)

	2001 over/(under) 2000		2000 over/(under) 1999	
	Amount	Percent	Amount	Percent
Operating Revenues	$(35)	(7)%	$99	24%
Operating Expenses:				
Fuel, purchased and net interchange power	70	28	95	62
Other operation	(9)	(12)	(26)	(25)
Maintenance	(13)	(41)	(14)	(30)
Depreciation	(4)	(22)	(10)	(36)
Amortization of regulatory assets, net	84	(a)	21	80
Taxes other than income taxes	(6)	(26)	(3)	(14)
Gain on sale of utility plant	(120)	(a)	22	100
Total operating expenses	2	1	85	24
Operating income	(37)	(50)	14	24
Other income/(loss), net	(2)	(a)	22	(a)
Interest expense, net	(10)	(40)	(2)	(7)
Income before income tax expense	(29)	(57)	38	(a)
Income tax expense	(9)	(57)	6	69
Net Income/(loss)	$(20)	(58)%	$32	(a)

(a) Percent greater than 100.

Operating Revenues

Operating revenues decreased by $35 million or 7 percent in 2001, primarily due to lower wholesale revenues ($85 million), partially offset by higher regulated retail revenues ($52 million). Wholesale revenues were lower primarily as a result of the sale of the Millstone units at the end of the first quarter of 2001 and lower sales of energy and capacity. Retail revenues increased primarily due to an increase in the standard offer service rate partially offset by lower retail sales. Retail sales decreased by 0.9 percent compared to 2000.

Operating revenues increased by $99 million or 24 percent in 2000, primarily due to higher wholesale and retail revenues. Wholesale revenues increased ($82 million) as a result of the sale of output from Millstone 2 and 3. Retail revenues increased by $11 million due to retail rate increases in late 1999 and early 2000. Retail sales compared to 1999 were flat.

Fuel, Purchased and Net Interchange Power

Fuel, purchased and net interchange power expense increased in 2001, primarily due to higher purchased energy costs associated with the standard offer supply.

Fuel, purchased and net interchange power expense increased in 2000, primarily due to the transition, under industry restructuring, of purchasing full requirements for customers from standard offer suppliers, in addition to the remaining fuel costs of the nuclear units and cogenerators.

Other Operation and Maintenance

Other operation and maintenance (O&M) expenses decreased in 2001, primarily due to lower nuclear expenses ($29 million) as a result of the sale of the Millstone units at the end of the first quarter in 2001 and lower transmission and distribution expenses ($2 million), partially offset by higher administrative and general expenses ($10 million).

Other O&M expenses decreased in 2000, primarily due to lower spending at the nuclear units ($17 million), the decommissioning status of Millstone 1 ($7 million), lower administrative and general expenses ($14 million), lower fossil and hydroelectric expenses due to the sale of certain fossil generation assets, and the transfer of certain hydroelectric generation assets ($6 million), partially offset by higher transmission expenses ($4 million).

Depreciation

Depreciation expense decreased in 2001, primarily due to the elimination of decommissioning expenses as a result of the sale of the Millstone units at the end of the first quarter of 2001.

Depreciation decreased in 2000, primarily due to the effect of discontinuing SFAS No. 71 for the generation portion of the business and the resulting reclassification of depreciable nuclear plant balances to regulatory assets ($14 million), the sale of certain fossil generation assets and the transfer of certain hydroelectric generation assets.

Amortization of Regulatory Assets, Net

Amortization of regulatory assets, net increased in 2001, primarily due to the amortization in 2001 related to the gain from the sale of Millstone ($120 million), partially offset by lower amortization of nuclear-related transition costs ($22 million) and the current deferral of transition costs ($23 million).

Amortization of regulatory assets, net increased in 2000, primarily due to changes in amortization levels as a result of industry restructuring ($24 million) and higher amortization associated with the reclassified nuclear plant balances ($14 million), partially offset by the amortization in 1999 of the gain on the sale of the fossil plants ($12 million).

Taxes Other Than Income Taxes

Taxes other than income taxes decreased in 2001 and 2000, primarily due to decreases in local property taxes.

Gain on Sale of Utility Plant

WMECO recorded a gain in 2001 on the sale of its ownership interest in Millstone. A corresponding amount of amortization expense was recorded.

Other Income/(Loss), Net

Other income/(loss), net decreased in 2001, primarily due to higher environmental reserves in 2001, partially offset by the settlement, in 2000, of Millstone-related litigation, net of insurance proceeds ($2 million).

Other income/(loss), net increased in 2000, primarily due to the nuclear-related costs. Nuclear-related costs in 2000 are comprised of a settlement of Millstone 3 joint owner litigation, net of insurance proceeds ($2 million), and a regulatory settlement ($1 million). In comparison, costs in 1999 are comprised of one-time charges related to the return disallowed on Millstone 1 unrecovered plant from March 1998 forward ($11 million), the settlement of Millstone 3 owner litigation, net of insurance proceeds ($5 million), and the disallowed Millstone 1 plant per the Massachusetts restructuring order ($2 million).

Additionally, other income/(loss), net increased in 2000, primarily due to an environmental reserve recorded in 1999 ($3 million) and higher equity in earnings of regional nuclear generating and transmission companies from the Connecticut Yankee Atomic Power Company as a result of a rate settlement ($2 million).

Interest Expense, Net
Interest expense, net decreased in 2001, primarily due to retirement of long-term debt.

Interest expense, net decreased in 2000, primarily due to reacquisitions and retirements of long-term debt, partially offset by an increase in interest charges related to short-term borrowings.

Income Tax Expense
Income tax expense decreased in 2001, primarily due to lower revenues resulting from the sale of Millstone.

Income tax expense increased in 2000, primarily due to higher book taxable income.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
of Western Massachusetts Electric Company:

We have audited the accompanying consolidated balance sheets of Western Massachusetts Electric Company (a Massachusetts corporation and a wholly owned subsidiary of Northeast Utilities) and subsidiary as of December 31, 2001 and 2000, and the related consolidated statements of income, comprehensive income, common stockholder's equity and cash flows for each of the three years in the period ended December 31, 2001. 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 auditing standards generally accepted in the United States. 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 Western Massachusetts Electric Company and subsidiary as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP
ARTHUR ANDERSEN LLP

Hartford, Connecticut
January 22, 2002

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WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31,	2001	2000	1999
	(Thousands of Dollars)		
Operating Revenues	$ 478,869	$ 513,678	$ 414,231
Operating Expenses:			
Operation -			
Fuel, purchased and net interchange power	315,903	246,130	151,714
Other	66,458	75,940	101,842
Maintenance	19,635	33,111	47,586
Depreciation	13,818	17,693	27,771
Amortization of regulatory assets, net	131,876	47,775	26,488
Taxes other than income taxes	13,065	17,759	20,677
Gain on sale of utility plant	(119,775)	-	(22,437)
Total operating expenses	440,980	438,408	353,641
Operating Income	37,889	75,270	60,590
Other (Loss)/Income, Net	(1,050)	685	(21,246)
Income Before Interest and Income Tax Expense	36,839	75,955	39,344
Interest Expense:			
Interest on long-term debt	5,325	14,051	24,255
Interest on rate reduction bonds	6,251	-	-
Other interest	3,735	11,491	3,259
Interest expense, net	15,311	25,542	27,514
Income Before Income Tax Expense	21,528	50,413	11,830
Income Tax Expense	6,560	15,145	8,943
Net Income	$ 14,968	$ 35,268	$ 2,887

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2001	2000	1999
Net Income	$ 14,968	$ 35,268	$ 2,887
Other comprehensive (loss)/income, net of tax:			
Unrealized (losses)/gains on securities	(123)	22	10
Comprehensive Income	$ 14,845	$ 35,290	$ 2,897

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

WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

At December 31,	2001	2000
	(Thousands of Dollars)	
ASSETS		
Current Assets:		
Cash	$ 599	$ 985
Receivables, less accumulated provision for uncollectible accounts of $2,028 in 2001 and $1,886 in 2000	43,761	36,364
Accounts receivable from affiliated companies	2,208	16,146
Unbilled revenues	12,746	21,222
Fuel, materials and supplies, at average cost	1,457	1,606
Prepayments and other	1,544	4,817
	62,315	81,140
Property, Plant and Equipment:		
Electric utility	564,857	1,112,405
Less: Accumulated provision for depreciation	186,784	792,923
	378,073	319,482
Construction work in progress	18,326	22,813
Nuclear fuel, net	-	18,296
	396,399	360,591
Deferred Debits and Other Assets:		
Regulatory assets	320,222	392,247
Prepaid pension	54,226	45,473
Nuclear decommissioning trusts, at market	-	144,921
Other	19,500	23,446
	393,948	606,087
Total Assets	$ 852,662	$ 1,047,818

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

WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

At December 31,	2001	2000
	(Thousands of Dollars)	
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes payable to banks	$ 50,000	$ 110,000
Notes payable to affiliated company	9,200	600
Long-term debt and preferred stock - current portion	-	61,500
Accounts payable	34,970	25,298
Accounts payable to affiliated companies	2,982	8,611
Accrued taxes	3,691	8,471
Accrued interest	2,201	4,703
Other	10,214	34,592
	113,258	253,775
Rate Reduction Bonds	152,317	-
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	229,893	224,711
Accumulated deferred investment tax credits	3,998	17,580
Decommissioning obligation - Millstone 1	-	136,130
Deferred contractual obligations	37,357	42,519
Other	64,222	26,782
	335,470	447,722
Capitalization:		
Long-Term Debt	101,170	139,425
Preferred Stock	-	35,000
Common Stockholder's Equity:		
Common stock, $25 par value - authorized 1,072,471 shares; 509,696 shares outstanding in 2001 and 590,093 shares outstanding in 2000	12,742	14,752
Capital surplus, paid in	82,224	94,010
Retained earnings	55,422	62,952
Accumulated other comprehensive income	59	182
Common Stockholder's Equity	150,447	171,896
Total Capitalization	251,617	346,321
Commitments and Contingencies (Note 10)		
Total Liabilities and Capitalization	$ 852,662	$ 1,047,818

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

WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

	Common Stock	Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total (a)
			(Thousands of Dollars)		
Balance at January 1, 1999	$ 26,812	$ 151,431	$ 46,003	$ 150	$ 224,396
Net income for 1999			2,887		2,887
Cash dividends on preferred stock			(3,298)		(3,298)
Capital stock expenses, net		260			260
Allocation of benefits - ESOP (b)			(6,880)		(6,880)
Capital contribution from Northeast Utilities		20,000			20,000
Other comprehensive income				10	10
Balance at December 31, 1999	26,812	171,691	38,712	160	237,375
Net income for 2000			35,268		35,268
Cash dividends on preferred stock			(2,798)		(2,798)
Cash dividends on common stock			(12,002)		(12,002)
Repurchase of common stock	(12,060)	(77,940)			(90,000)
Capital stock expenses, net		259			259
Allocation of benefits - ESOP (b)			3,772		3,772
Other comprehensive income				22	22
Balance at December 31, 2000	14,752	94,010	62,952	182	171,896
Net income for 2001			14,968		14,968
Cash dividends on preferred stock			(404)		(404)
Cash dividends on common stock			(22,000)		(22,000)
Repurchase of common stock	(2,010)	(12,990)			(15,000)
Capital stock expenses, net		1,204			1,204
Allocation of benefits - ESOP (b)			(94)		(94)
Other comprehensive loss				(123)	(123)
Balance at December 31, 2001	$ 12,742	$ 82,224	$ 55,422	$ 59	$ 150,447

(a) The company has no dividend restrictions. However, the company has two tests it must meet before it can pay out any dividends. The most restrictive of which limits the company to paying out no greater than $55.4 million of equity at December 31, 2001.

(b) In June 1999, WMECO paid NU parent $6.9 million for NU shares issued from 1992 through 1998 on behalf of its employees in accordance with NU's 401(k) plan. This transaction resulted in a reduction of the NU parent loss and a tax benefit to WMECO. The amount in 2000 represents the remaining previously unallocated 1993 through 1999 NU parent losses.

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

WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2001	2000	1999
		(Thousands of Dollars)	
Operating Activities:			
Net income	$ 14,968	$ 35,268	$ 2,887
Adjustments to reconcile to net cash flows provided by operating activities:			
Depreciation	13,818	17,693	27,771
Deferred income taxes and investment tax credits, net	5,281	(11,549)	(6,544)
Net amortization of recoverable energy costs	3,179	9,386	-
Amortization of regulatory assets, net	131,876	47,775	26,488
Gain on sale of utility plant	(119,775)	-	(22,437)
Net other (uses)/sources of cash	(2,052)	(22,254)	6,759
Changes in working capital:			
Receivables and unbilled revenues, net	15,017	(24,637)	(22,180)
Fuel, materials and supplies	149	1,491	1,956
Accounts payable	4,043	17,727	(14,636)
Accrued taxes	(4,780)	7,882	(675)
Other working capital (excludes cash)	3,204	(7,321)	22,368
Net cash flows provided by operating activities	64,928	71,461	21,757
Investing Activities:			
Investments in regulated plant:			
Electric utility plant	(30,921)	(27,267)	(30,192)
Nuclear fuel	(140)	(7,848)	(5,817)
Net cash flows used for investments in regulated plant	(31,061)	(35,115)	(36,009)
Investments in nuclear decommissioning trusts	(23,037)	(3,437)	(11,387)
Other investment activities, net	817	3,589	1,807
Net proceeds from the sale of utility plant	175,154	185,787	48,524
Capital contributions from Northeast Utilities	-	-	20,000
Buyout of IPP contracts	(80,000)	-	(19,700)
Net cash flows provided by investing activities	41,873	150,824	3,235
Financing Activities:			
Repurchase of common stock	(15,000)	(90,000)	-
Issuance of rate reduction bonds	155,000	-	-
Retirement of rate reduction bonds	(2,683)	-	-
Net (decrease)/increase in short-term debt	(51,400)	(21,800)	81,500
Reacquisitions and retirements of long-term debt	(100,000)	(94,150)	(100,850)
Reacquisitions and retirements of preferred stock	(36,500)	(1,500)	(1,500)
Retirement of capital lease obligation	(34,200)	-	-
Cash dividends on preferred stock	(404)	(2,798)	(3,298)
Cash dividends on common stock	(22,000)	(12,002)	-
Net cash flows used in financing activities	(107,187)	(222,250)	(24,148)
Net (decrease)/increase in cash	(386)	35	844
Cash - beginning of year	985	950	106
Cash - end of year	$ 599	$ 985	$ 950
Supplemental Cash Flow Information:			
Cash paid/(refunded) during the year for:			
Interest, net of amounts capitalized	$ 17,939	$ 26,055	$ 30,958
Income taxes	$ 6,314	$ 18,554	$ (6,296)
Increase in obligations:			
Niantic Bay Fuel Trust	$ 411	$ 1,532	$ 1,112

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. About Western Massachusetts Electric Company

Western Massachusetts Electric Company (WMECO or the company) along with The Connecticut Light and Power Company (CL&P), Public Service Company of New Hampshire (PSNH), North Atlantic Energy Corporation (NAEC), Holyoke Water Power Company (HWP), and Yankee Energy System, Inc. (Yankee) are the operating companies comprising the Northeast Utilities system (NU system) and are wholly owned by Northeast Utilities (NU). The NU system furnishes franchised retail electric service in western Massachusetts, Connecticut and New Hampshire through WMECO, CL&P and PSNH. NAEC sells all of its entitlement to the capacity and output of the Seabrook Station nuclear unit (Seabrook) to PSNH under the terms of two life-of-unit, full cost recovery contracts (Seabrook Power Contracts). HWP also is engaged in the production of electric power. Yankee, the parent company of Yankee Gas Services Company (Yankee Gas), is Connecticut's largest natural gas distribution system.

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 WMECO, is subject to the 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. WMECO is subject to further regulation for rates, accounting and other matters by the FERC and the Massachusetts Department of Telecommunications and Energy (DTE).

Several wholly owned subsidiaries of NU provide support services for the NU system companies, including WMECO, and, in some cases, for other New England utilities. Northeast Utilities Service Company (NUSCO) provides centralized accounting, administrative, engineering, financial, information resources, legal, operational, planning, purchasing, and other services to the NU system companies, including WMECO. North Atlantic Energy Service Corporation has operational responsibility for Seabrook. In addition, WMECO has established a special purpose subsidiary whose operations are solely related to the issuance of rate reduction certificates.

B. Presentation

The consolidated financial statements of WMECO include the accounts of its subsidiary. Intercompany transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 and the DTE.

C. New Accounting Standards

Asset Retirement Obligations: In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs and applies to (a) all entities and (b) legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and/or the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 is effective for WMECO's 2003 calendar year. Upon adoption of SFAS No. 143, there may be an impact on WMECO's consolidated financial statements which management has not estimated at this time.

Long-Lived Assets: In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement modifies financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 is effective for WMECO's 2002 calendar year. Currently, management does not expect the adoption of SFAS No. 144 to have a material impact on WMECO's consolidated financial statements.

D. Investments and Jointly Owned Electric Utility Plant

Regional Nuclear Generating Companies: WMECO owns common stock in four regional nuclear companies (Yankee Companies). WMECO's ownership interests in the Yankee Companies at December 31, 2001 and 2000, which are accounted for on the equity method due to WMECO's ability to exercise significant influence over their operating and financial policies are 9.5 percent of the

Connecticut Yankee Atomic Power Company (CYAPC), 7 percent of the Yankee Atomic Electric Company (YAEC), 3 percent of the Maine Yankee Atomic Power Company (MYAPC), and 2.5 percent of the Vermont Yankee Nuclear Power Corporation (VYNPC). WMECO's total equity investment in the Yankee Companies at December 31, 2001 and 2000, is $9.3 million and $11.1 million, respectively. Each Yankee Company owns a single nuclear generating unit. However, VYNPC is the only unit still in operation at December 31, 2001.

Plant-in-service and the accumulated provision for depreciation for WMECO's share of Millstone 2 and 3 are as follows:

At December 31,	2001	2000
	(Millions of Dollars)	
Plant-in-service:		
Millstone 2	$ -	$ 182.3
Millstone 3	-	382.7
Accumulated provision for depreciation:		
Millstone 2	$ -	$ 174.5
Millstone 3	-	357.3

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. Depreciation rates are applied to the average plant-in-service from the time they are placed in service. When plant is retired from service, the original cost of the plant, including costs of removal less salvage, is charged to the accumulated provision for depreciation. The depreciation rates for the several classes of electric plant-in-service are equivalent to a composite rate of 2.3 percent in 2001, 2.2 percent in 2000 and 2.3 percent in 1999.

As a result of discontinuing the application of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," for WMECO's generation business in 1999, the company recorded a charge to accumulated depreciation for the nuclear plant in excess of the estimated fair market value at the time in the amount of $330 million and a corresponding regulatory asset was created.

F. Revenues

Revenues are based on authorized rates applied to each customer's use of energy. In general, rates can be changed only through a formal proceeding before the DTE. Regulatory commissions also have authority over the terms and conditions of nontraditional rate-making arrangements.

At the end of each accounting period, WMECO accrues a revenue estimate for the amount of energy delivered but unbilled.

G. Regulatory Accounting and Assets

The accounting policies of WMECO conform to accounting principles generally accepted in the United States applicable to rate-regulated enterprises and historically reflect the effects of the rate-making process in accordance with SFAS No. 71.

WMECO's transmission and distribution business continues to be cost-of-service rate regulated, and management believes the application of SFAS No. 71 continues to be appropriate. Management also believes it is probable that WMECO will recover its investments in long-lived assets, including regulatory assets. Stranded costs for WMECO will be recovered through a transition charge over a 12-year period.

In addition, the regulatory assets in the following table are earning a return. The components of WMECO's regulatory assets are as follows:

At December 31,	2001	2000
	(Millions of Dollars)	
Recoverable nuclear costs	$ 38.5	$257.7
Securitized regulatory assets	149.6	-
Income taxes, net	57.3	50.3
Unrecovered contractual obligations .	37.4	42.5
Recoverable energy costs, net	3.8	6.9
Other	33.6	34.8
Totals	$320.2	$392.2

As a result of discontinuing the application of SFAS No. 71 for WMECO's generation business, the company had an unamortized balance ($250.5 million and $286.9 million), included in recoverable nuclear costs at December 31, 2001 and 2000, respectively. These amounts were the result of reclassified nuclear plant in excess of its estimated fair market value from plant to regulatory assets, which took place in 1999. This balance is offset by the unamortized balance of the deferred credit on the transfer of assets, in March 2000, to Northeast Generation Company (NGC) of approximately $127.5 million. Since the transfer occurred between WMECO and NGC, two affiliates, the deferred credit is eliminated in consolidation. In March 2001, WMECO sold its ownership interest in the Millstone units. The gain on this sale in the amount of approximately $119.8 million was used to offset recoverable nuclear costs, resulting in an unamortized balance of $3.3 million, after the current year's amortization expense. Also included in that regulatory asset component for 2001 and 2000 are $35.2 million and $104.9 million, respectively, which includes Millstone 1 recoverable nuclear costs relating to the recoverable portion of the undepreciated plant and related assets ($35.2 million and $39.6 million, respectively) and the decommissioning and closure obligation ($65.3 million in 2000).

WMECO issued rate reduction certificates in the amount of $155 million in May of 2001 and $99.7 million of those proceeds were related to the buyout of contracts with independent power producers. The payments to buyout or buydown these contracts were recorded as securitized regulatory assets.

WMECO, under the terms of contracts with the Yankee Companies, is responsible for its proportionate share of the remaining costs of the units, including decommissioning. These amounts are recorded as unrecovered contractual obligations. A portion of these obligations was securitized in 2001 and is included in securitized regulatory assets.

WMECO, under the Energy Policy Act of 1992 (Energy Act), 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. WMECO is currently recovering these costs through rates. As of December 31, 2001 and 2000, WMECO's total D&D Assessment deferrals were $5.5 million and $8.6 million, respectively, and have been recorded as recoverable energy costs, net.

H. 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 including the impact of the sale of the Millstone units, is as follows:

At December 31,	2001	2000
	(Millions of Dollars)	
Accelerated depreciation and other plant-related differences	$107.5	$113.5
Regulatory assets:		
Nuclear stranded investment	52.3	80.2
Securitized contract termination costs and other	38.4	-
Income tax gross-up	19.0	19.5
Other	12.7	11.5
Totals	$229.9	$224.7

I. Other (Loss)/Income, Net

The components of WMECO's other (loss)/income, net items are as follows:

	For the Years Ended December 31,		
	2001	2000	1999
	(Millions of Dollars)		
Other nuclear-related costs..................	$ -	$(2.8)	$(18.0)
Other, net..............	(1.0)	3.5	(3.2)
Totals..................	$(1.0)	$ 0.7	$(21.2)

2. SHORT-TERM DEBT

Limits: The amount of short-term borrowings that may be incurred by WMECO is subject to periodic approval by either the SEC under the 1935 Act or by the respective state regulators. Currently, SEC authorization allows WMECO to incur total short-term borrowings up to a maximum of $250 million.

Credit Agreement: On November 16, 2001, WMECO, CL&P, PSNH, and Yankee Gas entered into a 364-day unsecured revolving credit facility for $350 million. This facility replaced a $250 million facility for CL&P and WMECO which expired on November 16, 2001. WMECO may draw up to $100 million, subject to the maximum facility limit of $350 million. Unless extended, the credit facility will expire on November 15, 2002. At December 31, 2001 and 2000, there were $50 million and $110 million, respectively, in borrowings under these facilities.

Under the aforementioned credit agreement, WMECO may borrow at fixed or variable rates plus an applicable margin based upon certain debt ratings, as rated by the lower of Standard and Poor's or Moody's Investors Service. The weighted average interest rates on WMECO's notes payable to banks outstanding on December 31, 2001 and 2000, was 2.98 percent and 8.05 percent, respectively.

This credit agreement provides that WMECO must comply with certain financial and nonfinancial covenants as are customarily included in such agreements, including, but not limited to, consolidated debt ratios and interest coverage ratios. WMECO currently is and expects to remain in compliance with these covenants.

Money Pool: Certain subsidiaries of NU, including WMECO, 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, 2001 and 2000, WMECO had $9.2 million and $0.6 million, respectively, of borrowings outstanding from the Pool. The interest rate on borrowings from the Pool at December 31, 2001 and 2000, was 1.5 percent and 5.4 percent, respectively.

3. LEASES

WMECO has entered into lease agreements for the use of data processing and office equipment, vehicles, nuclear control room simulators, and office space. The provisions of these lease agreements generally provide for renewal options.

Capital lease rental payments charged to operating expense were $1.9 million in 2001, $9.6 million in 2000, and $2.6 million in 1999. Interest included in capital lease rental payments was $0.7 million in 2001, $2.8 million in 2000, and $3.1 million in 1999. Operating lease rental payments charged to expense were $2.5 million in 2001, $3.2 million in 2000, and $4.8 million in 1999.

Future minimum rental payments, excluding executory costs such as property taxes, state use taxes, insurance, and maintenance, under long-term operating noncancelable leases, as of December 31, 2001, are as follows:

Year	Operating Leases
	(Millions of Dollars)
2002	$ 3.5
2003	3.2
2004	3.0
2005	2.9
2006	2.6
After 2006	11.4
Future minimum lease payments	$26.6

4. PREFERRED STOCK NOT SUBJECT TO MANDATORY REDEMPTION

Details of preferred stock not subject to mandatory redemption are as follows:

Description	December 31, 2001 Redemption Price	Shares Outstanding December 31, 2001	December 31, 2001	December 31, 2000
			(Millions of Dollars)	
7.72% Series B of 1971	$ -	-	-	$20.0

5. PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION

Details of preferred stock subject to mandatory redemption are as follows:

Description	December 31, 2001 Redemption Price	Shares Outstanding December 31, 2001	December 31, 2001	December 31, 2000
			(Millions of Dollars)	
7.60% Series of 1987	$ -	-	$ -	$16.5
Less preferred stock to be redeemed within one year	-	-	-	1.5
Totals			$ -	$15.0

6. LONG-TERM DEBT

Details of long-term debt outstanding are as follows:

At December 31,	2001	2000
	(Millions of Dollars)	
First Mortgage Bonds:		
7 3/8% Series B, due 2001	$ -	$ 60.0
7 3/4% Series V, due 2002	-	40.0
	-	100.0
Pollution Control Notes:		
Tax Exempt 1993 Series A, 5.85% due 2028 ..	53.8	53.8
Fees and interest due for spent nuclear fuel disposal costs	47.4	45.6
Less amounts due within one year	-	60.0
Long-term debt, net	$101.2	$139.4

Essentially all utility plant of WMECO is subject to the liens of the company's first mortgage bond indenture.

WMECO has secured $53.8 million of pollution control notes with second mortgage liens on transmission assets, junior to the liens of its first mortgage bond indentures.

7. 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,	2001	2000	1999
	(Millions of Dollars)		
Current income taxes:			
Federal	$ 0.3	$15.8	$13.5
State	1.0	10.9	2.0
Total current	1.3	26.7	15.5
Deferred income taxes, net:			
Federal	5.3	(0.8)	(3.5)
State	0.6	(8.6)	(0.9)
Total deferred	5.9	(9.4)	(4.4)
Investment tax credits, net	(0.6)	(2.1)	(2.2)
Total income tax expense	$ 6.6	$15.2	$ 8.9

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

For the Years Ended December 31,	2001	2000	1999
	(Millions of Dollars)		
Depreciation, leased nuclear fuel, settlement credits, and disposal costs	$(0.6)	$ 0.9	$(2.3)
Regulatory deferral	(3.7)	(16.4)	(1.4)
Regulatory disallowance	-	-	(4.2)
Pension accruals	1.0	5.9	4.2
Sale of generation assets	(30.5)	-	-
Securitized contract termination costs and other	38.4	-	-
Other	1.3	0.2	(0.7)
Deferred income taxes, net	$ 5.9	$(9.4)	$(4.4)

A reconciliation between income tax expense and the expected tax expense at the statutory rate is as follows:

For the Years Ended December 31,	2001	2000	1999
	(Millions of Dollars)		
Expected federal income tax	$ 7.5	$17.6	$4.1
Tax effect of differences:			
Depreciation	-	(1.2)	0.2
Amortization of regulatory assets	1.2	1.3	6.2
Investment tax credit amortization	(0.6)	(2.1)	(2.2)
State income taxes, net of federal benefit	1.1	1.5	0.7
Dividends received deduction	(0.6)	(1.7)	(0.4)
Other, net	(2.0)	(0.2)	0.3
Total income tax expense	$ 6.6	$15.2	$8.9

8. PENSION BENEFITS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The NU system companies, including WMECO, participate in a uniform noncontributory defined benefit retirement plan covering substantially all regular NU system employees. Benefits are based on years of service and the employees' highest eligible compensation during 60 consecutive months of employment. WMECO's portion of the NU system's total pension credit, part of which was credited to utility plant, was $13.9 million in 2001, $19 million in 2000 and $10.8 million in 1999.

Currently, WMECO's policy is to annually fund an amount at least equal to that which will satisfy the requirements of the Employee Retirement Income Security Act and Internal Revenue Code.

The NU system companies, including WMECO, 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 WMECO 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 estimated work life of the employee. WMECO annually funds postretirement costs through external trusts with amounts that have been rate-recovered and which also are tax deductible.

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

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

	At December 31,			
	Pension Benefits		Postretirement Benefits	
(Millions of Dollars)	2001	2000	2001	2000
Change in benefit obligation				
Benefit obligation at beginning of year	$(121.1)	$(118.1)	$(29.3)	$(29.5)
Service cost	(1.9)	(2.2)	(0.4)	(0.4)
Interest cost	(8.5)	(8.9)	(2.4)	(2.2)
Transfers	4.9	0.5	-	-
Actuarial loss	(3.0)	(3.0)	(7.0)	(0.5)
Benefits paid	8.7	8.2	3.6	2.6
Settlements and other	(0.4)	2.4	-	0.7
Benefit obligation at end of year	$(121.3)	$(121.1)	$(35.5)	$(29.3)
Change in plan assets				
Fair value of plan assets at beginning of year	$ 214.3	$ 223.9	$ 17.3	$ 16.6
Actual return on plan assets	(9.5)	(0.9)	(1.6)	0.8
Employer contribution	-	-	2.6	2.5
Benefits paid	(8.7)	(8.2)	(3.6)	(2.6)
Transfers	(4.9)	(0.5)	-	-
Fair value of plan assets at end of year	$ 191.2	$ 214.3	$ 14.7	$ 17.3
Funded status at December 31	$ 69.9	$ 93.2	$(20.8)	$(12.0)
Unrecognized transition (asset)/obligation	(0.7)	(0.9)	17.4	19.1
Unrecognized prior service cost	6.0	6.6	-	-
Unrecognized net (gain)/loss	(21.0)	(53.4)	3.8	(6.6)
Prepaid benefit cost	$ 54.2	$ 45.5	$ 0.4	$ 0.5

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

	At December 31,			
	Pension Benefits		Postretirement Benefits	
	2001	2000	2001	2000
Discount rate.................	7.25%	7.50%	7.25%	7.50%
Compensation/progression rate.	4.25	4.50	4.25	4.50
Health care cost trend rate(a)...............	N/A	N/A	11.00	5.26

(a) The annual per capita cost of covered health care benefits was assumed to decrease to 5.00 percent by 2007.

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

	For the Years Ended December 31,					
	Pension Benefits			Postretirement Benefits		
(Millions of Dollars)	2001	2000	1999	2001	2000	1999
Service cost	$ 1.9	$ 2.2	$ 2.4	$ 0.4	$ 0.4	$ 0.5
Interest cost	8.5	8.9	8.5	2.4	2.2	2.1
Expected return on plan assets. .	(20.0)	(19.0)	(16.9)	(1.4)	(1.3)	(1.0)
Amortization of unrecognized net transition (asset)/ obligation	(0.2)	(0.2)	(0.2)	1.6	1.6	1.6
Amortization of prior service cost	0.6	0.6	0.6	-	-	-
Amortization of actuarial gain ...	(4.4)	(4.9)	(3.4)	-	-	-
Other amortization, net	-	-	-	(0.4)	(0.4)	(0.3)
Settlements and other	(0.3)	(6.6)	(1.8)	-	-	-
Net periodic benefit (credit)/cost	$(13.9)	$(19.0)	$(10.8)	$ 2.6	$ 2.5	$ 2.9

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

	For the Years Ended December 31,					
	Pension Benefits			Postretirement Benefits		
	2001	2000	1999	2001	2000	1999
Discount rate	7.50%	7.75%	7.00%	7.50%	7.75%	7.00
Expected long-term rate of return	9.50	9.50	9.50	N/A	N/A	N/A
Compensation/ progression rate	4.50	4.75	4.25	4.50	4.75	4.25
Long-term rate of return -						
Health assets, net of tax	N/A	N/A	N/A	7.50	7.50	7.50
Life assets	N/A	N/A	N/A	9.50	9.50	9.50

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	$0.1	$(0.1)
Effect on postretirement benefit obligation	$1.5	$(1.3)

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

9. NUCLEAR GENERATION ASSETS DIVESTITURE

On March 31, 2001, WMECO and CL&P consummated the sale of Millstone 1 and 2 to a subsidiary of Dominion Resources, Inc., Dominion Nuclear Connecticut, Inc. (DNCI). WMECO, CL&P and PSNH sold their ownership interests in Millstone 3 to DNCI. This sale included all of the respective joint ownership interests of CL&P, PSNH and WMECO in Millstone 3. WMECO received approximately $175 million of cash proceeds from the sale and applied the proceeds to taxes and reductions of debt and equity. As part of the sale, DNCI assumed responsibility for decommissioning the three Millstone units.

In connection with the sale, WMECO recorded a gain in the amount of approximately $119.8 million which was used to offset stranded costs.

10. COMMITMENTS AND CONTINGENCIES

A. Restructuring

During the first quarter of 2000, WMECO filed its first annual stranded cost reconciliation filing covering the period March 1, 1998 through December 31, 1999. The hearing and briefing processes related to this filing were completed during the second quarter of 2001. A DTE decision is expected in the first half of 2002. On March 30, 2001, WMECO also filed its second annual stranded cost reconciliation with the DTE for calendar year 2000 with the related review and hearing processes anticipated to be scheduled for the first half of 2002. The cumulative deferral of unrecovered stranded costs, as filed through calendar year 2000, is approximately $4 million. Management believes these costs are fully recoverable.

WMECO is in the process of finalizing its 2001 annual transition cost reconciliation which is expected to be filed with the DTE on March 29, 2002. This filing reconciles the recovery of stranded generation costs for calendar year 2001. Also included in this filing are the sales proceeds from WMECO's portion of Millstone, the impact of securitization and an approximate $13 million benefit to ratepayers from WMECO's nuclear performance-based ratemaking process. The inclusion of these items as part of the reconciliation filing allows WMECO to accelerate the recovery of total stranded generation assets. Management anticipates a formal hearing in 2002 regarding this filing after a period of data discovery by the DTE and other intervenors.

B. Environmental Matters

The NU system, including WMECO, is subject to environmental laws and regulations intended to mitigate or remove the effect of past operations and improve or maintain the quality of the environment. As such, the NU system, including WMECO, has active environmental auditing and training programs and believes it is substantially in compliance with the current laws and regulations.

However, the normal course of operations may involve activities and substances that expose WMECO 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 WMECO’s consolidated financial statements.

Based upon currently available information for the estimated remediation costs as of December 31, 2001 and 2000, the liability recorded by WMECO for its estimated environmental remediation costs amounted to $5.3 million and $4.6 million, respectively.

C. **Spent Nuclear Fuel Disposal Costs**

Under the Nuclear Waste Policy Act of 1982, WMECO 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. For nuclear fuel used to generate electricity prior to April 7, 1983 (Prior Period Fuel), an accrual has been recorded for the full liability and payment must be made prior to the first delivery of spent fuel to the DOE. Until such payment is made, the outstanding balance will continue to accrue interest at the 3-month treasury bill yield rate. As of December 31, 2001 and 2000, fees due to the DOE for the disposal of Prior Period Fuel were $47.4 million and $45.6 million, respectively, including interest costs of $31.8 million and $30 million, respectively.

Fees for nuclear fuel burned on or after April 7, 1983, are billed currently to customers and paid to the DOE on a quarterly basis. WMECO remains responsible for fees to be paid for fuel burned until the divestiture of the Millstone nuclear units.

D. **Nuclear Insurance Contingencies**

Insurance policies covering WMECO'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.

WMECO is subject to retroactive assessments if losses under those policies exceed the accumulated funds available to the insurer. The maximum potential assessments with respect to losses arising during the current policy year for the primary property insurance program and the excess property damage policies are $0.2 million and $0.3 million, respectively. In addition, insurance has been purchased by the NU system in the aggregate amount of $200 million on an industry basis for coverage of worker claims.

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 WMECO, 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, including WMECO, 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. Through purchased-power contracts with VYNPC, WMECO would be responsible for an assessment of $2.2 million per incident, of which payments would be limited to $0.3 million per year.

WMECO expects to terminate its nuclear insurance upon the divestiture of its remaining nuclear units.

E. Long-Term Contractual Arrangements

Yankee Companies: Under the terms of its agreement, WMECO paid its ownership (or entitlement) shares of costs, which included depreciation, operation and maintenance (O&M) expenses, taxes, the estimated cost of decommissioning, and a return on invested capital. These costs were recorded as purchased-power expenses. WMECO's cost of purchases under its contract with VYNPC amounted to $4.1 million in 2001, $4 million in 2000 and $4.7 million in 1999. VYNPC is in the process of selling its nuclear unit. Upon completion of the sale, it is expected that these long-term contracts will be replaced with different contracts with the new buyer.

Energy Procurement Contracts: WMECO has entered into various arrangements for the purchase of capacity and energy. WMECO's total cost of purchases under these arrangements amounted to $14.5 million in 2001, $28.5 million in 2000 and $28.2 million in 1999.

Hydro-Quebec: Along with other New England utilities, WMECO has entered into an agreement to support transmission and terminal facilities to import electricity from the Hydro-Quebec system in Canada. WMECO 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.

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

	2002	2003	2004	2005	2006	Totals
	(Millions of Dollars)					
VYNPC	$ 4.8	$ 4.6	$ 5.2	$ 5.3	$ 4.8	$24.7
Energy Procurement Contracts	2.8	2.8	2.8	2.8	2.8	14.0
Hydro-Quebec	3.1	3.0	2.9	2.8	2.5	14.3
Totals	$10.7	$10.4	$10.9	$10.9	$10.1	$53.0

11. NUCLEAR DECOMMISSIONING AND PLANT CLOSURE COSTS

Yankee Companies: VYNPC owns and operates a nuclear generating unit with a service life that is expected to end in 2012. WMECO's ownership share of estimated costs, in year end 2001 dollars, of decommissioning this unit was $11.8 million. In August 2001, VYNPC agreed to sell its nuclear generating unit for $180 million, including $35 million for nuclear fuel, to an unaffiliated company. Among other commitments, the acquiring company agreed to assume the obligation to decommission the unit after it is taken out of service and agreed to provide the current level of output from the unit through 2012. The sale is subject to the approval of the Vermont Public Service Board, the Nuclear Regulatory Commission, the FERC and other regulatory authorities. The closing on the sale is expected to be in the first half of 2002.

As of December 31, 2001 and 2000, WMECO's remaining estimated obligations, including decommissioning for the units owned by CYAPC, YAEC and MYAPC, which have been shut down was $37.4 million and $42.5 million, respectively.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Nuclear Decommissioning Trusts: WMECO's portion of the investments held in the NU system companies' nuclear decommissioning trusts were transferred to DNCI in conjunction with the sale of the Millstone units to DNCI in March 2001. These investments were marked-to-market by a positive $32.3 million as of December 31, 2000, with corresponding offsets to the accumulated provision for depreciation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Preferred Stock and Long-Term Debt: The fair value of WMECO'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 WMECO's financial instruments and the estimated fair values are as follows:

	At December 31, 2001	
(Millions of Dollars)	Carrying Amount	Fair Value
Long-term debt -		
Other long-term debt	$101.2	$101.0
Rate reduction bonds	152.3	154.1

	At December 31, 2000	
(Millions of Dollars)	Carrying Amount	Fair Value
Preferred stock not subject to mandatory redemption	$ 20.0	$ 20.2
Preferred stock subject to mandatory redemption	16.5	16.5
Long-term debt -		
First mortgage bonds	100.0	100.3
Other long-term debt	99.4	93.7

13. OTHER COMPREHENSIVE INCOME

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

(Millions of Dollars)	December 31, 2000	Current Period Change	December 31, 2001
Unrealized gains on securities	$0.2	$(0.1)	$0.1
Accumulated other comprehensive income/(loss)	$0.2	$(0.1)	$0.1

(Millions of Dollars)	December 31, 1999	Current Period Change	December 31, 2000
Unrealized gains on securities	$0.2	$ -	$0.2
Accumulated other comprehensive income ...	$0.2	$ -	$0.2

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

(Millions of Dollars)	2001	2000	1999
Unrealized gains on securities	$0.1	$ -	$ -
Other comprehensive income	$0.1	$ -	$ -

14. SEGMENT INFORMATION

The NU system is organized between regulated utilities (electric and gas since March 1, 2000) and competitive energy subsidiaries. WMECO is included in the regulated utilities segment of the NU system and has no other reportable segments.

Western Massachusetts Electric Company and Subsidiary

SELECTED CONSOLIDATED FINANCIAL DATA	2001	2000	1999	1998	1997
			(Thousands of Dollars)		
Operating Revenues	$478,869	$513,678	$414,231	$393,322	$426,447
Net Income/(Loss)	14,968	35,268	2,887	(9,579)	(27,460)
Cash Dividends on Common Stock	22,000	12,002	-	-	15,004
Total Assets	852,662	1,047,818	1,253,604	1,287,682	1,179,128
Rate Reduction Bonds	152,317	-	-	-	-
Long-Term Debt (a)	101,170	199,425	290,279	389,314	396,649
Preferred Stock Not Subject to Mandatory Redemption	-	20,000	20,000	20,000	20,000
Preferred Stock Subject to Mandatory Redemption (a)	-	16,500	18,000	19,500	21,000
Obligations Under Capital Leases (a)	110	26,921	29,972	34,093	32,887

CONSOLIDATED QUARTERLY FINANCIAL DATA (Unaudited)

	Quarter Ended			
2001	March 31	June 30	September 30	December 31
		(Thousands of Dollars)		
Operating Revenues	$143,300	$106,866	$120,679	$108,024
Operating Income	$ 11,876	$ 6,406	$ 14,821	$ 4,786
Net Income	$ 3,319	$ 1,518	$ 3,880	$ 6,251
2000				
Operating Revenues	$129,410	$120,090	$130,400	$133,778
Operating Income	$ 20,244	$ 12,707	$ 20,668	$ 21,651
Net Income	$ 11,053	$ 2,956	$ 9,638	$ 11,621

(a) Includes portion due within one year.

Western Massachusetts Electric Company and Subsidiary

CONSOLIDATED STATISTICS (Unaudited)

	Gross Electric Utility Plant December 31, (Thousands of Dollars)	kWh Sales (Millions)	Average Annual Use Per Residential Customer (kWh)	Electric Customers (Average)	Employees December 31,
2001	$ 583,183	4,712	7,476	200,166	405
2000	1,153,514	7,278	7,371	198,372	406
1999	1,216,015	4,654	7,423	198,012	482
1998	1,256,046	4,091	6,979	196,339	533
1997	1,334,233	4,300	7,121	195,324	507

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Western Massachusetts Electric Company

Senior Notes

Trustee and Interest Paying Agent
State Street Bank and Trust Company
Goodwin Square
225 Asylum Street 23rd Floor
Hartford, CT 06103

Address General Correspondence in Care of:
Northeast Utilities Service Company
Investor Relations Department
P.O. Box 270
Hartford, CT 06141-0270
Telephone: (860) 665-5000

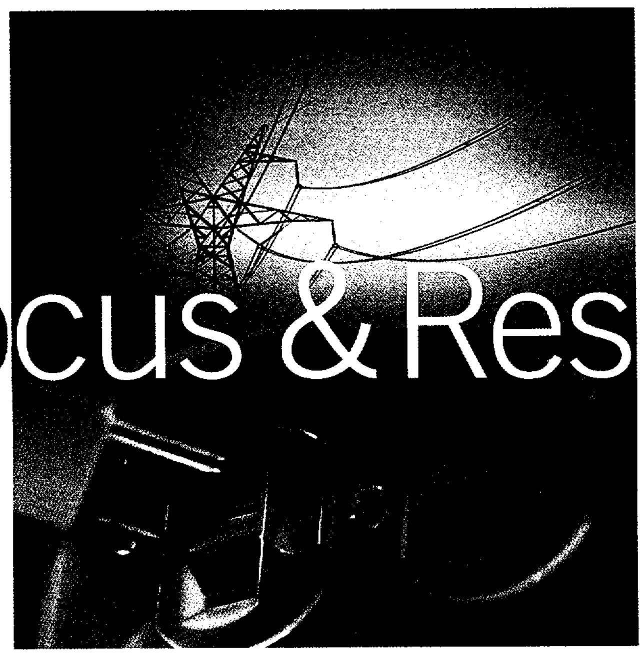
Data contained in this Annual Report are submitted for the sole purpose of providing information to present security holders about the company.

Western Massachusetts Electric Company
General Offices
174 Brush Hill Avenue
West Springfield, Massachusetts 01090-0010

Western Massachusetts Electric

The Northeast Utilities System

The Connecticut Light and Power Company



2001 Annual Report

Directors

David H. Boguslawski
Vice President-Transmission Business
Northeast Utilities Service Company

Cheryl W. Grisé
President-Utility Group
Northeast Utilities

Leon J. Olivier
President and Chief Operating Officer
The Connecticut Light and Power Company

Officers

Leon J. Olivier
President and Chief Operating Officer

David H. Boguslawski
Vice President-Transmission Business

Dana L. Louth
Vice President-Energy Delivery Services

James A. Muntz
Vice President-Customer Services

Rodney O. Powell
Vice President-Customer Relations

John P. Stack
Vice President-Accounting and Controller

Roger C. Zaklukiewicz
Vice President-Transmission Engineering and Operations

O. Kay Comendul
Secretary

Randy A. Shoop
Treasurer

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

Lori A. Mahler
Assistant Controller-Accounting Services

William J. Starr
Assistant Controller-Taxes

William J. Quinlan
Assistant Secretary

2001 Annual Report

The Connecticut Light and Power Company and Subsidiaries

Index

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

FINANCIAL CONDITION

Overview

The Connecticut Light and Power Company's (CL&P or the company), the Northeast Utilities system's (NU system) largest operating subsidiary, earnings before preferred dividends totaled $109.8 million in 2001, compared with $148.1 million in 2000 and a loss of $13.6 million in 1999. Earnings at CL&P decreased primarily because the sale of Millstone three months into 2001 removed a significant source of earnings as compared with 2000. In addition to the sale of Millstone, CL&P's lower earnings also reflect a $21 million reduction in distribution and transmission rates the Connecticut Department of Public Utility Control (DPUC) imposed, which was effective on June 20, 2001.

Future Outlook

In 2001, as a result of completing industry restructuring, CL&P has evolved into an energy delivery company, delivering electricity to customers that is produced by other companies and sometimes bought by customers through intermediaries. As of January 1, 2000, CL&P secured four-year fixed-price contracts with three suppliers to provide power to customers who choose standard offer service. Select Energy, Inc. (Select Energy), an affiliated company, became responsible for 50 percent of CL&P's standard offer load for the entire standard offer period, or approximately 2,000 megawatts annually at peak. Two other unaffiliated suppliers became responsible for the balance of CL&P's standard offer load also for the entire standard offer period. CL&P is fully recovering from retail customers, through reconciling charges, the cost of buying power from these three standard offer suppliers and expects to continue this recovery through the expiration of the contracts on December 31, 2003. As a result, CL&P expects that its financial performance will be relatively stable and predictable in 2002, absent significant adverse events, such as a catastrophic storm.

Liquidity

The year 2001 was marked by tremendous inflows of cash into the NU system and CL&P as a result of the securitization of stranded costs and the sale of the Millstone units. CL&P's liquidity benefited from the issuance of $1.4 billion in rate reduction certificates and the receipt of approximately $800 million from the sale of the Millstone units. The largest share of the proceeds from the Millstone sale was used for the repayment of debt. As a result, CL&P's combined short-term and long-term debt other than rate reduction bonds decreased to

$824.3 million at the end of 2001 from approximately $1.3 billion at the end of 2000. Capital lease obligations declined to $16 million at the end of 2001 from $129.9 million at the end of 2000. In 2001, CL&P also repaid $100 million of Monthly Income Preferred Securities and reduced the amount outstanding under its accounts receivable facility by $170 million.

Of the $1.4 billion of rate reduction certificates issued by CL&P, $1.1 billion was used to buyout or buydown high-cost, long-term purchased-power contracts.

The remaining proceeds from the Millstone sale were used primarily to pay state and federal income taxes on the Millstone sale and return equity capital to NU parent. Including both return of capital and common dividends, CL&P paid $60.1 million to NU parent in 2001.

Primarily as a result of the Millstone sale and the issuance of rate reduction certificates, CL&P's consolidated capitalization ratio was significantly stronger at the end of 2001 than it was a year earlier. Including capital lease obligations, but excluding rate reduction bonds as these bonds are nonrecourse to CL&P, CL&P's capitalization ratio was 48.5 percent debt, 6.7 percent preferred securities and 44.8 percent common equity at the end of 2001, compared with 63.5 percent debt, 5.0 percent preferred securities and 31.5 percent common equity at the end of 2000. The improved capitalization ratio and lowered overall risk profile resulted in a series of upgrades of the NU system securities through 2001. At the end of 2001, senior debt ratings on CL&P's securities were A2 and A-. Overall, those ratings were the highest for CL&P securities in decades and are expected to continue to enhance CL&P's access to low-cost capital.

CL&P's net cash flows provided by operating activities declined to $44.2 million in 2001, compared with $259.9 million in 2000 and $299.4 million in 1999. In 2001, cash flows provided by operating activities, decreased primarily due to the tax impact of the Millstone sale in March 2001 and a reduction in the accounts receivable sold under CL&P's receivables program. The level of common dividends totaled $60.1 million in 2001, as compared to $72 million in 2000 and no common dividends in 1999. The level of preferred dividends decreased to $5.6 million in 2001, compared with $7.4 million in 2000 and $12.8 million in 1999, reflecting CL&P's ongoing effort to reduce preferred stock outstanding. CL&P currently forecasts construction expenditures of up to $244 million for the year 2002.

CL&P's dividend policy will depend largely on its earnings and the timing and scope of its expected increasing investment in its distribution and transmission system. In 2002, CL&P may make additional dividend payments to NU to help achieve its target leverage ratio of approximately 55 percent, excluding rate reduction bonds. As of December 31, 2001, CL&P's capitalization included total debt of approximately 48 percent, excluding rate reduction bonds.

Beyond 2001, CL&P may need to issue long-term debt if its currently planned transmission construction program is approved by regulators.

Business Development and Capital Expenditures

In 2001, NU system companies announced a number of initiatives to significantly increase their investment in regulated electric transmission facilities, particularly in Connecticut. CL&P announced that it planned to construct two new 345,000 volt transmission line facilities totaling approximately 85 miles into Norwalk, Connecticut at a combined cost of approximately $520 million. An application to construct one of the facilities, an approximately 20-mile facility from Bethel, Connecticut to Norwalk, Connecticut, was filed in October 2001 with the Connecticut Siting Council. A decision is expected by the fall of 2002. The application related to a second facility from Middletown, Connecticut to Norwalk, Connecticut will be filed with the Connecticut Siting Council later in 2002. CL&P also has proposed replacing the existing 138,000 volt transmission line beneath Long Island Sound between Norwalk, Connecticut and Northport - Long Island, New York. CL&P, which owns an equal share of the existing line with the Long Island Power Authority, would bear approximately half of the cost of the $80 million project. That project would require Connecticut, New York and federal regulatory approvals. This application was filed with the Connecticut Siting Council in February 2002. If approved, these three projects would increase CL&P's capital expenditures. CL&P's capital investments in electric utility plant totaled $237.4 million in 2001 and $208.2 million in 2000, well above the $132.2 million level of 1998, primarily as a result of increased spending on CL&P's distribution system. CL&P's capital expenditures are expected to total $244 million in 2002 and higher in 2003 through 2005, if the transmission projects are approved.

Restructuring and Rate Matters

Industry restructuring for CL&P was essentially completed in 2000. In June 2001, the DPUC concluded an investigation of potential overearnings by CL&P and ordered a $21.1 million reduction in CL&P's electric transmission and distribution rates and an equal increase in CL&P's Generation Services Charge. The DPUC also implemented an earnings sharing mechanism under which earnings in excess of a 10.3 percent return on equity will be shared equally by shareholders and ratepayers. On September 28, 2001, the DPUC ordered a $21.3 million annual reduction in CL&P's System Benefits Charge as a result of a sharp reduction in decommissioning collections and an equal increase in the Competitive Transition Assessment, effective January 1, 2002. Also, on July 26, 2001, the DPUC authorized CL&P to assess a charge of approximately $0.002 per kilowatt-hour (kWh) from August 2001 through December 2003 to collect approximately $98.5 million of deferred fuel costs. The net result of these decisions was a reduction in CL&P's pretax earnings of $21.1 million beginning June 20, 2001, an acceleration of CL&P's recovery of stranded costs in 2002 and 2003, and further enhancement of CL&P's cash flows.

On September 27, 2001, CL&P filed its application with the DPUC for approval of the disposition of the proceeds from the sale of the Millstone units to a subsidiary of Dominion Resources, Inc., Dominion Nuclear Connecticut, Inc. (DNCI). This application described and requested DPUC approval for CL&P's treatment of its share of the proceeds from the sale. A decision from the DPUC is expected in the first half of 2002.

Since retail competition began in Connecticut in 2000, an extremely small number of CL&P customers have opted to choose their retail supplier. As of December 31, 2001, virtually all of CL&P's customers were procuring their electricity through CL&P's standard offer service. Through December 2003, 50 percent of CL&P's standard offer service requirements will be purchased from Select Energy with the remaining 50 percent being purchased from two unaffiliated companies. On November 18, 2001, at the request of one of the unaffiliated companies, CL&P filed a request with the DPUC to raise the standard offer service rate from an average of $0.0495 per kWh to $0.0595 per kWh to help promote competition in advance of the January 1, 2004, termination of the standard offer service period and to provide financial relief to the standard offer suppliers. In December 2001, the DPUC rejected CL&P's request, but opened two new dockets to examine the absence of effective retail electric competition in Connecticut and the financial condition of the suppliers. The dockets will include the gathering of information regarding the viability of the standard offer service contracts, their reliability and whether the standard offer service contracts should be linked to market conditions. The DPUC held hearings in February 2002. A decision in this docket which could lead to the re-opening of CL&P's standard offer docket to consider these issues is expected to be issued in the first half of 2002.

For further information regarding commitments and contingencies related to restructuring, see Note 10A, "Commitments and Contingencies - Restructuring," to the consolidated financial statements.

Regional Transmission Organization

The Federal Energy Regulatory Commission (FERC) has required all transmission owning utilities, including CL&P, to voluntarily start forming regional transmission organizations (RTO) or to state why this process has not begun. In July 2001, the FERC stated that the three existing Northeastern Independent System Operators (ISO) (PJM, New York and New England) should work together to form one RTO. The FERC initiated a mediation effort between all interested parties to begin the process of forming such an entity.

NU has been discussing with the other transmission owners in the three pool area the potential to form an Independent Transmission Company

(ITC). The ITC would be a for-profit entity and would perform certain transmission functions required by the FERC including tariff control, system planning and system operations. The remaining functions required by the FERC would be performed by the ISO and deal with the energy market and short-term reliability. Together, the ITC and ISO form the FERC desired RTO.

In January 2002, the New York and New England ISOs announced their intention to form an RTO. NU is working with the other transmission owners in these two power pools to create an ITC. The agreements needed to create the ITC and to define the working relationships among the ISO, the ITC and the transmission owners should be created in 2002 and will allow the ITC to begin operation shortly thereafter. The ITC and/or ISO will have the responsibility to collect the revenue requirements of each transmission owning entity from the market place through FERC approved tariffs. The creation of the ITC and/or RTO will require a FERC rate case and the impact on NU's return on equity as a result of this rate case cannot be estimated at this time.

Nuclear Plant Performance and Other Matters

Seabrook: Seabrook operated at a capacity factor of 85.9 percent in 2001. After returning from a scheduled refueling outage in January 2001, Seabrook operated at a capacity factor of 93.4 percent. Seabrook is scheduled to undergo a refueling outage in the spring of 2002. CL&P owns 4.06 percent of Seabrook.

Vermont Yankee: In August 2001, the owners of Vermont Yankee announced they would sell the unit to an unaffiliated company for $180 million, including $145 million for the plant and materials and supplies and $35 million for the nuclear fuel. CL&P owns 9.5 percent of the unit, and under the terms of the sale, will continue to buy 9.5 percent of the plant's output through March 2012 at a range of fixed prices. The sale requires several regulatory approvals and is scheduled to close during the first half of 2002.

Millstone: On March 31, 2001, CL&P and Western Massachusetts Electric Company (WMECO) consummated the sale of Millstone 1 and 2 to DNCI. Additionally, CL&P, Public Service Company of New Hampshire, and WMECO sold their ownership interests in Millstone 3 to DNCI. On October 5, 2001, NU issued a report, following an extensive search, concerning two missing fuel pins at the retired Millstone 1 nuclear unit, which was sold to DNCI on March 31, 2001. As of December 31, 2001, costs related to this search for CL&P totaled $5.8 million. The report concluded that the pins are currently located in one of four facilities licensed to store low or high-level nuclear waste and that they are not a threat to public health and safety. A follow-up review by the Nuclear Regulatory Commission (NRC) commenced shortly after the report was filed and resulted in a NRC sponsored public meeting on January 15, 2002. In February 2002, the NRC issued a written inspection report which concluded that NU's investigation was thorough and complete, and that its conclusions were reasonable and supportable.

Nuclear Decommissioning

In connection with the aforementioned sale of the Millstone units, DNCI has agreed to assume responsibility for decommissioning those units.

For further information regarding nuclear decommissioning, see Note 11, "Nuclear Decommissioning and Plant Closure Costs," to the consolidated financial statements.

Spent Nuclear Fuel Disposal Costs

The United States Department of Energy (DOE) originally was scheduled to begin accepting delivery of spent nuclear fuel on January 31, 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. CL&P has the primary responsibility for the interim storage of its spent nuclear fuel prior to divestiture of its remaining operating nuclear units, Seabrook and Vermont Yankee, as well as the three nuclear units currently undergoing decommissioning, Connecticut Yankee, Maine Yankee and Yankee Rowe.

For further information regarding spent nuclear fuel disposal costs, see Note 10C, "Commitments and Contingencies - Spent Nuclear Fuel Disposal Costs," to the consolidated financial statements.

Other Matters

Critical Accounting Policies: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, assumptions and at times difficult, subjective or complex judgments. Accounting policies related to the recoverability of certain regulatory assets and the assumptions used in developing the pension and postretirement benefit obligations are the accounting principles that management believes are critical and could have a significant impact on CL&P's consolidated financial statements.

Regulatory Assets: The accounting policies of the NU system's regulated operating companies historically reflect the effects of the rate-making process in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Through its cost-of-service rate regulated transmission and distribution business, CL&P is currently recovering its investments in long-lived assets, including regulatory assets, and management believes that the application of SFAS No. 71 to that portion of their business continues to be appropriate. Management must reaffirm this conclusion at each balance sheet date. If, as a result of a change in circumstances, it is determined that any portion of these investments is no longer recoverable under SFAS No. 71, that portion would be written off. Such a write-off could have a material impact on CL&P's consolidated financial statements. Management currently believes that all long-lived assets, including regulatory assets, are recoverable.

Pension and Postretirement Benefit Obligations: CL&P participates in a uniform noncontributory defined benefit retirement plan covering substantially all regular NU system employees and also provides certain health care benefits, primarily medical and dental, and life insurance benefits through a benefit plan to retired employees. For each of these plans, the development of the benefit obligation, fair value of plan assets, funded status, and net periodic benefit credit or cost is based on several significant assumptions. These assumptions primarily relate to the application of a discount rate, expected long-term rate of return and other trend rates. If these assumptions were changed, the resultant change in benefit obligations, fair values of plan assets, funded status, and net periodic benefit credits or costs could have a material impact on CL&P's consolidated financial statements.

For further information regarding these types of activities, see Note 1G, "Regulatory Accounting and Assets," and Note 7, "Pension Benefits and Postretirement Benefits Other Than Pensions," to the consolidated financial statements.

Environmental Matters: The NU system, including CL&P, 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 10B, "Commitments and Contingencies - Environmental Matters," to the consolidated financial statements.

Other Commitments and Contingencies: For further information regarding other commitments and contingencies, see Note 10, "Commitments and Contingencies," to the consolidated financial statements.

Contractual Obligations and Commercial Commitments: Aggregated information regarding CL&P's contractual obligations and commercial commitments as of December 31, 2001, is summarized as follows:

(Millions of Dollars)	2002	2003	2004	2005	2006	Totals
Capital leases	$ 2.4	$ 2.4	$ 2.4	$ 2.4	$ 2.4	$ 12.0
Operating leases	10.9	9.3	8.2	7.5	6.4	42.3
Long-term contractual obligations	227.0	231.3	234.1	237.3	237.6	1,167.3
Totals	$240.3	$243.0	$244.7	$247.2	$246.4	$1,221.6

For further information regarding CL&P's contractual obligations and commercial commitments, see Note 3, "Leases," and Note 10E, "Long-Term Contractual Arrangements," to the consolidated financial statements.

Forward Looking Statements: This discussion and analysis includes forward looking statements, which are statements of future expectations and not facts including, but not limited to, statements regarding future earnings, refinancings, the use of proceeds from restructuring, and the recovery of operating costs. 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)

	2001 over/(under) 2000		2000 over/(under) 1999	
	Amount	Percent	Amount	Percent
Operating Revenues	$(290)	(10)%	$483	20%
Operating Expenses:				
Fuel, purchased and net interchange power	(151)	(9)	738	80
Other operation	(102)	(25)	(68)	(14)
Maintenance	(30)	(22)	(82)	(38)
Depreciation	(21)	(18)	(76)	(39)
Amortization of regulatory assets, net	649	(a)	(350)	(78)
Taxes other than income taxes	(7)	(5)	(37)	(21)
Gain on sale of utility plant	(522)	-	286	100
Total operating expenses	(184)	(7)	411	19
Operating income	(106)	(29)	72	24
Other income/(loss), net	75	(a)	65	74
Interest expense, net	22	23	(40)	(29)
Income before income tax expense	(53)	(22)	177	(a)
Income tax expense	(15)	(15)	15	18
Net income/(loss)	$ (38)	(26)%	$162	(a)

(a) Percent greater than 100.

Operating Revenues

Total revenues decreased by $290 million or 10 percent in 2001, primarily due to lower wholesale revenues ($325 million) and lower transmission revenues ($19 million), partially offset by higher retail revenues ($57 million). Wholesale revenues were lower primarily as a result of the sale of the Millstone units at the end of the first quarter of 2001 and lower sales of capacity and energy. The lower transmission revenues were partially offset by lower transmission expenses. Retail revenues increased primarily due to higher retail sales ($43 million) and the recovery of previously deferred fuel costs ($19 million), partially offset by a rate decrease ($5 million). Retail sales increased 2.4 percent compared to 2000.

Operating revenues increased by $483 million or 20 percent in 2000, primarily due to higher wholesale revenues ($510 million), primarily as a result of the sale of the output from Millstone 2 and 3, and the amortization of the amount related to the transfer of certain hydroelectric generation assets ($25 million) partially offset by lower retail revenues ($51 million). Retail revenues decreased primarily as a result of a 5 percent retail rate decrease ($108 million), partially offset by higher retail sales ($27 million) and by the impact of Millstone 2 being returned to rate base ($30 million). Retail sales increased by 0.4 percent in 2000.

Fuel, Purchased and Net Interchange Power

Fuel, purchased and net interchange power expense decreased in 2001, primarily due to lower purchased power costs resulting from the buydown and buyout of various cogeneration contracts and lower nuclear fuel expense.

Fuel, purchased and net interchange power expense increased in 2000, primarily due to the transition, under industry restructuring, to purchasing full requirements for customers from standard offer suppliers, in addition to the remaining fuel costs of the nuclear units and cogenerators.

Other Operation and Maintenance

Other operation and maintenance (O&M) expenses decreased by $132 million in 2001, primarily due to lower nuclear expenses ($95 million) as a result of the sale of the Millstone units at the end of the first quarter of 2001, lower administrative and general expenses ($22 million), lower transmission expenses ($16 million), and lower fossil/hydro expenses ($3 million), partially offset by higher distribution expenses ($4 million).

Other O&M expenses decreased in 2000, primarily due to lower spending at the nuclear units ($56 million), the decommissioning status of Millstone 1 ($14 million), lower expenses due to the sale of certain fossil generation assets ($65 million), and lower administrative and general expenses ($26 million), partially offset by higher customer service expenses ($39 million).

Depreciation
Depreciation expense decreased in 2001, primarily due to the elimination of decommissioning expenses as a result of the sale of the Millstone units at the end of the first quarter of 2001.

Depreciation expense decreased in 2000, primarily due to the effect of discontinuing SFAS No. 71 for the generation portion of the business and the resulting reclassification of depreciable nuclear plant balances to regulatory assets ($70 million), the sale of certain fossil generation assets and the transfer of certain hydroelectric generation assets.

Amortization of Regulatory Assets, Net
Amortization of regulatory assets, net increased in 2001, primarily due to the amortization related to the gain on the sale of the Millstone units ($524 million) and higher amortization related to securitized assets ($68 million), stranded costs ($30 million), and other amortizations related to restructuring ($27 million).

Amortization of regulatory assets, net decreased in 2000, primarily due to changes in amortization levels as a result of industry restructuring ($128 million), the amortization in 1999 of the gain on the sale of fossil plants ($286 million), and the completion of the amortization of CL&P's cogeneration deferral in the first quarter of 1999 ($6 million). These decreases were partially offset by higher amortization associated with the reclassified nuclear plant balances ($70 million).

Taxes Other Than Income Taxes
Taxes other than income taxes decreased in 2001, primarily due to settlement of a property tax appeal with the City of Meriden in 2001 ($5 million) and the reduction in property tax due to the sale of the Millstone units ($12 million), partially offset by higher gross earnings tax paid on higher revenues ($8 million).

Taxes other than income taxes decreased in 2000, primarily due to lower Connecticut gross earnings tax ($18 million) and lower local property taxes ($7 million).

Gain on Sale of Utility Plant
CL&P recorded a gain on the sale of its ownership share in the Millstone units. A corresponding amount of amortization expense was recorded in 2001.

CL&P recorded a gain on the sale of its fossil generation assets in 1999.

Other Income/(Loss), Net

Other income/(loss), net increased in 2001, primarily due to the gain on the sale of CL&P's ownership share in the Millstone units ($29 million), the settlement, in 2000, of Millstone-related litigation, net of insurance proceeds ($9 million), a write-off associated with the former CMEEC nuclear entitlement ($6 million) in 2000 and higher interest income in 2001, including the allowed return on deferred fuel balances ($10 million), interest on an IRS tax settlement ($10 million), and interest income related to the City of Meriden property tax refund ($2 million).

Other income/(loss), net increased in 2000, primarily due to the 1999 write-off of stranded costs in relation to the treatment of market-based contracts ($15 million).

Interest Expense, Net

Interest expense, net increased in 2001, primarily due to interest associated with the issuance of rate reduction certificates in 2001, partially offset by lower interest on other long-term debt resulting from reacquisitions and retirements of long-term debt in 2001.

Interest expense, net decreased in 2000, primarily due to reacquisitions and retirements of long-term debt in 2000.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
of The Connecticut Light and Power Company:

We have audited the accompanying consolidated balance sheets of The Connecticut Light and Power Company (a Connecticut corporation and a wholly owned subsidiary of Northeast Utilities) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, comprehensive income, common stockholder's equity and cash flows for each of the three years in the period ended December 31, 2001. 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 auditing standards generally accepted in the United States. 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 The Connecticut Light and Power Company and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP
ARTHUR ANDERSEN LLP

Hartford, Connecticut
January 22, 2002

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THE CONNECTICUT LIGHT AND POWER COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31,	2001	2000	1999
	(Thousands of Dollars)		
Operating Revenues	$ 2,646,123	$ 2,935,922	$ 2,452,855
Operating Expenses:			
Operation -			
Fuel, purchased and net interchange power	1,514,418	1,665,806	927,989
Other	310,477	412,230	480,138
Maintenance	106,228	136,141	217,961
Depreciation	96,212	117,305	193,776
Amortization of regulatory assets, net	746,693	97,315	447,776
Taxes other than income taxes	130,656	137,846	174,884
Gain on sale of utility plant	(521,590)	-	(286,477)
Total operating expenses	2,383,094	2,566,643	2,156,047
Operating Income	263,029	369,279	296,808
Other Income/(Loss), Net	52,804	(22,224)	(86,787)
Income Before Interest and Income Tax Expense	315,833	347,055	210,021
Interest Expense:			
Interest on long-term debt	59,724	89,841	127,533
Interest on rate reduction bonds	60,644	-	-
Other interest	761	9,025	10,918
Interest expense, net	121,129	98,866	138,451
Income Before Income Tax Expense	194,704	248,189	71,570
Income Tax Expense	84,901	100,054	85,138
Net Income/(Loss)	$ 109,803	$ 148,135	$ (13,568)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Net Income/(Loss)	$ 109,803	$ 148,135	$ (13,568)
Other comprehensive (loss)/income, net of tax:			
Unrealized (losses)/gains on securities	(439)	90	38
Other comprehensive (loss)/income, net of tax	(439)	90	38
Comprehensive Income/(Loss)	$ 109,364	$ 148,225	$ (13,530)

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

THE CONNECTICUT LIGHT AND POWER COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

At December 31,	2001	2000
	(Thousands of Dollars)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 773	$ 5,461
Investments in securitizable assets	36,367	98,146
Notes receivable from affiliated companies	77,200	38,000
Receivables, less accumulated provision for uncollectible accounts of $525 in 2001 and $300 in 2000	247,801	29,245
Accounts receivable from affiliated companies	22,134	103,763
Unbilled revenues	7,492	-
Fuel, materials and supplies, at average cost	33,085	36,332
Prepayments and other	17,703	32,291
	442,555	343,238
Property, Plant and Equipment:		
Electric utility	3,127,548	5,756,098
Less: Accumulated provision for depreciation	1,236,638	4,210,429
	1,890,910	1,545,669
Construction work in progress	134,964	128,835
Nuclear fuel, net	3,299	79,672
	2,029,173	1,754,176
Deferred Debits and Other Assets:		
Regulatory assets	1,877,191	1,835,967
Prepaid pension	233,692	170,672
Nuclear decommissioning trusts, at market	6,231	536,912
Other	138,715	123,233
	2,255,829	2,666,784
Total Assets	$ 4,727,557	$ 4,764,198

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

THE CONNECTICUT LIGHT AND POWER COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

At December 31,	2001	2000
	(Thousands of Dollars)	
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes payable to banks	$ -	$ 115,000
Long-term debt and preferred stock - current portion	-	160,000
Accounts payable	132,593	153,944
Accounts payable to affiliated companies	85,057	122,106
Accrued taxes	34,823	32,901
Accrued interest	10,369	13,995
Other	62,841	161,193
	325,683	759,139
Rate Reduction Bonds	1,358,653	-
Minority Interest in Consolidated Subsidiary	-	100,000
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	820,444	977,439
Accumulated deferred investment tax credits	95,996	99,771
Decommissioning obligation - Millstone 1	-	580,320
Deferred contractual obligations	141,497	160,590
Other	267,900	165,307
	1,325,837	1,983,427
Capitalization:		
Long-Term Debt	824,349	1,072,688
Preferred Stock	116,200	116,200
Common Stockholder's Equity:		
Common stock, $10 par value - authorized 24,500,000 shares; 7,584,884 shares outstanding in 2001 and 2000	75,849	75,849
Capital surplus, paid in	414,018	413,192
Retained earnings	286,901	243,197
Accumulated other comprehensive income	67	506
Common Stockholder's Equity	776,835	732,744
Total Capitalization	1,717,384	1,921,632
Commitments and Contingencies (Note 10)		
Total Liabilities and Capitalization	$ 4,727,557	$ 4,764,198

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

THE CONNECTICUT LIGHT AND POWER COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

	Common Stock	Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total (a)
			(Thousands of Dollars)		
Balance at January 1, 1999...........	$ 122,229	$ 664,156	$ 210,108	$ 378	$ 996,871
Net loss for 1999................			(13,568)		(13,568)
Cash dividends on preferred stock.			(12,832)		(12,832)
Capital stock expenses, net.......		1,442			1,442
Allocation of benefits - ESOP (b).			(30,454)		(30,454)
Other comprehensive income........				38	38
Balance at December 31, 1999..........	122,229	665,598	153,254	416	941,497
Net income for 2000..............			148,135		148,135
Cash dividends on preferred stock.			(7,402)		(7,402)
Cash dividends on common stock....			(72,014)		(72,014)
Redemption of preferred stock.....		(749)			(749)
Repurchase of common stock........	(46,380)	(253,620)			(300,000)
Capital stock expenses, net.......		1,963			1,963
Allocation of benefits - ESOP (b).			21,224		21,224
Other comprehensive income........				90	90
Balance at December 31, 2000..........	75,849	413,192	243,197	506	732,744
Net income for 2001..............			109,803		109,803
Cash dividends on preferred stock.			(5,559)		(5,559)
Cash dividends on common stock....			(60,072)		(60,072)
Capital stock expenses, net.......		826			826
Allocation of benefits - ESOP (b).			(468)		(468)
Other comprehensive loss..........				(439)	(439)
Balance at December 31, 2001..........	$ 75,849	$ 414,018	$ 286,901	$ 67	$ 776,835

(a) The company has a dividend restriction as well as two tests it must meet before it can pay out any dividends. The most restrictive of which limits the company's ability to pay out approximately $253.8 of equity at December 31, 2001.

(b) In June 1999, CL&P paid NU parent $30.5 million for NU shares issued from 1992 through 1998 on behalf of its employees in accordance with NU's 401(k) plan. This transaction resulted in a reduction of the NU parent loss and a tax benefit to CL&P. The amount in 2000 represents the remaining previously unallocated 1993 through 1999 NU parent losses.

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

THE CONNECTICUT LIGHT AND POWER COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2001	2000	1999
	(Thousands of Dollars)		
Operating Activities:			
Net income/(loss)	$ 109,803	$ 148,135	$ (13,568)
Adjustments to reconcile to net cash flows provided by operating activities:			
Depreciation	96,212	117,305	193,776
Deferred income taxes and investment tax credits, net	(144,559)	5,672	(140,459)
Amortization of regulatory assets, net	746,693	97,315	447,776
Tax benefit for 1993-1999 from reduction in NU parent losses	-	21,461	-
Gain on sale of utility plant	(521,590)	-	(286,477)
Net other uses of cash	(132,911)	(69,454)	(106,396)
Changes in working capital:			
Receivables and unbilled revenues, net	(144,419)	(109,938)	837
Fuel, materials and supplies	3,247	1,271	34,379
Accounts payable	(58,400)	171,729	(49,477)
Accrued taxes	1,922	(136,313)	149,818
Investments in securitizable assets	61,779	9,474	52,633
Other working capital (excludes cash)	26,440	3,204	16,585
Net cash flows provided by operating activities	44,217	259,861	299,427
Investing Activities:			
Investments in regulated plant:			
Electric utility plant	(237,423)	(208,249)	(180,982)
Nuclear fuel	(1,992)	(35,709)	(26,198)
Net cash flows used for investments in regulated plant	(239,415)	(243,958)	(207,180)
Investment in NU system Money Pool	(39,200)	(38,000)	6,600
Investments in nuclear decommissioning trusts	(74,866)	(25,133)	(54,582)
Other investment activities, net	(10,164)	10,246	(355)
Net proceeds from the sale of utility plant	827,681	686,807	516,912
Buyout/buydown of IPP contracts	(1,029,008)	-	-
Net cash flows (used in)/provided by investing activities	(564,972)	389,962	261,395
Financing Activities:			
Repurchase of common stock	-	(300,000)	-
Issuance of rate reduction bonds	1,438,400	-	-
Retirement of rate reduction bonds	(79,747)	-	-
Net (decrease)/increase in short-term debt	(115,000)	13,300	91,700
Reacquisitions and retirements of long-term debt	(416,155)	(179,071)	(620,010)
Reacquisitions and retirements of preferred stock	-	(99,539)	(19,750)
Retirement of monthly income preferred securities	(100,000)	-	-
Retirement of capital lease obligation	(145,800)	-	-
Cash dividends on preferred stock	(5,559)	(7,402)	(12,832)
Cash dividends on common stock	(60,072)	(72,014)	-
Net cash flows provided by/(used in) financing activities	516,067	(644,726)	(560,892)
Net(decrease)/increase in cash and cash equivalents	(4,688)	5,097	(70)
Cash and cash equivalents - beginning of year	5,461	364	434
Cash and cash equivalents - end of year	$ 773	$ 5,461	$ 364
Supplemental Cash Flow Information:			
Cash paid during the year for:			
Interest, net of amounts capitalized	$ 120,645	$ 96,735	$ 142,398
Income taxes	$ 230,144	$ 226,380	$ 19,754
Increase in obligations:			
Niantic Bay Fuel Trust	$ 1,754	$ 6,535	$ 4,752

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. About The Connecticut Light and Power Company

The Connecticut Light and Power Company (CL&P or the company) along with the Public Service Company of New Hampshire (PSNH), Western Massachusetts Electric Company (WMECO), North Atlantic Energy Corporation (NAEC), Holyoke Water Power Company (HWP), and Yankee Energy System, Inc. (Yankee) are the operating companies comprising the Northeast Utilities system (NU system) and are wholly owned by Northeast Utilities (NU). The NU system furnishes franchised retail electric service in Connecticut, New Hampshire and western Massachusetts through CL&P, PSNH and WMECO. NAEC sells all of its entitlement to the capacity and output of the Seabrook Station nuclear unit (Seabrook) to PSNH under the terms of two life-of-unit, full cost recovery contracts (Seabrook Power Contracts). HWP also is engaged in the production of electric power. Yankee, the parent company of Yankee Gas Services Company (Yankee Gas), is Connecticut's largest natural gas distribution system.

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 CL&P, is subject to the 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. CL&P is subject to further regulation for rates, accounting and other matters by the FERC and the Connecticut Department of Public Utility Control (DPUC).

Several wholly owned subsidiaries of NU provide support services for the NU system companies, including CL&P, and, in some cases, for other New England utilities. Northeast Utilities Service Company (NUSCO) provides centralized accounting, administrative, engineering, financial, information resources, legal, operational, planning, purchasing, and other services to the NU system companies, including CL&P. North Atlantic Energy Service Corporation has operational responsibility for Seabrook. In addition, CL&P has established two special purpose subsidiaries, one whose operations are solely related to the issuance of rate reduction certificates and one whose business consists solely of the purchase and resale of receivables.

B. Presentation

The consolidated financial statements of CL&P include the accounts of all subsidiaries. Intercompany transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 and the DPUC.

C. New Accounting Standards

Asset Retirement Obligations: In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs and applies to (a) all entities and (b) legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and/or the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 is effective for CL&P's 2003 calendar year. Upon adoption of SFAS No. 143, there may be an impact on CL&P's consolidated financial statements which management has not estimated at this time.

Long-Lived Assets: In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement modifies financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 is effective for CL&P's 2002 calendar year. Currently, management does not expect the adoption of SFAS No. 144 to have a material impact on CL&P's consolidated financial statements.

D. Investments and Jointly Owned Electric Utility Plant

Regional Nuclear Generating Companies: CL&P owns common stock in four regional nuclear companies (Yankee Companies). CL&P's ownership interests in the Yankee Companies at December 31, 2001 and 2000, which are accounted for on the equity method due to CL&P's ability to exercise significant influence over their operating and financial policies are 34.5 percent of the Connecticut Yankee Atomic Power Company (CYAPC), 24.5 percent of the Yankee Atomic Electric Company (YAEC), 12 percent of the Maine Yankee Atomic Power Company (MYAPC), and 9.5 percent of the Vermont Yankee Nuclear Power Corporation (VYNPC). CL&P's total equity investment in the Yankee Companies at December 31, 2001 and 2000, is $34.7 million and $41.4 million, respectively. Each Yankee Company owns a single nuclear generating unit. However, VYNPC is the only unit still in operation at December 31, 2001.

Seabrook: CL&P has a 4.06 percent joint ownership interest in Seabrook, a 1,148 megawatt nuclear generating unit. CL&P expects to sell its joint ownership interest in Seabrook, jointly with NAEC, around the end of 2002 through a public auction.

Plant-in-service and the accumulated provision for depreciation for CL&P's share of Millstone 2 and 3 and Seabrook are as follows:

At December 31,	2001	2000
	(Millions of Dollars)	
Plant-in-service:		
Millstone 2........................	$ -	$ 779.7
Millstone 3........................	-	1,924.7
Seabrook...........................	174.7	174.7
Accumulated provision for depreciation:		
Millstone 2........................	$ -	$ 779.1
Millstone 3........................	-	1,815.0
Seabrook...........................	164.8	164.0

E. Depreciation

The provision for depreciation is calculated using the straight-line method based on the 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. Depreciation rates are applied to plant-in-service from the time they are placed in service. When plant is retired from service, the original cost of the plant, including costs of removal less salvage, is charged to the accumulated provision for depreciation. The depreciation rates for the several classes of electric plant-in-service are equivalent to a composite rate of 3.1 percent in 2001, 3 percent in 2000 and 3.3 percent in 1999.

As a result of discontinuing the application of SFAS No. 71 "Accounting for the Effects of Certain Types of Regulation," for CL&P's generation business in 1999, including CL&P's ownership interest in Seabrook, the company recorded a charge to accumulated depreciation for the nuclear plant in excess of the estimated fair market value at the time in the amount of $1.7 billion and a corresponding regulatory asset was created.

F. Revenues

Revenues are based on authorized rates applied to each customer's use of energy. In general, rates can be changed only through a formal proceeding before the DPUC. Regulatory commissions also have authority over the terms and conditions of nontraditional rate-making arrangements.

At the end of each accounting period, CL&P accrues a revenue estimate for the amount of energy delivered but unbilled.

G. Regulatory Accounting and Assets

The accounting policies of CL&P conform to accounting principles generally accepted in the United States applicable to rate-regulated enterprises and historically reflect the effects of the rate-making process in accordance with SFAS No. 71.

CL&P's transmission and distribution business continues to be cost-of-service rate regulated, and management believes the application of SFAS No. 71 continues to be appropriate. Management also believes it is probable that CL&P will recover its investments in long-lived assets, including regulatory assets. Stranded costs for CL&P will be recovered through a transition charge over a 12-year period.

In addition, the regulatory assets in the following table are earning a return. The components of CL&P's regulatory assets are as follows:

At December 31,	2001	2000
	(Millions of Dollars)	
Recoverable nuclear costs............	$ 158.1	$1,122.4
Securitized regulatory assets........	1,356.3	-
Income taxes, net....................	154.2	371.9
Unrecovered contractual obligations..	2.1	171.8
Recoverable energy costs, net........	80.1	85.2
Other................................	126.4	84.7
Totals...............................	$1,877.2	$1,836.0

As a result of discontinuing the application of SFAS No. 71 for CL&P's generation business, the company had an unamortized balance ($1.21 billion and $1.35 billion), included in recoverable nuclear costs at December 31, 2001 and 2000, respectively. These amounts were the result of reclassified nuclear plant in excess of its estimated fair market value from plant to regulatory assets, which took place in 1999. This balance is offset by the unamortized balance of the deferred credit on the transfer of assets, in March 2000, to Northeast Generation Company (NGC) of approximately $541.5 million. Since the transfer occurred between CL&P and NGC, two affiliates, the deferred credit is eliminated in consolidation. In March 2001, CL&P sold its ownership interest in the Millstone units. The gain on this sale in the amount of approximately $521.6 million was used to offset recoverable nuclear costs, resulting in an unamortized balance of $148.9 million, after the current year's amortization expense. Also included in that regulatory asset component for 2001 and 2000 are $9.2 million and $344.3 million, respectively, which includes Millstone 1 recoverable nuclear costs relating to the recoverable portion of the undepreciated plant and related assets ($9.2 million and $51.2 million, respectively) and the decommissioning and closure obligations ($293.1 million in 2000).

CL&P issued $1.4 billion in rate reduction certificates and used $1.1 billion of those proceeds to buyout or buydown certain contracts with independent power producers. The majority of the payments to buyout or buydown these contracts were recorded as securitized regulatory assets. CL&P also securitized a portion of its SFAS No. 109 regulatory asset.

CL&P, under the terms of contracts with the Yankee Companies, is responsible for its proportionate share of the remaining costs of the units, including decommissioning. These amounts are recorded as unrecovered contractual obligations. A portion of these obligations was securitized in 2001 and is included in securitized regulatory assets.

CL&P, under the Energy Policy Act of 1992 (Energy Act), 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. CL&P is currently recovering these costs through rates. As of December 31, 2001 and 2000, the CL&P's total D&D Assessment deferrals were $21.1 million and $24.1 million, respectively, and have been recorded as recoverable energy costs, net.

In addition, through December 31, 1999, CL&P had an energy adjustment clause under which fuel prices above or below base-rate levels were charged to or credited to customers. Coincident with the start of restructuring, the energy adjustment clause was terminated. Energy costs deferred and not yet collected under the energy adjustment clause amounted to $59 million and $61.1 million at December 31, 2001 and 2000, respectively, which have been recorded as recoverable energy costs, net.

H. 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, including the impact of the sale of the Millstone units, is as follows:

At December 31,	2001	2000
	(Millions of Dollars)	
Accelerated depreciation and other plant-related differences....	$279.1	$271.2
Regulatory assets:		
Nuclear stranded investment........	276.1	528.8
Securitized contract termination costs and other..................	63.4	-
Income tax gross-up................	134.4	142.6
Other..............................	67.4	34.8
Totals.............................	$820.4	$977.4

I. 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.

J. Other Income/(Loss), Net

The components of CL&P's other income/(loss), net items are as follows:

	For the Years Ended December 31,		
	2001	2000	1999
	(Millions of Dollars)		
Gain related to Millstone sale.......	$29.5	$ -	$ -
Other nuclear-related costs................	-	(14.1)	(53.0)
Other, net.............	23.3	(8.1)	(33.8)
Totals.................	$52.8	$(22.2)	$(86.8)

2. SHORT-TERM DEBT

Limits: The amount of short-term borrowings that may be incurred by CL&P is subject to periodic approval by either the SEC under the 1935 Act or by the respective state regulators. Currently, SEC authorization allows CL&P to incur total short-term borrowings up to a maximum of $375 million. In addition, the charter of CL&P contains preferred stock provisions restricting the amount of unsecured debt the company may incur. As of December 31, 2001, CL&P's charter permits CL&P to incur $535 million of additional unsecured debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Credit Agreement: On November 16, 2001, CL&P, PSNH, WMECO, and Yankee Gas entered into a 364-day unsecured revolving credit facility for $350 million. This facility replaced a $250 million facility for CL&P and WMECO which expired on November 16, 2001. CL&P may draw up to $150 million under the facility, subject to the maximum facility limit of $350 million. Unless extended, the credit facility will expire on November 15, 2002. At December 31, 2001 and 2000, there were no borrowings and $115 million, respectively, in borrowings under these facilities for CL&P.

Under the aforementioned credit agreement, CL&P may borrow at fixed or variable rates plus an applicable margin based upon certain debt ratings, as rated by the lower of Standard and Poor's or Moody's Investors Service. The weighted average interest rate on CL&P's notes payable to banks outstanding on December 31, 2000, was 8.41 percent.

This credit agreement provides that CL&P must comply with certain financial and nonfinancial covenants as are customarily included in such agreements, including, but not limited to, consolidated debt ratios and interest coverage ratios. CL&P currently is and expects to remain in compliance with these covenants.

Money Pool: Certain subsidiaries of NU, including CL&P, 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, 2001 and 2000, CL&P had $77.2 million and $38 million of lendings to the Pool, respectively. The interest rate on lendings to the Pool at December 31, 2001 and 2000, was 1.5 percent and 5.4 percent, respectively.

3. LEASES

CL&P has entered into lease agreements, some of which are capital leases, for the use of data processing and office equipment, vehicles, nuclear control room simulators, and office space. The provisions of these lease agreements generally provide for renewal options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Capital lease rental payments charged to operating expense were $9.2 million in 2001, $36.3 million in 2000, and $10 million in 1999. Interest included in capital lease rental payments was $3.4 million in 2001, $7.9 million in 2000, and $9.4 million in 1999. Operating lease rental payments charged to expense were $7.1 million in 2001, $9.8 million in 2000, and $14.3 million in 1999.

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, 2001, are as follows:

Year	Capital Leases	Operating Leases
	(Millions of Dollars)	
2002	$ 2.4	$10.9
2003	2.4	9.3
2004	2.4	8.2
2005	2.4	7.5
2006	2.4	6.4
After 2006	24.7	11.9
Future minimum lease payments	36.7	$54.2
Less amount representing interest	20.7	
Present value of future minimum lease payments	$16.0	

4. PREFERRED STOCK NOT SUBJECT TO MANDATORY REDEMPTION

Details of preferred stock not subject to mandatory redemption are as follows:

Description	December 31, 2001 Redemption Price	Shares Outstanding December 31, 2001	December 31, 2001	December 31, 2000
			(Millions of Dollars)	
$1.90 Series of 1947	$52.50	163,912	$ 8.2	$ 8.2
$2.00 Series of 1947	54.00	336,088	16.8	16.8
$2.04 Series of 1949	52.00	100,000	5.0	5.0
$2.20 Series of 1949	52.50	200,000	10.0	10.0
3.90% Series of 1949	50.50	160,000	8.0	8.0
$2.06 Series E of 1954	51.00	200,000	10.0	10.0
$2.09 Series F of 1955	51.00	100,000	5.0	5.0
4.50% Series of 1956	50.75	104,000	5.2	5.2
4.96% Series of 1958	50.50	100,000	5.0	5.0
4.50% Series of 1963	50.50	160,000	8.0	8.0
5.28% Series of 1967	51.43	200,000	10.0	10.0
$3.24 Series G of 1968	51.84	300,000	15.0	15.0
6.56% Series of 1968	51.44	200,000	10.0	10.0
Totals..................................			$116.2	$116.2

5. LONG-TERM DEBT

Details of long-term debt outstanding are as follows:

At December 31,	2001	2000
	(Millions of Dollars)	
First Mortgage Bonds:		
7 7/8% Series A due 2001.............	$ -	$160.0
7 3/4% Series C due 2002.............	-	200.0
8 1/2% Series C due 2024.............	59.0	115.0
7 7/8% Series D due 2024.............	139.8	140.0
	198.8	615.0
Pollution Control Notes:		
Variable rate, due 2016-2022..........	46.4	46.4
Variable rate, tax exempt, due 2028-2031......................	377.5	377.5
Fees and interest due for spent nuclear fuel disposal costs..................	201.9	194.7
Less amounts due within one year........	-	160.0
Unamortized premium and discount, net...	(0.3)	(0.9)
Long-term debt, net....................	$824.3	$1,072.7

Essentially all utility plant of CL&P is subject to the liens of the company's first mortgage bond indenture.

CL&P has secured $315.5 million of pollution control notes secured by second mortgage liens on transmission assets, junior to the liens of their first mortgage bond indentures.

CL&P has $62 million of tax-exempt Pollution Control Revenue Bonds (PCRBs) with bond insurance secured by the first mortgage bonds and a liquidity facility. For financial reporting purposes, these first mortgage bonds would not be considered outstanding unless CL&P failed to meet its obligations under the PCRBs.

The average effective interest rates on the variable-rate pollution control notes ranged from 1.3 percent to 3.6 percent for 2001 and from 3.2 percent to 4.9 percent for 2000.

6. 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,	2001	2000	1999
	(Millions of Dollars)		
Current income taxes:			
Federal......................	$190.7	$ 77.2	$197.7
State........................	38.8	17.2	27.9
Total current.............	229.5	94.4	225.6
Deferred income taxes, net:			
Federal......................	(117.0)	10.6	(113.0)
State........................	(23.8)	2.4	(20.1)
Total deferred...........	(140.8)	13.0	(133.1)
Investment tax credits, net...	(3.8)	(7.3)	(7.4)
Total income tax expense......	$ 84.9	$100.1	$ 85.1

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

For the Years Ended December 31,	2001	2000	1999
	(Millions of Dollars)		
Depreciation, leased nuclear fuel, settlement credits and disposal costs................	$ (9.2)	$13.8	$ (9.9)
Regulatory deferral.............	(33.1)	(14.1)	6.2
State net operating loss carryforward..................	-	-	7.8
Regulatory disallowance.........	-	-	(24.2)
Sale of generation assets.......	(197.6)	-	(126.1)
Pension accruals................	19.9	13.6	9.8
Securitized contract termination costs and other...	63.4	-	-
Other...........................	15.8	(0.3)	3.3
Deferred income taxes, net......	$(140.8)	$13.0	$(133.1)

A reconciliation between income tax expense and the expected tax expense at the statutory rate is as follows:

For the Years Ended December 31,	2001	2000	1999
	(Millions of Dollars)		
Expected federal income tax.....	$68.1	$ 86.9	$25.0
Tax effect of differences:			
Depreciation..................	4.0	5.8	27.1
Amortization of regulatory assets	(0.6)	3.6	31.9
Investment tax credit amortization................	(3.8)	(7.3)	(7.4)
State income taxes, net of federal benefit............	9.8	12.7	5.1
Other, net....................	7.4	(1.6)	3.4
Total income tax expense........	$84.9	$100.1	$85.1

7. PENSION BENEFITS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The NU system companies, including CL&P, participate in a uniform noncontributory defined benefit retirement plan covering substantially all regular NU system employees. Benefits are based on years of service and the employees' highest eligible compensation during 60 consecutive months of employment. CL&P's portion of the NU system's total pension credit, part of which was credited to utility plant, was $63.7 million in 2001, $57.2 million in 2000 and $40.3 million in 1999.

Currently, CL&P's policy is to annually fund an amount at least equal to that which will satisfy the requirements of the Employee Retirement Income Security Act and Internal Revenue Code.

The NU system companies, including CL&P, 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 CL&P 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 estimated work life of the employee. CL&P annually funds postretirement costs through external trusts with amounts that have been rate-recovered and which also are tax deductible.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	At December 31,			
	Pension Benefits		Postretirement Benefits	
(Millions of Dollars)	2001	2000	2001	2000
Change in benefit obligation				
Benefit obligation at beginning of year.....	$(587.3)	$ (551.9)	$(136.3)	$(131.9)
Service cost...............	(10.0)	(9.7)	(1.9)	(1.9)
Interest cost..............	(43.7)	(42.3)	(11.1)	(10.1)
Transfers..................	(2.4)	(4.9)	-	-
Actuarial loss.............	(25.1)	(18.9)	(32.2)	(5.2)
Benefits paid..............	45.1	40.4	16.0	12.8
Settlements and other......	(2.6)	-	(0.2)	-
Benefit obligation at end of year...........	$(626.0)	$ (587.3)	$(165.7)	$(136.3)
Change in plan assets				
Fair value of plan assets at beginning of year.....	$ 998.8	$1,037.8	$ 62.4	$ 59.7
Actual return on plan assets..............	(45.7)	(3.5)	(5.8)	3.0
Employer contribution......	-	-	14.5	12.5
Benefits paid..............	(45.1)	(40.4)	(16.0)	(12.8)
Transfers..................	2.4	4.9	0.6	-
Fair value of plan assets at end of year...........	$ 910.4	$ 998.8	$ 55.7	$ 62.4
Funded status at December 31...........	$ 284.4	$ 411.5	$(110.0)	$ (73.9)
Unrecognized transition (asset)/obligation.......	(2.7)	(3.7)	80.3	88.2
Unrecognized prior service cost.............	27.6	30.4	-	-
Unrecognized net (gain)/loss..............	(75.6)	(267.5)	29.1	(14.3)
Prepaid/(accrued) benefit cost	$ 233.7	$ 170.7	$ (0.6)	$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	At December 31,			
	Pension Benefits		Postretirement Benefits	
	2001	2000	2001	2000
Discount rate..................	7.25%	7.50%	7.25%	7.50%
Compensation/progression rate..	4.25	4.50	4.25	4.50
Health care cost trend rate (a)...............	N/A	N/A	11.00	5.26

(a) The annual per capita cost of covered health care benefits was assumed to decrease to 5.00 percent by 2007.

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

	For the Years Ended December 31,					
	Pension Benefits			Postretirement Benefits		
(Millions of Dollars)	2001	2000	1999	2001	2000	1999
Service cost.....	$10.0	$ 9.7	$ 11.0	$ 1.9	$ 1.9	$ 2.3
Interest cost....	43.7	42.3	40.0	11.1	10.1	9.3
Expected return on plan assets.	(95.3)	(88.4)	(78.1)	(5.5)	(4.9)	(4.2)
Amortization of unrecognized net transition (asset)/ obligation......	(0.9)	(0.9)	(0.9)	7.3	7.3	7.3
Amortization of prior service cost............	2.6	2.7	2.7	-	-	-
Amortization of actuarial gain..	(21.4)	(22.6)	(15.0)	-	-	-
Other amortization, net.............	-	-	-	(0.5)	(1.9)	(1.3)
Settlements and other..........	(2.4)	-	-	-	-	-
Net periodic benefit (credit)/cost..	$(63.7)	$(57.2)	$(40.3)	$14.3	$12.5	$13.4

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

	For the Years Ended December 31,					
	Pension Benefits			Postretirement Benefits		
	2001	2000	1999	2001	2000	1999
Discount rate..........	7.50%	7.75%	7.00%	7.50%	7.75%	7.00%
Expected long-term rate of return.......	9.50	9.50	9.50	N/A	N/A	N/A
Compensation/ progression rate.....	4.50	4.75	4.25	4.50	4.75	4.25
Long-term rate of return -						
Health assets, net of tax.......	N/A	N/A	N/A	7.50	7.50	7.50
Life assets........	N/A	N/A	N/A	9.50	9.50	9.50

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......	$0.5	$ (0.5)
Effect on postretirement benefit obligation...........	$6.1	$ (5.6)

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

8. **SALE OF CUSTOMER RECEIVABLES**

On July 11, 2001, CL&P renewed its accounts receivable securitization credit line for one year. At that time, the credit line capacity was reduced from $200 million to $100 million.

As of December 31, 2001, CL&P had no amounts outstanding through the CL&P Receivables Corporation (CRC), a wholly owned subsidiary of CL&P. As of December 31, 2000, CL&P had sold accounts receivable of $170 million to a third-party purchaser with limited recourse through the CRC. In addition, at December 31, 2000, $18.9 million of accounts receivable were designated as collateral under the agreement with the CRC.

Concentrations of credit risk to the purchaser under the company's agreement with respect to the receivables are limited due to CL&P's diverse customer base within its service territory.

9. NUCLEAR GENERATION ASSETS DIVESTITURE

On March 31, 2001, CL&P and WMECO consummated the sale of Millstone 1 and 2 to a subsidiary of Dominion Resources, Inc., Dominion Nuclear Connecticut, Inc. (DNCI). CL&P, PSNH and WMECO sold their ownership interests in Millstone 3 to DNCI. This sale included all of the respective joint ownership interests of CL&P, PSNH and WMECO in Millstone 3. CL&P received approximately $800 million of cash proceeds from the sale and applied the proceeds to taxes and reductions of debt and equity. As part of the sale, DNCI assumed responsibility for decommissioning the three Millstone units.

In connection with the sale, CL&P recorded a gain in the amount of approximately $521.6 million which was used to offset stranded costs.

10. COMMITMENTS AND CONTINGENCIES

A. Restructuring

On September 27, 2001, CL&P filed its application with the DPUC for approval of the disposition of the proceeds from the sale of the Millstone units to DNCI. This application described and requested DPUC approval for CL&P's treatment of its share of the proceeds from the sale. In accordance with Connecticut's electric utility industry restructuring legislation, CL&P was required to utilize any gains from the Millstone sale to offset stranded costs. There are certain contingencies related to this filing regarding the potential disallowance of what management believes were prudently incurred costs. Management believes the recoverability of these costs is probable. A decision from the DPUC is expected in the first half of 2002.

B. Environmental Matters

The NU system, including CL&P, 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. As such, the NU system, including CL&P, has active environmental auditing and training programs and believes it is substantially in compliance with the current laws and regulations.

However, the normal course of operations may involve activities and substances that expose CL&P 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 CL&P's consolidated financial statements.

Based upon currently available information for the estimated remediation costs as of December 31, 2001 and 2000, the liability recorded by CL&P for its estimated environmental remediation costs amounted to $2.5 million and $5.2 million, respectively.

C. **Spent Nuclear Fuel Disposal Costs**

Under the Nuclear Waste Policy Act of 1982, CL&P 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. For nuclear fuel used to generate electricity prior to April 7, 1983 (Prior Period Fuel), an accrual has been recorded for the full liability and payment must be made prior to the first delivery of spent fuel to the DOE. Until such payment is made, the outstanding balance will continue to accrue interest at the 3-month treasury bill yield rate. As of December 31, 2001 and 2000, fees due to the DOE for the disposal of Prior Period Fuel were $201.9 million and $194.7 million, respectively, including interest costs of $135.4 million and $128.1 million, respectively.

Fees for nuclear fuel burned on or after April 7, 1983, are billed currently to customers and paid to the DOE on a quarterly basis. CL&P remains responsible for fees to be paid for fuel burned until the divestiture of the Millstone and Seabrook nuclear units.

D. **Nuclear Insurance Contingencies**

Insurance policies covering CL&P'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.

CL&P is subject to retroactive assessments if losses under those policies exceed the accumulated funds available to the insurer. The maximum potential assessments 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 $1.1 million, $0.1 million and $1.6 million, respectively. In addition, insurance has been purchased by the NU system in the aggregate amount of $200 million on an industry basis for coverage of worker claims.

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 CL&P, 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, including CL&P, 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. Based upon its ownership interest in Seabrook, CL&P's maximum liability, including any additional assessments, would be $3.6 million per incident, of which payments would be limited to $0.4 million per year. In addition, through purchased-power contracts with VYNPC, CL&P would be responsible for up to an additional assessment of $8.4 million per incident, of which payments would be limited to $1 million per year.

CL&P expects to terminate its nuclear insurance upon the divestiture of its remaining nuclear units.

E. Long-Term Contractual Arrangements

Yankee Companies: Under the terms of its agreement, CL&P paid its ownership (or entitlement) shares of costs, which included depreciation, operation and maintenance (O&M) expenses, taxes, the estimated cost of decommissioning, and a return on invested capital. These costs were recorded as purchased-power expenses. CL&P's cost of purchases under its contract with VYNPC amounted to $14.7 million in 2001, $14.5 million in 2000, and $17 million in 1999. VYNPC is in the process of selling its nuclear unit. Upon completion of the sale, it is expected that these long-term contracts will be replaced with different contracts with the new buyer.

Energy Procurement Contracts: CL&P has entered into various arrangements for the purchase of capacity and energy. CL&P's total cost of purchases under these arrangements amounted to $205 million in 2001, $308.6 million in 2000 and $293.8 million in 1999.

Hydro-Quebec: Along with other New England utilities, CL&P has entered into an agreement to support transmission and terminal facilities to import electricity from the Hydro-

Quebec system in Canada. CL&P 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.

Estimated Annual Costs: The estimated annual costs of CL&P's significant long-term contractual arrangements, absent the effects of any contract terminations, buydowns or buyouts, or sales of generation assets are as follows:

	2002	2003	2004	2005	2006	Totals
			(Millions of Dollars)			
VYNPC........	$ 18.4	$ 17.5	$ 19.9	$ 20.2	$ 18.3	$ 94.3
Energy Procurement Contracts..	193.2	199.0	200.0	203.4	206.9	1,002.5
Hydro-Quebec.	15.4	14.8	14.2	13.7	12.4	70.5
Totals......	$227.0	$231.3	$234.1	$237.3	$237.6	$1,167.3

11. NUCLEAR DECOMMISSIONING AND PLANT CLOSURE COSTS

Seabrook: CL&P's operating nuclear power plant, Seabrook, has a service life that is expected to end in 2026, and upon retirement, must be decommissioned. CL&P's ownership share of the estimated cost of decommissioning Seabrook, in year end 2001 dollars, is $22.6 million. Nuclear decommissioning costs are accrued over the expected service life of the unit and are included in depreciation expense and the accumulated provision for depreciation. Nuclear decommissioning expenses for Seabrook amounted to $0.8 million in 2001, 2000 and 1999. Through December 31, 2001 and 2000, total decommissioning expenses of $5.9 million and $5.1 million, respectively, have been collected from customers related to Seabrook and are reflected in the accumulated provision for depreciation. Payments for CL&P's ownership share of the cost of decommissioning Seabrook are paid to an independent decommissioning financing fund managed by the state of New Hampshire.

As of December 31, 2001 and 2000, $5.4 million and $4.6 million, respectively, have been transferred to external decommissioning trusts. Earnings on the decommissioning trust increase the decommissioning trust balance and the accumulated provision for depreciation. Unrealized gains and losses associated with the decommissioning trust also impact the balance of the trust and the accumulated provision for depreciation. The fair values of the amounts in the Seabrook external decommissioning trust were $6.2 million and $5.8 million at December 31, 2001 and 2000, respectively. Upon divestiture, the balance in the Seabrook decommissioning trust will be transferred to the buyer.

Yankee Companies: VYNPC owns and operates a nuclear generating unit with a service life that is expected to end in 2012. CL&P's ownership share of estimated costs, in year end 2001 dollars, of decommissioning this unit is $44.7 million. In August 2001, VYNPC agreed to sell its nuclear generating unit for $180 million, including $35 million for nuclear fuel, to an unaffiliated company. Among other commitments, the acquiring company agreed to assume the obligation to decommission the unit after it is taken out of service and agreed to provide the current level of output from the unit through 2012. The sale is subject to the approval of the Vermont Public Service Board, the Nuclear Regulatory Commission, the FERC and other regulatory authorities. The closing on the sale is expected to be in the first half of 2002.

As of December 31, 2001 and 2000, CL&P's remaining estimated obligations, including decommissioning for the units owned by CYAPC, YAEC and MYAPC, which have been shut down was $141.5 million and $160.6 million, respectively.

12. MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY

CL&P Capital LP (CL&P LP), a subsidiary of CL&P, previously had issued $100 million of cumulative 9.3 percent Monthly Income Preferred Securities (MIPS), Series A. CL&P has the sole ownership interest in CL&P LP, as a general partner, and was the guarantor of the MIPS securities. Subsequent to the MIPS issuance, CL&P LP loaned the proceeds of the MIPS issuance, along with CL&P's $3.1 million capital contribution, back to CL&P in the form of an unsecured debenture. CL&P consolidates CL&P LP for financial reporting purposes. Upon consolidation, the unsecured debenture was eliminated, and the MIPS securities were accounted for as a minority interest. In the second quarter of 2001, CL&P repaid the $100 million in notes associated with the MIPS.

13. 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.

Nuclear Decommissioning Trusts: CL&P's portion of the investments held in the NU system companies' nuclear decommissioning trusts were marked-to-market by a negative $0.1 million as of December 31, 2001, and a positive $83.2 million as of December 31, 2000, with corresponding offsets to the accumulated provision for depreciation. In conjunction with the sale of the Millstone units to DNCI in March 2001, CL&P's Millstone decommissioning trusts were transferred to DNCI.

Preferred Stock and Long-Term Debt: The fair value of CL&P'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 CL&P's financial instruments and the estimated fair values are as follows:

	At December 31, 2001	
(Millions of Dollars)	Carrying Amount	Fair Value
Preferred stock not subject to mandatory redemption	$ 116.2	$ 62.4
Long-term debt -		
First mortgage bonds	198.8	212.8
Other long-term debt	625.8	615.1
Rate reduction bonds	1,358.7	1,388.3

	At December 31, 2000	
(Millions of Dollars)	Carrying Amount	Fair Value
Preferred stock not subject to mandatory redemption	$116.2	$139.7
Long-term debt -		
First mortgage bonds	615.0	621.6
Other long-term debt	618.6	576.4
MIPS	100.0	100.5

14. OTHER COMPREHENSIVE INCOME

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

(Millions of Dollars)	December 31, 2000	Current Period Change	December 31, 2001
Unrealized gains on securities	$0.8	$(0.4)	$0.4
Minimum pension liability adjustments	(0.3)	-	(0.3)
Accumulated other comprehensive income/(loss)	$0.5	$(0.4)	$0.1

(Millions of Dollars)	December 31, 1999	Current Period Change	December 31, 2000
Unrealized gains on securities...........	$0.7	$0.1	$0.8
Minimum pension liability adjustments...	(0.3)	-	(0.3)
Accumulated other comprehensive income....	$0.4	$0.1	$0.5

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

(Millions of Dollars)	2001	2000	1999
Unrealized gains on securities...........	$0.3	$(0.1)	$ -
Minimum pension liability adjustments...	-	-	-
Other comprehensive income/(loss)...........	$0.3	$(0.1)	$ -

15. **SEGMENT INFORMATION**

The NU system is organized between regulated utilities (electric and gas since March 1, 2000) and competitive energy subsidiaries. CL&P is included in the regulated utilities segment of the NU system and has no other reportable segments.

The Connecticut Light and Power Company and Subsidiaries

SELECTED CONSOLIDATED FINANCIAL DATA	2001	2000	1999	1998	1997
			(Thousands of Dollars)		
Operating Revenues..........	$2,646,123	$2,935,922	$2,452,855	$2,386,864	$2,465,587
Net Income/(Loss)...........	109,803	148,135	(13,568)	(195,725)	(139,597)
Cash Dividends on Common Stock..............	60,072	72,014	-	-	5,989
Total Assets................	4,727,557	4,764,198	5,298,284	6,050,198	6,081,223
Rate Reduction Bonds........	1,358,653	-	-	-	-
Long-Term Debt(a)...........	824,349	1,232,688	1,400,056	2,007,957	2,043,327
Preferred Stock Not Subject to Mandatory Redemption................	116,200	116,200	116,200	116,200	116,200
Preferred Stock Subject to Mandatory Redemption (a)............	-	-	99,539	119,289	155,000

CONSOLIDATED QUARTERLY FINANCIAL DATA (Unaudited)

	Quarter Ended			
2001	March 31	June 30	September 30	December 31
		(Thousands of Dollars)		
Operating Revenues	$733,905	$610,275	$675,578	$626,365
Operating Income	$ 65,096	$ 68,114	$ 63,103	$ 66,716
Net Income	$ 38,300	$ 18,812	$ 18,824	$ 33,867
2000				
Operating Revenues	$747,976	$683,585	$748,143	$756,218
Operating Income	$114,612	$ 70,082	$ 93,157	$ 91,428
Net Income	$ 49,643	$ 19,186	$ 27,908	$ 51,398

(a) Includes portion due within one year.

The Connecticut Light and Power Company and Subsidiaries

CONSOLIDATED STATISTICS (Unaudited)

	Gross Electric Utility Plant December 31, (Thousands of Dollars)	kWh Sales (Millions)	Average Annual Use Per Residential Customer (kWh)	Electric Customers (Average)	Employees December 31,
2001	3,265,811	$32,645	8,884	1,153,234	2,160
2000	5,964,605	42,179	8,976	1,121,551	2,057
1999	6,007,421	29,317	8,969	1,120,846	2,377
1998	6,345,215	27,356	8,476	1,111,370	2,379
1997	6,639,786	25,766	8,526	1,103,309	2,163

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The Connecticut Light and Power Company

First and Refunding Mortgage Bonds

Trustee and Interest Paying Agent
Bankers Trust Company, Corporate Trust
and Agency Group
100 Plaza One
Jersey City, NJ 07310

Preferred Stock

Transfer Agent, Dividend Disbursing Agent and Registrar
The Bank of New York
5 Penn Plaza - 13th Floor
New York, NY 10001 - 1810

2002 Dividend Payment Dates
5.28%, $3.24 Series
January 1, April 1, July 1, and October 1

4.50% (1956), 4.96%, 6.56%
$1.90, $2.00, $2.04, $2.06, $2.09, and $2.20 Series
February 1, May 1, August 1, and November 1

3.90%, 4.50% (1963), Series
March 1, June 1, September 1, and December 1

Address General Correspondence in Care of:

Northeast Utilities Service Company
Investor Relations Department
P.O. Box 270
Hartford, CT 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.

The Connecticut Light and Power Company
General Offices
107 Selden Street
Berlin, Connecticut 06037-1616

Connecticut
Light & Power

The Northeast Utilities System