FPL Energy
Seabrook Station

FPL Energy Seabrook Station
P.O. Box 300
Seabrook, NH 03874
(603) 773-7000

December 23, 2002

Docket 50-443
NYN-02127

U. S. Nuclear Regulatory Commission
Attention: Document Control Desk
Washington, DC 20555-0001

Seabrook Station
Guarantees of Payments of Deferred Premiums

Pursuant to 10CFR 140.21(e), FPL Energy Seabrook, LLC, (FPLE Seabrook), on behalf of the licensees named in Facility Operating License NPF-86, provides herewith, the Annual Reports for 2001. The Annual Reports provided below demonstrate the collective ability of the licensees to meet their obligation for payment of deferred premiums.

Annual Reports for 2001 (containing certified financial statements) are enclosed for the following:

- FPL Group* (for subsidiary FPL Energy Seabrook)
- Massachusetts Municipal Wholesale Electric Company
- Taunton Municipal Lighting Plant
- Hudson Light and Power Department

M004

* Previously submitted May 17, 2002 as part of NYN-02045, "Application for Order and Conforming Amendments for License Transfer."

In addition, the Agreement of Joint Ownership, Construction and Operation of New Hampshire Nuclear Units, dated May 1, 1973 as amended, and specifically the provisions of Paragraph 10.1, as amended by the Eighteenth Amendment, dated March 14, 1986, is incorporated by reference[1].

The enclosed annual reports are submitted pursuant to 10 CFR 50.71 (b).

Should you have any questions regarding this matter, please contact Mr. Brad A. Jacobson, Financial and Accounting Services Manager, at (603) 773-7684.

Very truly yours,

FPL ENERGY SEABROOK, LLC

James M. Peschel
Regulatory Programs Manager

cc: (without enclosures)

H. J. Miller, NRC Region I Administrator
R. D. Starkey, NRC Project Manager, Project Directorate I-2
G. T. Dentel, NRC Senior Resident Inspector

cc: (with enclosures):

U. S. Nuclear Regulatory Commission
Attention: Director of Nuclear Reactor Regulation
Washington, DC 20555-0001

[1] As of November 1, 2002, certain owners of Seabrook Nuclear Power Station and NAESCO have completed the sale of their majority interest in Seabrook Station to FPL Energy Seabrook, LLC.

# ENCLOSURE TO NYN-02127

ANDERSEN

# MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY

## FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

## DECEMBER 31, 2001, 2000 AND 1999
## WITH INDEPENDENT AUDITORS' REPORT THEREON

# MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION DECEMBER 31, 2001, 2000 AND 1999

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ANDERSEN

## Independent Auditors' Report

To the Board of Directors of
Massachusetts Municipal Wholesale Electric Company:

We have audited the accompanying statement of financial position of Massachusetts Municipal Wholesale Electric Company (a Massachusetts public corporation) as of December 31, 2001, and the related statement of operations and cash flows for the year then ended. 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 audit. The financial statements as of December 31, 2000 and 1999 and for the years then ended were audited by other auditors whose report dated March 2, 2001, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides 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 Massachusetts Municipal Wholesale Electric Company as of December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Hartford, Connecticut
March 8, 2002

## MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
## STATEMENTS OF FINANCIAL POSITION
## DECEMBER 31, 2001, 2000 AND 1999
(In Thousands)

| ASSETS | 2001 | 2000 | 1999 |
|---|---|---|---|
| Electric plant | | | |
| In service (Note 5) | $ 1,241,219 | $ 1,239,539 | $ 1,236,752 |
| Accumulated depreciation | (589,328) | (544,741) | (500,389) |
| | 651,891 | 694,798 | 736,363 |
| Construction work in progress | 6,114 | 2,609 | 3,448 |
| Nuclear fuel - net of amortization | 11,279 | 12,108 | 9,736 |
| Total electric plant | 669,284 | 709,515 | 749,547 |
| Special funds (Notes 2, 4 and 6) | 215,946 | 250,628 | 241,042 |
| Current assets | | | |
| Cash and temporary investments (Note 6) | 552 | 915 | 1,081 |
| Accounts receivable | 8,594 | 9,805 | 6,580 |
| Unbilled revenues (Note 3) | 6,721 | 12,204 | 3,300 |
| Inventories | 19,270 | 13,679 | 18,505 |
| Prepaid expenses | 6,554 | 6,434 | 6,470 |
| Total current assets | 41,691 | 43,037 | 35,936 |
| Total special funds and current assets | 257,637 | 293,665 | 276,978 |
| Deferred charges | | | |
| Amounts recoverable under terms of the power sales agreements (Note 2) | 261,344 | 219,395 | 238,565 |
| Unamortized debt discount and expenses | 16,685 | 20,089 | 22,448 |
| Nuclear decommissioning trusts | 26,022 | 22,504 | 18,902 |
| Other | 7,526 | 8,072 | 6,308 |
| | 311,577 | 270,060 | 286,223 |
| | $ 1,238,498 | $ 1,273,240 | $ 1,312,748 |
| **LIABILITIES** | | | |
| Long-term debt (Note 4) | $ 1,037,845 | $ 1,079,712 | $ 1,130,975 |
| Current liabilities | | | |
| Current maturities of long-term debt (Note 4) | 44,730 | 50,580 | 47,870 |
| Short-term debt (Note 4) | 20,560 | 28,075 | 36,847 |
| Accounts payable | 9,695 | 9,285 | 9,860 |
| Accrued expenses | 37,610 | 35,851 | 21,501 |
| Member and participant advances and reserves | 61,543 | 47,331 | 46,915 |
| | 174,138 | 171,122 | 162,993 |
| Deferred credits | 26,515 | 22,406 | 18,780 |
| Commitments and contingencies (Note 10) | | | |
| | $ 1,238,498 | $ 1,273,240 | $ 1,312,748 |

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

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(In Thousands)

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Revenues (Note 3) | $ 258,711 | $ 276,340 | $ 232,094 |
| Interest income | 14,932 | 17,327 | 15,409 |
| Total revenues and interest income | $ 273,643 | $ 293,667 | $ 247,503 |
| Operating and service expenses: | | | |
| Fuel used in electric generation | $ 31,205 | $ 31,841 | $ 28,290 |
| Purchased power | 74,923 | 69,241 | 37,420 |
| Other operating | 35,165 | 40,841 | 39,367 |
| Maintenance | 11,184 | 16,862 | 15,207 |
| Depreciation | 45,368 | 45,205 | 45,032 |
| Taxes other than income | 4,611 | 5,180 | 5,645 |
| | 202,456 | 209,170 | 170,961 |
| Interest expense: | | | |
| Interest charges | 56,981 | 67,881 | 68,796 |
| Interest charged to projects during construction (Note 2) | (60) | (122) | (19) |
| | 56,921 | 67,759 | 68,777 |
| Total operating costs and interest expense | 259,377 | 276,929 | 239,738 |
| Other (credits) charges (Note 8) | (5) | (43) | 18,874 |
| Loss on refinancing - net (Note 4) | 56,813 | - | - |
| Total costs and expenses | 316,185 | 276,886 | 258,612 |
| (Increase) decrease in amounts recoverable under terms of the power sales agreements (Note 2) | (42,542) | 16,781 | (11,109) |
| | $ 273,643 | $ 293,667 | $ 247,503 |

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

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(In Thousands)

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Total revenues and interest income | $ 273,643 | $ 293,667 | $ 247,503 |
| Total costs and expenses, net | (316,185) | (276,886) | (258,612) |
| Adjustments to arrive at net cash provided by operating activities: | | | |
| Depreciation and decommissioning | 48,312 | 47,713 | 47,502 |
| Amortization of debt discount and nuclear fuel | 25,374 | 7,354 | 7,829 |
| Change in current assets and liabilities: | | | |
| Accounts receivable | 1,211 | (3,225) | 98 |
| Unbilled revenues | 5,483 | (8,904) | 476 |
| Inventories | (5,591) | 4,826 | (4,758) |
| Prepaid expenses | (120) | 36 | 2,018 |
| Accounts payable | 410 | (575) | 2,346 |
| Accrued expenses and other | 2,247 | 12,501 | 3,413 |
| Member and participant advances and reserves | 14,212 | 416 | (5,623) |
| Net cash provided by operating activities | 48,996 | 76,923 | 42,192 |
| Cash flows from investing activities: | | | |
| Construction expenditures and purchases of nuclear fuel | (10,168) | (10,168) | (6,037) |
| Interest charged to projects during construction | (60) | (122) | (19) |
| Net (increase) decrease in special funds | 34,682 | (9,586) | (1,495) |
| Change in net unrealized gain (loss) on special funds | 593 | 2,389 | (3,785) |
| Decommissioning trust payments, net | (4,140) | (3,740) | (3,429) |
| Other | 1,551 | 1,397 | 1,087 |
| Net cash provided by (used for) investing activities | 22,458 | (19,830) | (13,678) |
| Cash flows from financing activities: | | | |
| Payments for principal of long-term debt and commercial paper | (59,165) | (57,155) | (48,230) |
| Proceeds from bonds and commercial paper | 1,130,530 | - | 19,140 |
| Payments for bond and commercial paper issue costs | (18,565) | (72) | (143) |
| Bond issue premium | 49,203 | - | - |
| Change in notes payable | (50) | (32) | 82 |
| Payment for defeasance of bonds | (1,173,770) | - | - |
| Net cash used for financing activities | (71,817) | (57,259) | (29,151) |
| Net decrease in cash and temporary investments | (363) | (166) | (637) |
| Cash and temporary investments at beginning of year | 915 | 1,081 | 1,718 |
| Cash and temporary investments at end of year | $ 552 | $ 915 | $ 1,081 |
| Cash paid during the year for interest (Net of amount capitalized as shown above) | $ 47,886 | $ 65,004 | $ 65,885 |

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

(1) Nature of Operations

The Massachusetts Municipal Wholesale Electric Company (MMWEC) is a public corporation and a political subdivision of the Commonwealth of Massachusetts (Commonwealth) formed to be a joint action agency and to develop a bulk power supply for its member Massachusetts municipal electric systems and other utilities. MMWEC is authorized to construct, own, or purchase ownership interests in, and to issue revenue bonds to finance electric facilities secured by revenues received by MMWEC in each of its Projects. A Project is MMWEC's ownership interest in electric generation facilities (Note 5). Project revenues are derived in part from Power Sales Agreements (PSAs) with its members and other utilities who are Participants in a Project. The power supply program consists of power purchase arrangements, power brokering services, planning and financial services, and the Projects relating to generating facilities either built and operated by MMWEC or other regional utilities.

A Massachusetts city or town having a municipal electric system, authorized by majority vote of the city or town, may become a member of MMWEC by applying for admission and agreeing to comply with the terms and conditions of membership as the MMWEC By-Laws may require. As of December 31, 2001, twenty-two Massachusetts municipal electric systems were members. Termination of membership does not relieve a system of its PSA obligations.

(2) Significant Accounting Policies

MMWEC presents its financial statements in accordance with accounting principles generally accepted in the United States (GAAP) as promulgated by the Financial Accounting Standards Board (FASB). GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results could differ from those estimates.

Interest Charged to Projects During Construction

MMWEC capitalizes interest as an element of the cost of electric plant and nuclear fuel in process. A corresponding amount is reflected as a reduction of interest expense. The amount of interest capitalized is based on the cost of debt, including amortization of debt discount and expenses, related to each Project, net of investment gains and losses and interest income derived from unexpended Project funds.

Nuclear Fuel

Nuclear fuel, net of amortization, includes MMWEC's ownership interest of spent fuel, fuel in use, in stock and in process for Millstone Unit 3 and Seabrook Station. The cost of nuclear fuel is amortized to fuel used in electric generation based on the relationship of energy produced in the current period to total expected energy production for fuel in the reactor. A provision for fuel disposal costs is included in fuel used in electric generation based upon disposal contracts with The Department of

(2) Significant Accounting Policies (continued)

Nuclear Fuel (continued)

Energy (DOE). In addition, fuel used in electric generation includes the annual assessment, under the Energy Policy Act of 1992, for the cost of decontamination and decommissioning of uranium enrichment plants operated by the DOE. Billings from the DOE will occur over the next six years. At December 31, 2001, MMWEC's share of Millstone Unit 3 and Seabrook Station unbilled assessments was $244,000 and $372,000, respectively. These amounts are included in other deferred charges and deferred credits on the Statements of Financial Position.

Special Funds

In accordance with the General Bond Resolution (GBR) covering MMWEC's long-term debt, numerous special funds are required. The special funds, other than certain working capital funds, are invested in accordance with the GBR which was amended and restated during 2001. Changes to the GBR are discussed in Note 4. None of these changes affect the names of the funds specified below, except each such fund is now specific to a Project. The composition of special funds is as follows:

| Fund | 2001 | 2000 (In Thousands) | 1999 |
|---|---|---|---|
| Bond Fund Interest, Principal and Retirement Account to pay principal and interest on bonds | $ 17,818 | $ 46,896 | $ 45,427 |
| Bond Fund Reserve Account set at the maximum annual interest obligation to make up any deficiencies in the Bond Fund Interest, Principal and Retirement Account | 59,100 | 79,396 | 77,904 |
| Reserve and Contingency Fund to make up deficiencies in the Bond Funds and pay for repairs and extraordinary costs | 27,435 | 26,899 | 24,113 |
| Revenue Fund to receive revenues and disburse them to other funds | 90,177 | 79,084 | 73,625 |
| Working Capital Funds to maintain funds to cover operating expenses | 21,416 | 18,353 | 19,973 |
| Total Special Funds | $215,946 | $250,628 | $241,042 |

Cash and Temporary Investments

Certain cash and temporary investment amounts used for power purchases and working capital requirements of MMWEC are not subject to the provisions of the GBR. In addition to the investment securities delineated in the GBR, MMWEC invests in repurchase agreements with banks where MMWEC has established accounts. Temporary investments have maturities of less than ninety days.

Inventories

Fuel oil and spare parts inventory are recorded and accounted for by the average cost method. At December 31, 2001, 2000 and 1999, total fuel oil inventory was valued at $9.7, $4.8 and $5.7 million, and spare parts inventory amounted to $9.6, $8.9 and $12.8 million, respectively.

(2) Significant Accounting Policies (continued)

Amounts Recoverable Under Terms of the Power Sales Agreements

Billings to Project Participants are designed to recover costs in accordance with the PSAs, which generally provide for billing debt service, operating funds and reserve requirements. Expenses are reflected in the Statements of Operations in accordance with GAAP. The timing difference between amounts billed and expensed is charged or credited to amounts recoverable under terms of the PSAs. Amounts will be recovered through future billings or an expense will be recognized to offset credit balances. The principal differences include depreciation, fuel amortization, costs associated with canceled Projects (or assets abandoned within a Project), cost of refinancing, billing for certain interest, reserves, net unrealized gains or losses on securities available for sale and other costs. Individual Projects have a cumulative deferral of costs which total $271.5, $227.8 and $245.1 million and have cumulative billings in excess of costs which total $10.2, $8.4 and $6.5 million at December 31, 2001, 2000 and 1999, respectively. In accordance with the PSAs, these amounts have been offset in the Statements of Financial Position.

The December 31, 2001, 2000 and 1999 balances of $261.3, $219.4 and $238.6 million, respectively, reflect the Statements of Operations net decrease (increase) of ($42.5), $16.8 and ($11.1) million for the years then ended and the change in net unrealized gain (loss) on securities available for sale of $.6, $2.4 and ($3.8) million for 2001, 2000 and 1999, respectively.

Depreciation

Electric plant in service is depreciated using the straight-line method. The aggregate annual provisions for depreciation for 2001, 2000 and 1999 averaged 4% of the original cost of depreciable property.

Nuclear Decommissioning Trusts

As required by the Nuclear Regulatory Commission and respective state statutes and regulations, MMWEC has funded trust funds maintained by external trustees to provide for the decommissioning activities of Millstone Unit 3 and Seabrook Station. The December 31, 2001 Millstone Unit 3 and Seabrook Station balances of $10.4 and $15.6 million, respectively, are stated at cost and are included as part of the deferred charges and deferred credits on the Statements of Financial Position. MMWEC's share of the estimated reserve requirement for the prompt dismantling and removal of the Millstone Unit 3 and Seabrook Station, at the expiration of their original operating licenses in 2025 and 2026, is $18.5 and $67.8 million, respectively, in year end 2001 dollars. The new accounting standard described below could change this accounting policy.

New Accounting Standard

The FASB has issued Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. SFAS No. 143 will be implemented on January 1, 2003. MMWEC is currently evaluating its asset obligations related to its various Projects in accordance with SFAS No. 143.

(2) Significant Accounting Policies (continued)

Reclassifications

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

(3) Revenues and Unbilled Revenues

Revenues include electric sales for resale provided through MMWEC's power supply program. Revenues consist of billings under the PSAs, Power Purchase Agreements (PPAs), and related power brokering arrangements. MMWEC also provides its members with power supply planning and related services which are billed pursuant to the MMWEC Service Agreement and its members as service revenues. Amounts that are not yet billed are included in unbilled revenues on the Statements of Financial Position. Revenues are comprised of the following:

| Revenues | 2001 | 2000 | 1999 |
|---|---|---|---|
| | | (In Thousands) | |
| Electric sales for resale | $256,103 | $261,438 | $230,570 |
| Service | 1,482 | 1,187 | 1,524 |
| Millstone Unit 3 Settlement | 56 | 12,595 | - |
| Other | 1,070 | 1,120 | - |
| Total Revenues | $258,711 | $276,340 | $232,094 |

In October 2001, MMWEC received a payment of approximately $1.1 million in settlement of an arbitration against Central Maine Power Company (CMP) and FPL Energy, Inc. under the W.F. Wyman Unit No. 4 Joint Ownership Agreement. MMWEC and the other W.F. Wyman Unit No. 4 joint owners filed a claim related to the 1999 sale of CMP's majority ownership in W.F. Wyman Unit No. 4 to FPL Energy Wyman IV LLC, which required CMP to make payments to the joint owners as a result of the sale. This payment was recorded in other revenues and as a decrease to amounts recoverable under terms of the PSAs and will be refunded to Project Participants in 2002.

In August 2000, MMWEC executed a settlement agreement and release of its claims in all litigation proceedings against the parent company and the lead owners of Millstone Unit 3 associated with the unit's shutdown in 1996. Pursuant to this settlement, MMWEC received approximately $12.6 million and other consideration. MMWEC also agreed to waive its right of first refusal under the Millstone Unit 3 Sharing Agreement. The $12.6 million settlement was refunded to the Project Participants and was a reduction to electric sales for resale in 2000.

In August 2000, MMWEC received approximately $1.1 million in satisfaction of a judgment concerning water rates charged to the Stony Brook Energy Center which was recorded in other revenues. In 2001, this amount was refunded to the Stony Brook Intermediate and Stony Brook Peaking Project Participants and was a reduction to electric sales for resale in 2001.

(4) Debt

General Bond Resolution

MMWEC has eight Projects which were originally financed through the issuance of a multiple series of Power Supply System Revenue Bonds (Bonds) under the GBR, originally adopted by MMWEC in 1976. Security for those Bonds included a pledge of the revenues derived by MMWEC from all its Project PSAs, without regard to Project or series of Bonds.

Amended and Restated General Bond Resolution

In November 2001, through a refinancing of all of its outstanding Bonds, MMWEC amended and restated its GBR to eliminate this "cross-pledge" of revenues. In refinancing all of its debt, MMWEC issued separate issues of Bonds for each of the eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which such issue relates, plus available funds pledged under the Amended and Restated GBR, with respect to the Bonds of such issues. The revenues derived from each Project are used solely to provide for the payment of the Bonds of any Bond issue relating to such Project, and to pay MMWEC's cost of owning and operating such Project, and are not used to provide for the payment of the Bonds of any Bond issue relating to any other Project. Pursuant to the PSAs, each Project Participant is obligated to pay its share of the actual costs relating to the generating units, and these obligations are not contingent upon the operational status of the units.

As part of the plan to refund and restructure its debt and amend the existing GBR, MMWEC developed a plan to enable it to refund all the existing long-term debt, which was accomplished with two transactions. MMWEC expects to realize gross debt service savings from this debt-restructuring program of approximately $136.1 million over the life of the bonds, with annual savings between $58,000 and $13.5 million. The January 2001 and November 2001 portions, as described below, of this restructuring program produced economic gains (the present value of debt service savings adjusted for additional cash paid) of approximately $7.8 million and $38.8 million, respectively.

In January 2001, MMWEC issued $94.2 million of 2001 Series A and $1.6 million of 2001 Series B refunding Bonds which were utilized to purchase for cancellation $95.4 million of portions of the 1992 Series A, 1992 Series C, 1992 Series E, 1993 Series A, 1994 Series A and 1994 Series B Bonds. The net cost of the refinancing equalled $6 million, plus $.7 million of net expenses.

In November 2001, MMWEC issued $726.3 million of Series A Bonds at a premium of $49.2 million, $137.7 million of Series B Bonds and $170.8 million of Series One refunding Bonds, the total proceeds of which were utilized to purchase for cancellation $1,078.3 million of previously issued Bonds consisting of the 1987 Series A, 1992 Series A, 1992 Series B, 1992 Series C, 1992 Series D, 1992 Series E, 1993 Series A, 1994 Series A, 1994 Series B, 1994 Series C and 2001 Series A Bonds. The net cost of the refinancing equaled $50.8 million, plus $1.0 million of net expenses. The prior bonds refinanced by these transactions have been derecognized from the financial statements.

Power Supply System Revenue Bonds

MMWEC's issuance of debt, other than obligations with a maturity of less than one year, requires authorization of the Massachusetts Department of Telecommunications and Energy (DTE).

MASSACHUSETTS MUNICIPAL WHOLESALE
ELECTRIC COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001, 2000 and 1999

(4) Debt (continued)

Power Supply System Revenue Bonds (continued)

Bonds payable consists of serial, term (2000 and 1999) and variable-rate bonds and are comprised of the following issues:

| Issue | Net Interest Cost | December 31, 2001 | 2000 | 1999 |
|---|---|---|---|---|
| | | | (In Thousands) | |
| 1987 Series A | 8.9% | $ - | $ 6,310 | $ 7,110 |
| 1992 Series A | 7.0% | - | 87,170 | 89,805 |
| 1992 Series B | 7.0% | - | 168,070 | 174,470 |
| 1992 Series C | 6.9% | - | 52,775 | 54,295 |
| 1992 Series D | 6.3% | - | 72,655 | 75,395 |
| 1992 Series E | 6.0% | - | 66,365 | 75,735 |
| 1993 Series A | 5.3% | - | 313,215 | 329,100 |
| 1994 Series A | 5.3% | - | 112,270 | 113,130 |
| 1994 Series B | 5.1% | - | 153,240 | 161,445 |
| 1994 Series C | Variable | - | 97,600 | 97,600 |
| Stony Brook Peaking Project, Series A | 3.1% | 16,435 | - | - |
| Stony Brook Intermediate Project, Series A | 3.5% | 66,270 | - | - |
| W.F. Wyman Unit No. 4 Project, Series A | 3.5% | 3,255 | - | - |
| Nuclear Mix No. 1, Series A | 4.0% | 90,015 | - | - |
| Nuclear Project No. 3, Series A | 4.2% | 47,930 | - | - |
| Nuclear Project No. 4, Series A | 4.3% | 112,695 | - | - |
| Nuclear Project No. 5, Series A | 4.2% | 42,170 | - | - |
| Project No. 6, Series A | 4.2% | 347,535 | - | - |
| Nuclear Project No. 3, Series B | 4.9% | 65,290 | - | - |
| Nuclear Project No. 4, Series B | 4.5% | 48,450 | - | - |
| Nuclear Project No. 5, Series B | 3.8% | 7,765 | - | - |
| Project No. 6, Series B | 3.5% | 16,145 | - | - |
| Nuclear Mix No. 1, Series One | Variable | 11,350 | - | - |
| Nuclear Project No. 3, Series One | Variable | 62,975 | - | - |
| Nuclear Project No. 4, Series One | Variable | 35,325 | - | - |
| Nuclear Project No. 5, Series One | Variable | 9,025 | - | - |
| Project No. 6, Series One | Variable | 52,100 | - | - |
| Bonds payable | | 1,034,730 | 1,129,670 | 1,178,085 |
| Unamortized premium | | 47,845 | 622 | 760 |
| Less: Current maturities | | (44,730) | (50,580) | (47,870) |
| Total long-term debt | | $1,037,845 | $1,079,712 | $1,130,975 |

(4) Debt (continued)

Power Supply System Revenue Bonds (continued)

The Series A Bonds issued in November 2001 and maturing on and prior to July 1, 2011, and the Series B Bonds issued in November 2001, are not subject to redemption prior to maturity at the option of MMWEC. The Series A Bonds maturing on and after July 1, 2012 are subject to redemption prior to maturity at the option of MMWEC at 101% of the principal amount from January 1, 2012 to December 31, 2012 and at 100% from January 1, 2013 and thereafter.

The Series One Bonds of each issue are subject to redemption at the option of MMWEC, in whole or in part, at a redemption price of 100% of the principal amount.

Long-term debt maturities are as follows (In Thousands):

| | Series A | Series B | Series One | Total |
|---|---|---|---|---|
| 2002 | $ 14,835 | $ 29,895 | $ - | $ 44,730 |
| 2003 | 42,175 | 22,560 | - | 64,735 |
| 2004 | 46,305 | 22,665 | - | 68,970 |
| 2005 | 50,125 | 21,175 | - | 71,300 |
| 2006 | 51,465 | 18,895 | - | 70,360 |
| Thereafter | 521,400 | 22,460 | 170,775 | 714,635 |
| | $726,305 | $137,650 | $170,775 | $1,034,730 |

The interest rates on the 1994 Series C variable-rate bonds were adjusted from time-to-time, and the rate from January 1, 2001 through November 7, 2001 was 2.7%. The interest rates on the 2001 Series A were 2.7% from January 16, 2001 through November 7, 2001, and the interest rates on the 2001 Series B were 4.8% from January 16, 2001 through August 14, 2001. The interest rates on the Series One variable rate bonds may be converted at the option of MMWEC to a daily, weekly, flexible, term or fixed mode. The interest rate on the Series One variable rate bonds during 2001 was 1.5%.

Debt Service Forward Delivery Agreement

In 1994, MMWEC entered into a seven year Debt Service Forward Delivery Agreement (Forward Agreement) for purposes other than trading. The Forward Agreement expires on June 30, 2002. MMWEC makes monthly deposits to the various accounts within the Bond Fund for each Project for the semiannual payment of its debt service on its outstanding bonds for each Project. In exchange for the right to direct the investment of such monies, the counterparty pays a fixed amount to MMWEC on a periodic basis, providing MMWEC a fixed yield that could be earned on a security with a five to seven year maturity purchased at the time the Forward Agreement contract was executed, while complying with the maturity limitations for investments in the Bond Fund for each Project under the terms of the GBR. The counterparty has the right to sell to MMWEC government obligations that mature prior to the relevant debt service payment dates during the term of the Forward Agreement.

(4) Debt (continued)

Debt Service Forward Delivery Agreement (continued)

MMWEC reserves the right to terminate the Forward Agreement in whole or in part in connection with any purchase, redemption or refinancing of fixed-rate bonds, counterparty default or counterparty credit rating deterioration to below investment grade. The Forward Agreement provides for the calculation and payment of liquidated damages to the counterparty reflecting market interest rates at the time of the termination compared to the rate levels in the Forward Agreement.

The cash requirement under the Forward Agreement requires MMWEC to make available to the counterparty an average balance of $30.3 million over the seven year term of the Forward Agreement in exchange for investments in government securities, to be held by MMWEC's Bond Fund Trustee, that mature prior to MMWEC's debt payment dates.

The Forward Agreement is not recognized in the Statements of Financial Position to the extent that settlement of cash in exchange for financial instruments has not occurred. To the extent cash has been exchanged for government securities, the government securities are recorded on the Statements of Financial Position as special funds. The Forward Agreement is not a derivative as defined in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended.

Interest Rate Protection Agreement

Through November 7, 2001, MMWEC had in place an Interest Rate Protection Agreement (Cap Agreement) to provide a hedge against interest rate risk on the 1994 Series C bonds. MMWEC purchased a $41 million Cap Agreement to limit the interest rate exposure on a portion of the 1994 Series C variable-rate debt to the extent that the variable debt costs exceed the fixed-rate received on the Forward Agreement described above. Pursuant to the Cap Agreement, MMWEC purchased the right to receive annually an amount by which an index-based interest rate, which approximates the interest rate on the 1994 Series C bonds, exceeds the protection rate in the Cap Agreement. The cost of the Cap Agreement was paid up front, and unamortized premiums were included in other deferred charges on the Statements of Financial Position in 2000 and 1999. The Cap Agreement was purchased for purposes other than trading. The fair value was not material as of December 31, 2000, and the Cap Agreement was terminated in November 2001 in connection with MMWEC's debt refinancing.

Net Revenue Available for Debt Service

In accordance with the provisions of MMWEC's Amended and Restated GBR, MMWEC covenants that it shall fix, revise and collect rates, tolls, rents and other fees and charges sufficient to produce revenues to pay all operating and maintenance expenses and principal of, premium and the interest on the bonds and to pay all other obligations against its revenue for each Project. Revenues, for each Project which include applicable interest earnings from investments, are required to equal 1.10 times the annual debt service for each contract year ending June 30, after deduction of certain operating and maintenance expenses and exclusive of depreciation. As such, these amounts do not agree with those in the accompanying Statements of Operations. For the contract years ended June 30, 2001, 2000, 1999 and prior years, MMWEC met the original GBR debt service coverage requirements for the applicable MMWEC Projects.

(4) Debt (continued)

Net Revenue Available for Debt Service (continued)

| | Contract Year Ended June 30, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| Debt Service Coverage: | | (In Thousands) | |
| Revenues | $191,732 | $180,789 | $185,786 |
| Other Billings | 577 | 577 | 574 |
| Reserve and Contingency Fund Billings | 11,121 | 11,227 | 11,076 |
| Total | 203,430 | 192,593 | 197,436 |
| Less: Operating & Maintenance Expenses | (81,102) | (69,099) | (75,604) |
| Available Revenues Net of Expenses | $122,328 | $123,494 | $121,832 |
| Debt Service Requirement | $111,207 | $112,267 | $110,756 |
| Coverage (110% Required) | 110% | 110% | 110% |

Short-Term Debt

MMWEC maintains a $5 million revolving line of credit to temporarily finance certain power purchases made by MMWEC for resale under power purchase contracts. Borrowings outstanding under the line of credit were $0, $50,000 and $82,000 as of December 31, 2001, 2000 and 1999, respectively. During 2001, 2000 and 1999, the maximum outstanding balance under the line of credit was $3.9, $.9 and $2.4 million, respectively. Interest charged on borrowings under the line of credit is at minus one percent of the bank's prime rate (3.75% at December 31, 2001). In addition, a commitment fee of one quarter of 1% per annum is charged on the unused portion of the line based on the average daily principal amount of the borrowing outstanding. This line of credit expires June 30, 2002, at which time MMWEC intends to renew the line for an additional year.

In 1999, MMWEC issued $40.3 million of Series B Power Purchase commercial paper program notes. The Series B Power Purchase notes encompassed $19.1 million of new commercial paper notes and refunding of the outstanding $21.2 million of Series A commercial paper notes issued in 1998. The commercial paper notes are not subject to redemption prior to maturity but are subject to acceleration upon the occurrence of an event of default under the Series B Power Purchase Resolution (Resolution). The Series B Power Purchase notes are a special obligation of MMWEC payable solely from the revenues and other monies as specified in the Resolution. As of December 31, 2001, MMWEC had a bank letter of credit in the amount of $22.4 million that provides security for the payment of principal and interest on the Series B Power Purchase notes. The December 31, 2001, 2000 and 1999 outstanding balances of commercial paper notes were $20.6, $28.0 and $36.8 million, respectively. At December 31, 2001, the interest rate on the Series B Power Purchase notes was 2.6%.

## (5) Electric Generation Facilities and Financing

MMWEC's power supply capacity includes ownership interests in the Stony Brook Peaking and Intermediate units which it operates. MMWEC is a nonoperating joint owner in the W.F. Wyman Unit No. 4, Millstone Unit 3 and Seabrook Station. Electric plant in service also includes MMWEC's service operations which totaled $2.4, $2.4 and $2.6 million in 2001, 2000 and 1999, respectively. The following is a summary of Projects included in electric plant in service and construction work in progress, as well as MMWEC's share of capability in megawatts (MW).

| Projects | Facility and MMWEC Share of Capability in MW | | Amounts as of December 31, 2001 | 2000 (In Thousands) | 1999 |
|---|---|---|---|---|---|
| Peaking Project | Stony Brook | 170.0 | $ 56,636 | $ 56,399 | $ 56,380 |
| Intermediate Project | Stony Brook | 319.5 | 155,488 | 151,691 | 151,337 |
| Wyman Project | W.F. Wyman No. 4 | 22.7 | 7,341 | 7,341 | 7,341 |
| Nuclear Project No. 3 | Millstone Unit 3 | 36.8 | 130,653 | 130,400 | 130,048 |
| Nuclear Mix No. 1 | Millstone Unit 3 | 18.4 | 51,818 | 51,694 | 51,517 |
| Nuclear Mix No. 1 | Seabrook Station | 1.9 | 8,644 | 8,633 | 8,616 |
| Nuclear Project No. 4 | Seabrook Station | 49.8 | 260,374 | 260,092 | 259,630 |
| Nuclear Project No. 5 | Seabrook Station | 12.6 | 71,226 | 71,155 | 71,038 |
| Project No. 6 | Seabrook Station | 69.0 | 502,719 | 502,328 | 501,688 |
| | | | $1,244,899 | $1,239,733 | $1,237,595 |

In April 2001, Dominion Resources, Inc. purchased a 93.5% ownership interest in Millstone Unit 3 from all of the joint owners of Millstone Unit 3, except MMWEC and one other joint owner.

MMWEC has an 11.6% ownership interest in the Seabrook Station nuclear generating unit. It is anticipated that certain other joint owners of Seabrook will sell their ownership interests in Seabrook through a bid process expected to be completed in late 2002. At this time MMWEC has no plans to sell any of its ownership interests in Seabrook.

## (6) Investments and Deposits

All bank deposits are maintained at one financial institution. Such deposits amounted to $3.1 million at December 31, 2001, and are included in both cash and temporary investments and special funds. The Federal Deposit Insurance Corporation currently insures up to $100,000 per depositor. At December 31, 2001, 2000 and 1999, investments are classified as available for sale and reported at market value with unrealized gains of $2.0, $1.4 and $.7 million, respectively, and unrealized losses of $148,000, $88,000 and $1.8 million, respectively. The net losses and gains are excluded from earnings and are reported as a component of amounts recoverable under the terms of the PSAs on the Statements of Financial Position. At December 31, 2001, all securities underlying repurchase agreements, and all other investments, were held

(6) Investments and Deposits (continued)

in MMWEC's name by custodians consisting of the Bond Fund Trustee or MMWEC's depository bank. Investments, representing the special funds and cash and temporary investments, as well as certain additional amounts disbursed but available for investment, and accrued interest, are presented below:

| Type of Investment | 2001 Amortized Cost Basis | 2001 Market Value | 2000 Amortized Cost Basis | 2000 Market Value | 1999 Amortized Cost Basis | 1999 Market Value |
|---|---|---|---|---|---|---|
| | (In Thousands) | | | | | |
| Repurchase Agreements | $ - | $ - | $ - | $ - | $ 3,899 | $ 3,899 |
| Other Investments: | | | | | | |
| U.S. Treasury bills | 17,904 | 17,902 | 23,950 | 24,300 | 22,457 | 22,985 |
| U.S. Treasury notes | 33,842 | 34,950 | 63,533 | 63,924 | 77,146 | 75,913 |
| U.S. Agency bonds | 124,846 | 125,601 | 85,753 | 86,241 | 29,142 | 28,651 |
| Municipal bonds | - | - | 1,355 | 1,368 | 8,199 | 8,228 |
| U.S. Agency discount notes | 33,872 | 33,873 | 76,224 | 76,250 | 102,519 | 102,565 |
| Total Other Investments | 210,464 | 212,326 | 250,815 | 252,083 | 239,463 | 238,342 |
| Invested Cash | 4,172 | 4,172 | (540) | (540) | (118) | (118) |
| Total Cash and Investments | $214,636 | $216,498 | $250,275 | $251,543 | $243,244 | $242,123 |

During 2001, 2000 and 1999, the proceeds from the sale of available for sale securities were $220.8, $89.0 and $33.1 million, respectively, resulting in gross realized gains of $1 million, $20,000 and $70,000, respectively, and gross realized losses of $5,000, $168,000 and $66,000, respectively. The basis on which cost was determined in computing realized gain or loss was specific identification. Including repurchase agreements, the average contractual maturity of the investments in debt securities at December 31, 2001, 2000 and 1999 were 792, 497 and 530 days, respectively.

Due to seasonal cash flows during 2001, 2000 and 1999, MMWEC, from time-to-time, invested in repurchase agreements with its depository bank that were collateralized by securities in MMWEC's name held by the depository bank.

(7) Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Investments and Decommissioning Trusts - The fair values estimated are based on quoted market prices for those or similar investments.

Long-Term Debt - The fair value is estimated based on quoted market prices for the same or similar issues.

(7) Fair Values of Financial Instruments (continued)

Interest Rate Protection Agreement - The fair value is based on average quoted market prices of agreements with similar duration and strike prices.

Debt Service Forward Delivery Agreement - The fair value reflects the estimated amounts that MMWEC would receive to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts.

The estimated fair values of MMWEC's financial instruments are as follows:

| | 2001 | | 2000 | | 1999 | |
|---|---|---|---|---|---|---|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| | (In Thousands) | | | | | |
| Financial Assets: | | | | | | |
| Investments | $ 212,326 | $ 212,326 | $ 252,083 | $ 252,083 | $ 242,241 | $ 242,241 |
| Decommissioning Trusts | 26,022 | 27,442 | 21,882 | 24,190 | 18,142 | 20,925 |
| Interest Rate Protection Agreement | - | - | 41 | 12 | 152 | 150 |
| Financial Liabilities: | | | | | | |
| Long-Term Debt, excluding current maturities | 1,037,845 | 1,018,783 | 1,079,712 | 1,102,240 | 1,130,975 | 1,135,393 |
| Unrecognized Financial Instruments: | | | | | | |
| Debt Service Forward Delivery Agreement | - | 643 | - | 899 | - | 891 |

The carrying amounts for cash, accounts receivable, notes payable and accounts payable approximate their fair value due to the short-term nature of these instruments.

(8) Other Charges and Credits to Income

In 1999, MMWEC negotiated the payment of $18.9 million for the buy-out and termination of uneconomical PPAs, pursuant to which MMWEC had agreed to purchase electric capacity and output for resale to certain cities and towns of the Commonwealth having municipal electric departments. The buyout of these PPAs was financed through the issuance of $19.1 million in commercial paper notes.

(9) Benefit Plans

MMWEC has two non-contributory defined benefit pension plans covering substantially all full-time active employees. One plan covers union employees (union plan) and the other plan covers non-union employees (non-union plan). The amount shown below as the benefit obligation for MMWEC is a

(9) Benefit Plans (continued)

standardized disclosure measure of the present value of pension benefits, adjusted for the effect of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the plans.

The benefit obligation was determined by an actuarial valuation performed as of January 1 of each of the years presented below. Significant actuarial assumptions used in the valuation include a weighted-average discount rate of 7.0% and projected salary increases of 4.0% in 2001, 2000 and 1999, respectively. The benefit obligation, plan assets, funded status, and components of net periodic benefit cost for both plans is as follows:

| | Amounts as of December 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| Changes in benefit obligation | | | |
| Benefit obligation at beginning of year | $ 8,004 | $ 7,333 | $ 7,359 |
| Service cost | 458 | 386 | 365 |
| Interest cost | 650 | 511 | 470 |
| Actuarial loss/(gain) | 1,313 | 170 | (430) |
| Benefits paid | (118) | (396) | (431) |
| Benefit obligation at end of year | $ 10,307 | $ 8,004 | $ 7,333 |
| Change in plan assets | | | |
| Fair value of plan assets at beginning of year | $ 8,119 | $ 7,821 | $ 7,735 |
| Actual return on plan assets | (292) | 144 | 6 |
| Employer contribution | 562 | 588 | 542 |
| Benefits paid, including expenses | (162) | (434) | (462) |
| Fair value of plan assets at end of year | $ 8,227 | $ 8,119 | $ 7,821 |
| Funded Status | $ (2,080) | $ 115 | $ 488 |
| Unrecognized net actuarial loss | 2,949 | 1,278 | 573 |
| Unrecognized prior service cost | 661 | 161 | 185 |
| Unrecognized transition obligation | 73 | 88 | 104 |
| Prepaid pension cost | $ 1,603 | $ 1,642 | $ 1,350 |
| Components of net periodic benefit cost | | | |
| Service cost | $ 458 | $ 386 | $ 365 |
| Interest cost | 650 | 511 | 470 |
| Expected return on plan assets | (689) | (673) | (662) |
| Amortization of transition obligation | 15 | 15 | 15 |
| Amortization of prior service cost | 70 | 24 | 24 |
| Recognized net actuarial loss | 97 | 33 | - |
| Net periodic benefit cost | $ 601 | $ 296 | $ 212 |

(9) Benefit Plans (continued)

Annual contributions to the pension plans recorded as pension expense were $562,000, $588,000 and $541,000, for the years ended December 31, 2001, 2000 and 1999, respectively. These amounts were billed through the PSAs, PPAs and Service Agreement with MMWEC members and are included in other operating expense in the Statements of Operations. The union plan uses the aggregate actuarial cost method and the non-union plan uses the frozen initial liability actuarial cost method in determining pension expense. In addition to the actuarial assumptions outlined above, the assumed long-term rate of return used in determining pension expense was 8.5% in 2001, 2000 and 1999, respectively. Pension costs applicable to prior years' service are amortized over thirty years.

MMWEC contributes to an employee savings plan administered by an insurance company. All full-time employees meeting the service requirements are eligible to participate in this defined contribution plan. Under the provisions of the plan, MMWEC's contributions vest immediately. MMWEC contributed $108,000, $104,000 and $99,000, while the employees contributed $180,000, $177,000 and $177,000 during the years ended December 31, 2001, 2000 and 1999, respectively.

(10) Commitments and Contingencies

Power Purchases

MMWEC entered into agreements for participation in the transmission interconnection between New England utilities and the Hydro-Quebec electric system near Sherbrooke, Quebec (Phase I), which began commercial operation in October 1986. The New England portion of the interconnection was constructed at a total cost of about $140 million, of which 3.65% or $5 million is MMWEC's share to support Phase I. MMWEC also entered into similar agreements for participation in the interconnection between New England utilities and the Hydro-Quebec electric system for the expansion of the Hydro-Quebec interconnection (Phase II), which went into commercial operation in November 1990. MMWEC's Phase II equity investment approximates 0.6% or $3.3 million. MMWEC has corresponding agreements with certain of its members and another utility to recover MMWEC's share of the costs associated with the Phase II interconnection.

Power Sales Agreements

MMWEC sells the Project Capability of each of its Projects to Project Participants under PSAs.

In 1988, the Vermont Supreme Court ruled that the Project No. 6 PSAs between MMWEC and the Vermont Project Participants were void since inception. Consequently, pursuant to the PSAs, MMWEC increased the remaining Project No. 6 Participants pro rata shares of Project Capability to cover the shortfall (step-up), which action was challenged by certain Massachusetts Participants. The Supreme Judicial Court of the Commonwealth in MMWEC et. al. v. Town of Danvers et. al. held that "the Project 6 PSAs executed by the defendants are valid and that the step-up provisions therein have been properly invoked".

(10) Commitments and Contingencies (continued)

Legal Actions

MMWEC is involved in various legal actions. Based on bond counsels' opinions regarding the validity of the PSAs and legal counsel's representations regarding the litigation, discussions with such counsel, and other considerations, management believes that the ultimate resolution of litigation in which MMWEC currently participates will not have a material, adverse effect on the financial position of MMWEC.

In November 1997, the Commonwealth enacted legislation to restructure the electric utility industry. MMWEC and the municipal light departments are not specifically subject to the legislation. However, it is management's belief that industry restructuring and customer choice, provided by the legislation, will have an effect on MMWEC and the Participant's operations, which effect cannot be determined at this time.

Nuclear Insurance

The Price-Anderson Act (the Act), a federal statute, in effect until August 1, 2002, mandates an industry-wide program of liability insurance for nuclear facilities. The Act now provides approximately $9.5 billion for public liability claims from a single incident at a nuclear facility. The $200 million primary layer of insurance for the liability has been purchased in the commercial market. Secondary coverage is to be provided through an approximately $88.1 million per incident assessment of each of the currently licensed nuclear units in the United States. The maximum assessment is $10 million per incident per unit in any year. Under the Act, MMWEC's interest in Millstone Unit 3 and Seabrook Station could result in a maximum assessment of $4.2 and $10.2 million, limited to payments of $.5 and $1.2 million per incident per year, respectively. The United States House of Representatives has passed a bill which would extend the Act beyond August 1, 2002 and increase the amounts that would be assessed against nuclear facilities licenses in the event of a nuclear incident. The bill has gone to the United States Senate for its consideration.

Insurance has been purchased from Nuclear Electric Insurance Limited (NEIL) to cover the cost of repair, replacement, decontamination or premature decommissioning of utility property resulting from insured occurrences at Millstone Unit 3 and Seabrook Station. The NEIL insurance is subject to retroactive assessments if losses exceed the accumulated funds available to the insurer. MMWEC is potentially subject to a $1.0 and $2.3 million assessment for its participation in Millstone Unit 3 and Seabrook Station, respectively, for excess property damage, decontamination and premature decommissioning.

Environmental and Other Issues

MMWEC is not currently covered under gradual pollution liability insurance related to MMWEC's Stony Brook power plant. Nothing has come to management's attention concerning any material pollution liability claims made during 2001 or outstanding as of December 31, 2001.

MMWEC has established a trust fund to enhance its Directors' and Officers' liability coverage. The purpose of the trust fund is to make available funds for the purchase of Directors' and Officers' liability insurance and/or indemnification of the Directors or Officers.

ANDERSEN

**Independent Auditors' Report on Supplementary Information**

To the Board of Directors of
Massachusetts Municipal Wholesale Electric Company:

We have audited and reported separately herein on the financial statements of Massachusetts Municipal Wholesale Electric Company as of and for the year ended December 31, 2001. Our audit was made for the purpose of forming an opinion on the basic financial statements of Massachusetts Municipal Wholesale Electric Company taken as a whole. The Project statements of financial position, operations and cash flows, on page 21 through 23 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Hartford, Connecticut
March 8, 2002

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
PROJECT STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2001
(In Thousands)

| ASSETS | SERVICE | NUCLEAR MIX 1 | NUCLEAR PROJ. 3 | NUCLEAR PROJ. 4 | NUCLEAR PROJ. 5 | PROJECT NO. 6 | PEAKING | INTERMEDIATE | WYMAN | HYDRO QUEBEC PHASE II | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Electric plant | | | | | | | | | | | |
| In service | $ 2,434 | $ 60,399 | $ 130,588 | $ 259,505 | $ 71,006 | $ 501,516 | $ 56,636 | $ 151,794 | $ 7,341 | $ - | $ 1,241,219 |
| Accumulated depreciation | (2,253) | (27,570) | (61,548) | (102,412) | (28,108) | (200,205) | (42,772) | (119,453) | (5,007) | - | (589,328) |
| | 181 | 32,829 | 69,040 | 157,093 | 42,898 | 301,311 | 13,864 | 32,341 | 2,334 | - | 651,891 |
| Construction work in progress | - | 63 | 65 | 869 | 220 | 1,203 | - | 3,694 | - | - | 6,114 |
| Nuclear fuel-net of amortization | - | 798 | 1,348 | 3,436 | 873 | 4,824 | - | - | - | - | 11,279 |
| Total electric plant | 181 | 33,690 | 70,453 | 161,398 | 43,991 | 307,338 | 13,864 | 36,035 | 2,334 | - | 669,284 |
| Special funds | | | | | | | | | | | |
| Bond funds | | | | | | | | | | | |
| Interest, principal and retirement account | - | 1,845 | 2,118 | 3,032 | 933 | 6,707 | 902 | 2,184 | 97 | - | 17,818 |
| Reserve account | - | 4,521 | 8,120 | 9,253 | 2,810 | 30,487 | 671 | 3,129 | 109 | - | 59,100 |
| Reserve and contingency fund | - | 3,675 | 4,734 | 5,872 | 1,509 | 8,853 | 869 | 1,620 | 303 | - | 27,435 |
| Revenue fund | - | 8,278 | 12,776 | 14,892 | 3,887 | 25,681 | 5,920 | 15,880 | 2,863 | - | 90,177 |
| Working capital funds | 21,436 | - | - | - | - | - | - | - | - | (20) | 21,416 |
| | 21,436 | 18,319 | 27,748 | 33,049 | 9,139 | 71,728 | 8,362 | 22,813 | 3,372 | (20) | 215,946 |
| Current assets | | | | | | | | | | | |
| Cash and temporary investments | 549 | - | - | 1 | - | 2 | - | - | - | - | 552 |
| Accounts receivable | 6,071 | 250 | 308 | 396 | 115 | 750 | 212 | 369 | 29 | 94 | 8,594 |
| Unbilled revenues | 6,721 | - | - | - | - | - | - | - | - | - | 6,721 |
| Inventories | - | 65 | - | 1,735 | 439 | 2,402 | 2,813 | 11,577 | 239 | - | 19,270 |
| Advances to (from) projects | 2,865 | (190) | (316) | (342) | (106) | (762) | (329) | (783) | (37) | - | - |
| Prepaid expenses | 129 | 731 | 1,329 | 1,646 | 418 | 2,280 | 7 | 14 | - | - | 6,554 |
| Total current assets | 16,335 | 856 | 1,321 | 3,436 | 866 | 4,672 | 2,703 | 11,177 | 231 | 94 | 41,691 |
| Total special funds and current assets | 37,771 | 19,175 | 29,069 | 36,485 | 10,005 | 76,400 | 11,065 | 33,990 | 3,603 | 74 | 257,637 |
| Deferred charges | | | | | | | | | | | |
| Amounts recoverable (payable) under terms of the power sales agreements | 20,234 | 59,024 | 87,446 | 16,349 | 10,257 | 71,760 | (7,423) | 6,434 | (1,882) | (855) | 261,344 |
| Unamortized debt discount and expenses | 170 | 1,598 | 2,730 | 3,180 | 957 | 6,880 | 202 | 924 | 44 | - | 16,685 |
| Nuclear decommissioning trusts | - | 3,706 | 6,953 | 5,824 | 1,474 | 8,065 | - | - | - | - | 26,022 |
| Other | 77 | 122 | 187 | 768 | 196 | 1,064 | 438 | 3,834 | - | 840 | 7,526 |
| | 20,481 | 64,450 | 97,316 | 26,121 | 12,884 | 87,769 | (6,783) | 11,192 | (1,838) | (15) | 311,577 |
| | $ 58,433 | $ 117,315 | $ 196,838 | $ 224,004 | $ 66,880 | $ 471,507 | $ 18,146 | $ 81,217 | $ 4,099 | $ 59 | $ 1,238,498 |
| LIABILITIES | | | | | | | | | | | |
| Long-term debt (Note 4) | $ - | $ 101,375 | $ 174,548 | $ 197,034 | $ 59,568 | $ 424,758 | $ 14,014 | $ 63,571 | $ 2,977 | $ - | $ 1,037,845 |
| Current liabilities | | | | | | | | | | | |
| Current maturities of long-term debt | - | 4,805 | 5,130 | 7,275 | 2,255 | 15,235 | 3,090 | 6,625 | 315 | - | 44,730 |
| Short-term debt (Note 4) | 20,560 | - | - | - | - | - | - | - | - | - | 20,560 |
| Accounts payable | 2,807 | 437 | 726 | 1,938 | 490 | 2,684 | 134 | 433 | 44 | 2 | 9,695 |
| Accrued expenses | 8,224 | 3,001 | 5,160 | 7,026 | 1,839 | 10,926 | 130 | 1,142 | 162 | - | 37,610 |
| Member and participant advances and reserves | 26,842 | 3,922 | 4,191 | 4,796 | 1,226 | 9,684 | 778 | 9,446 | 601 | 57 | 61,543 |
| | 58,433 | 12,165 | 15,207 | 21,035 | 5,810 | 38,529 | 4,132 | 17,646 | 1,122 | 59 | 174,138 |
| Deferred credits | - | 3,775 | 7,083 | 5,935 | 1,502 | 8,220 | - | - | - | - | 26,515 |
| Commitments and contingencies (Note 10) | | | | | | | | | | | |
| | $ 58,433 | $ 117,315 | $ 196,838 | $ 224,004 | $ 66,880 | $ 471,507 | $ 18,146 | $ 81,217 | $ 4,099 | $ 59 | $ 1,238,498 |

The accompanying notes are an integral part of this supplemental schedule.

Schedule I

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
PROJECT STATEMENTS OF OPERATIONS
YEAR ENDED DECEMBER 31,2001
(In Thousands)

| | SERVICE | NUCLEAR MIX 1 | NUCLEAR PROJ. 3 | NUCLEAR PROJ. 4 | NUCLEAR PROJ. 5 | PROJECT NO. 6 | PEAKING | INTERMEDIATE | WYMAN | HYDRO QUEBEC PHASE II | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | $ 83,202 | $ 13,783 | $ 24,205 | $ 26,568 | $ 7,583 | $ 51,372 | $ 10,260 | $ 38,146 | $ 3,111 | $ 481 | $ 258,711 |
| Interest income | 1,023 | 1,204 | 1,689 | 2,376 | 715 | 5,248 | 690 | 1,768 | 161 | 58 | 14,932 |
| Total revenues and interest income | $ 84,225 | $ 14,987 | $ 25,894 | $ 28,944 | $ 8,298 | $ 56,620 | $ 10,950 | $ 39,914 | $ 3,272 | $ 539 | $ 273,643 |
| Operating and service expenses: | | | | | | | | | | | |
| Fuel used in electric generation | $ - | $ 630 | $ 1,120 | $ 1,700 | $ 431 | $ 2,332 | $ 2,358 | $ 21,641 | $ 993 | $ - | $ 31,205 |
| Purchased power | 74,409 | - | - | - | - | - | - | - | - | 514 | 74,923 |
| Other operating | 1,498 | 2,750 | 4,971 | 6,659 | 1,742 | 9,410 | 1,943 | 5,630 | * 562 | - | 35,165 |
| Maintenance | 18 | 1,203 | 2,290 | 1,450 | 367 | 2,009 | 2,062 | 1,785 | - | - | 11,184 |
| Depreciation | 14 | 1,987 | 4,180 | 9,494 | 2,593 | 18,225 | 2,295 | 6,348 | 232 | - | 45,368 |
| Taxes other than income | 2 | 301 | 543 | 803 | 203 | 1,111 | 391 | 1,078 | 179 | - | 4,611 |
| | 75,941 | 6,871 | 13,104 | 20,106 | 5,336 | 33,087 | 9,049 | 36,482 | 1,966 | 514 | 202,456 |
| Interest expense: | | | | | | | | | | | |
| Interest charges | 932 | 4,992 | 8,027 | 10,468 | 3,333 | 24,513 | 960 | 3,606 | 150 | - | 56,981 |
| Interest charged to projects during construction | - | (1) | - | (20) | (6) | (33) | - | - | - | - | (60) |
| | 932 | 4,991 | 8,027 | 10,448 | 3,327 | 24,480 | 960 | 3,606 | 150 | - | 56,921 |
| Total operating costs and interest expense | 76,873 | 11,862 | 21,131 | 30,554 | 8,663 | 57,567 | 10,009 | 40,088 | 2,116 | 514 | 259,377 |
| Other (credits) charges | - | - | - | (2) | - | (3) | - | - | - | - | (5) |
| Loss on refinancing - net | - | 5,073 | 8,486 | 11,234 | 3,500 | 24,867 | 338 | 3,217 | 98 | - | 56,813 |
| Total costs and expenses | 76,873 | 16,935 | 29,617 | 41,786 | 12,163 | 82,431 | 10,347 | 43,305 | 2,214 | 514 | 316,185 |
| (Increase) decrease in amounts recoverable under terms of the power sales agreements | 7,352 | (1,948) | (3,723) | (12,842) | (3,865) | (25,811) | 603 | (3,391) | 1,058 | 25 | (42,542) |
| | $ 84,225 | $ 14,987 | $ 25,894 | $ 28,944 | $ 8,298 | $ 56,620 | $ 10,950 | $ 39,914 | $ 3,272 | $ 539 | $ 273,643 |

* Allocation between maintenance and other operating is not available.

The accompanying notes are an integral part of this supplemental schedule.

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
PROJECT STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2001
(In Thousands)

| | SERVICE | NUCLEAR MIX 1 | NUCLEAR PROJ. 3 | NUCLEAR PROJ. 4 | NUCLEAR PROJ. 5 | PROJECT NO. 6 | PEAKING | INTERMEDIATE | WYMAN | HYDRO QUEBEC PHASE II | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | | | | | | | | |
| Total revenues and interest income | $ 84,225 | $ 14,987 | $ 25,894 | $ 28,944 | $ 8,298 | $ 56,620 | $ 10,950 | $ 39,914 | $ 3,272 | $ 539 | $ 273,643 |
| Total costs and expenses, net | (76,873) | (16,935) | (29,617) | (41,786) | (12,163) | (82,431) | (10,347) | (43,305) | (2,214) | (514) | (316,185) |
| Adjustments to arrive at net cash provided by operating activities: | | | | | | | | | | | |
| Depreciation and decommissioning | 14 | 2,255 | 4,650 | 10,351 | 2,810 | 19,410 | 2,282 | 6,308 | 232 | - | 48,312 |
| Amortization of debt discount and nuclear fuel | 113 | 2,001 | 4,156 | 5,760 | 2,016 | 10,681 | 61 | 590 | (4) | - | 25,374 |
| Change in current assets and liabilities: | | | | | | | | | | | |
| Accounts receivable | 2,276 | (231) | (248) | (379) | (111) | (727) | 179 | 280 | 164 | 8 | 1,211 |
| Unbilled revenues | 5,483 | - | - | - | - | - | - | - | - | - | 5,483 |
| Inventories | - | (2) | - | (50) | (12) | (68) | (931) | (4,518) | (10) | - | (5,591) |
| Prepaid expenses | 365 | 209 | 448 | (441) | (111) | (605) | 7 | 7 | 1 | - | (120) |
| Accounts payable | (803) | 403 | 680 | 160 | 55 | 456 | 880 | (921) | (498) | (2) | 410 |
| Accrued expenses and other | (5,541) | 597 | 864 | 1,442 | 421 | 3,174 | (395) | 1,632 | 81 | (28) | 2,247 |
| Member and participant advances and reserves | 872 | 559 | 2,446 | 1,098 | 157 | 2,092 | (202) | 6,819 | 374 | (3) | 14,212 |
| Net cash provided by (used for) operating activities | 10,131 | 3,843 | 9,273 | 5,099 | 1,360 | 8,602 | 2,484 | 6,806 | 1,398 | - | 48,996 |
| **Cash flows from investing activities:** | | | | | | | | | | | |
| Construction expenditures and purchases of nuclear fuel | (67) | (217) | (285) | (2,013) | (509) | (2,789) | (237) | (4,051) | - | - | (10,168) |
| Interest charged to projects during construction | - | (1) | - | (20) | (6) | (33) | - | - | - | - | (60) |
| Net (increase) decrease in special funds | (3,063) | 2,324 | (182) | 8,781 | 3,155 | 11,811 | 3,807 | 8,885 | (836) | - | 34,682 |
| Change in net unrealized gain (loss) on special funds | 50 | 127 | 129 | 227 | 13 | (89) | 34 | 80 | 22 | - | 593 |
| Decommissioning trust payments, net | - | (476) | (871) | (1,059) | (268) | (1,466) | - | - | - | - | (4,140) |
| Other | 101 | 226 | 435 | 203 | 52 | 281 | - | 253 | - | - | 1,551 |
| Net cash provided by (used for) investing activities | (2,979) | 1,983 | (774) | 6,119 | 2,437 | 7,715 | 3,604 | 5,167 | (814) | - | 22,458 |
| **Cash flows from financing activities:** | | | | | | | | | | | |
| Payments for principal of long-term debt and commercial paper | (7,465) | (6,070) | (8,795) | (6,735) | (2,255) | (14,760) | (3,925) | (8,780) | (380) | - | (59,165) |
| Proceeds from bonds | - | 102,140 | 227,770 | 215,270 | 63,160 | 436,230 | 16,435 | 66,270 | 3,255 | - | 1,130,530 |
| Payments for bond issue costs | - | (1,679) | (3,571) | (3,569) | (1,054) | (7,425) | (225) | (994) | (48) | - | (18,565) |
| Bond issue premium | - | 4,953 | 3,547 | 7,996 | 2,932 | 24,888 | 722 | 4,126 | 39 | - | 49,203 |
| Change in notes payable | (50) | - | - | - | - | - | - | - | - | - | (50) |
| Payment for defeasance of bonds | - | (105,170) | (227,450) | (224,180) | (66,580) | (455,250) | (19,095) | (72,595) | (3,450) | - | (1,173,770) |
| Net cash used for financing activities | (7,515) | (5,826) | (8,499) | (11,218) | (3,797) | (16,317) | (6,088) | (11,973) | (584) | - | (71,817) |
| Net decrease in cash and temporary investments | (363) | - | - | - | - | - | - | - | - | - | (363) |
| Cash and temporary investments at beginning of year | 912 | - | - | 1 | - | 2 | - | - | - | - | 915 |
| Cash and temporary investments at end of year | $ 549 | $ - | $ - | $ 1 | $ - | $ 2 | $ - | $ - | $ - | $ - | $ 552 |
| Cash paid during the year for interest (Net of amount capitalized as shown above) | $ 724 | $ 4,146 | $ 6,839 | $ 8,817 | $ 2,798 | $ 20,744 | $ 795 | $ 2,893 | $ 130 | $ - | $ 47,886 |

The accompanying notes are an integral part of this supplemental schedule.

Schedule III

# Financial Statements and Report of Independent Certified Public Accountants

**Taunton Municipal Lighting Plant**

December 31, 2001 and 2000

# CONTENTS

Grant Thornton

Accountants and Management Consultants

# Report of Independent Certified Public Accountants

Municipal Light Commission
of the City of Taunton
Taunton, Massachusetts

We have audited the accompanying balance sheets of the Taunton Municipal Lighting Plant (a department of the City of Taunton) as of December 31, 2001 and 2000, and the related statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Plant's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 our audits provide a reasonable basis for our opinion.

As discussed in Note G to the financial statements, the Plant records pension expense based on a formula determined by the City of Taunton, whereas generally accepted accounting principles require the use of actuarial methods in determining annual pension expense and certain disclosures required by the Governmental Accounting Standards Board relating to pensions have been omitted. The effect on the financial statements of not using actuarial methods has not been determined.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to determine the effects of not using actuarial methods in determining pension expense and the omission of certain pension plan disclosures required by the Governmental Accounting Standards Board on the 2001 and 2000 financial statements, the financial statements referred to above present fairly, in all material respects, the financial position of the Taunton Municipal Lighting Plant as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Boston, Massachusetts
July 10, 2002

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Taunton Municipal Lighting Plant

BALANCE SHEETS

December 31,

ASSETS

| | 2001 | 2000 |
|---|---|---|
| UTILITY PLANT - AT COST | | |
| Plant in service | $129,804,846 | $128,014,759 |
| Less accumulated depreciation | 87,548,060 | 82,426,257 |
| Net utility plant in service | 42,256,786 | 45,588,502 |
| Investment in Seabrook | 2,260,028 | 2,409,993 |
| Construction work in progress | 5,867,215 | 1,648,116 |
| Total utility plant | 50,384,029 | 49,646,611 |
| DEPRECIATION FUND (including certificates of deposit of $4,000,000 and $2,000,000 in 2001 and 2000, respectively) | 5,694,715 | 10,851,084 |
| SICK LEAVE TRUST FUND | 5,130,468 | 5,206,908 |
| OTHER ASSETS | | |
| Investment in Hydro Quebec Project | 265,396 | 265,396 |
| Investment in Energy New England LLC | 431,279 | 215,078 |
| Due from Plant Retirement Trust | 689,138 | 675,716 |
| CURRENT ASSETS | | |
| Cash | 4,270,322 | 893,323 |
| Cash - rate stabilization fund | - | 442,064 |
| Customer deposits | 872,850 | 689,778 |
| Accounts receivable – unbilled rate stabilization | 1,592,572 | 1,378,130 |
| Accounts receivable, less allowance for doubtful accounts of $1,784,524 and $2,065,364 respectively | 4,468,255 | 4,906,871 |
| Accounts receivable Internet | 81,794 | 54,375 |
| Materials and supplies inventory | 5,791,430 | 1,748,718 |
| Prepaid expenses | 1,498,856 | 1,828,503 |
| Total current assets | 18,576,079 | 11,941,762 |
| | $ 81,171,104 | $ 78,802,555 |

RETAINED EARNINGS AND LIABILITIES

| | 2001 | 2000 |
|---|---|---|
| RETAINED EARNINGS | | |
| Appropriated retained earnings | | |
| Loans repayment | $ 24,387,000 | $ 23,037,000 |
| Construction repayment | 32,434 | 32,434 |
| | 24,419,434 | 23,069,434 |
| Unappropriated retained earnings | 35,803,659 | 34,528,633 |
| Total retained earnings | 60,223,093 | 57,598,067 |
| LONG-TERM DEBT | 7,278,386 | 8,746,740 |
| COMMTIMENTS AND CONTINGENCIES | - | - |
| CURRENT LIABILITIES | | |
| Accounts payable | 2,868,981 | 3,221,015 |
| Customer deposits | 554,626 | 448,434 |
| Current maturities of long-term debt | 1,465,000 | 1,350,000 |
| Accrued liabilities | | |
| Sick leave | 4,990,781 | 4,716,963 |
| Pension fund | 954,418 | 4,242 |
| Vacation | 806,099 | 794,424 |
| Interest | 347,474 | 392,474 |
| Payment in lieu of taxes | 1,250,000 | 1,180,000 |
| Power – rate stabilization | 25,000 | 25,000 |
| Payroll | 254,092 | 206,008 |
| Other | 153,154 | 119,188 |
| Total current liabilities | 13,669,625 | 12,457,748 |
| | $ 81,171,104 | $ 78,802,555 |

The accompanying notes are an integral part of these statements.

Taunton Municipal Lighting Plant

## STATEMENTS OF EARNINGS

Years ended December 31,

| | 2001 | 2000 |
|---|---|---|
| Operating revenues | | |
| Sales of electricity | | |
| Commercial and industrial | $31,996,256 | $29,219,911 |
| Residential | 20,905,656 | 18,552,227 |
| Sales for resale | 4,939,926 | 6,717,972 |
| Municipal | 2,905,850 | 2,580,644 |
| | 60,747,689 | 57,070,754 |
| Other operating revenues | 450,563 | 576,508 |
| Total operating revenues | 61,198,252 | 57,647,262 |
| Operating expenses | | |
| Power production | 38,639,378 | 36,676,119 |
| Transmission and distribution | 6,264,538 | 4,861,608 |
| Customer accounting | 1,612,300 | 2,054,976 |
| Administrative and general | 4,582,238 | 3,600,795 |
| Depreciation and amortization | 5,121,803 | 5,094,281 |
| Nuclear expense | 229,175 | 240,343 |
| Total operating expenses | 56,449,432 | 52,528,122 |
| Earnings from operations | 4,748,820 | 5,119,140 |
| Other expense (income) | | |
| Internet (income) expense - net | (27,056) | 253,007 |
| Interest expense | 748,650 | 836,391 |
| Interest income | (267,824) | (240,341) |
| Other (income) expense | (759,976) | (209,985) |
| Total other expense | (306,206) | 639,072 |
| Earnings before provision for payment in lieu of taxes | 5,055,026 | 4,480,068 |
| Provision for payment in lieu of taxes | 2,430,000 | 2,360,000 |
| NET EARNINGS | $ 2,625,026 | $ 2,120,068 |

The accompanying notes are an integral part of these statements.

Taunton Municipal Lighting Plant

STATEMENTS OF RETAINED EARNINGS

Years ended December 31, 2001 and 2000

| | Appropriated Retained Earnings | | Unappropriated Retained Earnings |
|---|---|---|---|
| | Loan Repayment | Construction Repayment | |
| Balance at December 31, 1999 | $21,787,000 | $32,434 | $33,658,565 |
| Transfer for bond repayment | 1,250,000 | - | (1,250,000) |
| Net earnings | - | - | 2,120,068 |
| Balance at December 31, 2000 | 23,037,000 | 32,434 | 34,528,633 |
| Transfer for bond repayment | 1,350,000 | - | (1,350,000) |
| Net earnings | - | - | 2,625,026 |
| Balance at December 31, 2001 | $24,387,000 | $32,434 | $35,803,659 |

The accompanying notes are an integral part of these statements.

Taunton Municipal Lighting Plant

STATEMENTS OF CASH FLOWS

Years ended December 31,

| | 2001 | 2000 |
|---|---|---|
| Increase (Decrease) in Cash and Cash Equivalents | | |
| Cash flows from operating activities: | | |
| Net earnings | $ 2,625,026 | $ 2,120,068 |
| Adjustments to reconcile net earnings to net cash and cash equivalents provided by operating activities: | | |
| Depreciation and amortization | 5,121,803 | 5,094,281 |
| Amortization of bond premium | (3,354) | (3,354) |
| Equity in losses of Seabrook investment | 149,965 | 137,259 |
| Equity in (income) losses of Energy New England LLC investment | (216,201) | (112,953) |
| Equity in losses of Hydro Quebec | - | 22,116 |
| Change in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | 224,174 | (1,823,441) |
| (Increase) in accounts receivable Internet | (27,419) | (16,690) |
| (Increase) in due from Plant Retirement Trust | (13,422) | (28,579) |
| (Increase) decrease in inventory | (4,042,712) | 404,438 |
| Decrease in prepaid expenses | 329,647 | 139,689 |
| Decrease in other assets | - | 8,276 |
| Decrease in accounts payable | (352,034) | (164,252) |
| Decrease in deferred revenue - rate stabilization | - | (442,064) |
| Increase in customer deposits | 106,192 | 66,025 |
| Increase in accrued liabilities | 1,342,719 | 538,140 |
| Net cash provided by operating activities | 5,244,384 | 5,938,959 |
| Cash flows from investing activities: | | |
| Net additions to utility plant | (6,009,186) | (4,536,332) |
| Purchases of certificates of deposit– depreciation fund | - | (2,000,000) |
| Maturity of certificates of deposit – depreciation fund | 2,000,000 | - |
| Increase (decrease) in Sick Leave Trust Fund | 76,440 | (511,124) |
| Net cash used in investing activities | (3,932,746) | (7,047,456) |
| Cash flows from financing activities: | | |
| Payment of long-term debt | (1,350,000) | (1,250,000) |
| Net (decrease) in cash and cash equivalents | (38,362) | (2,358,497) |
| Cash and cash equivalents at beginning of year | 10,876,249 | 13,234,746 |
| Cash and cash equivalents at end of year | $10,837,887 | $10,876,249 |

Taunton Municipal Lighting Plant

STATEMENTS OF CASH FLOWS - CONTINUED

Years ended December 31,

| | 2001 | 2000 |
|---|---|---|
| Cash and cash equivalents at end of year is reflected on the balance sheets as follows: | | |
| Depreciation fund (exclusive of long-term investments) | $ 5,694,715 | $ 8,851,084 |
| Cash - operating | 4,270,322 | 893,323 |
| Cash - rate stabilization fund | - | 442,064 |
| Cash – customer deposit | 872,850 | 689,778 |
| | $10,837,887 | $10,876,249 |

Supplemental Disclosure of Cash Flow Information:

| | 2001 | 2000 |
|---|---|---|
| Cash paid during the year for interest | $ 793,650 | $ 878,054 |

The accompanying notes are an integral part of these statements.

Taunton Municipal Lighting Plant

NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of Taunton Municipal Lighting Plant's (the "Plant") significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Nature of Business

The Plant is a regulated municipal electric utility located in Taunton, Massachusetts. The Plant operates as an enterprise fund of the City of Taunton, Massachusetts, and produces, purchases and distributes electricity to approximately 33,000 customers in the City of Taunton and the surrounding areas. The Plant also operates an internet access business unit and provides services to approximately 3,500 customers. Revenue and expense for this business unit is presented in other expense (income) in the statement of earnings. The business unit leases certain assets from the Plant. For the years ended December 31, 2001 and 2000, other operating revenue for the Plant and internet expense includes approximately $77,000 and $153,000, respectively, relating to this lease.

The Department operates within the electric utility industry which is currently undergoing significant restructuring and deregulation. In 1996, the Massachusetts Department of Telecommunications and Energy ("DTE") issued an electric industry restructuring plan, and the Massachusetts legislature created a special committee on electric industry restructuring. The financial impact the resultant changes in the industry will have on the Department is not yet known.

2. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and 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.

Estimates relating to the allowance for doubtful accounts and contingencies (see note F) represent the significant estimates included in the financial statements. Management bases their estimates of these items on historical experience, specific identification and future expectations.

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Rates

The Plant is under the charge and control of the Municipal Light Plant Commissioners in accordance with Chapter 164, Section 55 of the General Laws of the Commonwealth of Massachusetts. Electric power is both produced and purchased and is distributed to customers within their service area. The rates charged by the Plant to its customers are filed with the Department of Telecommunications and Energy ("DTE") (formerly the Massachusetts Department of Public Utilities) and are subject to Chapter 164, Section 58 of the General Laws, which provide that prices shall be fixed to yield not more than 8% per annum on the cost of the plant after repayment of operating expenses, interest on outstanding debt, the requirements of any serial debt and depreciation.

4. Depreciation

Pursuant to the DTE regulations, depreciation is calculated as a percentage of depreciable property at January 1. Depreciation is computed using a rate of 4% of the cost of depreciable property.

Depreciation Fund cash is used in accordance with state laws for replacements, enlargements and additions to the utility plant in service.

5. Pension Plan

Substantially all employees of the Plant are covered by a contributory pension plan administered by the City of Taunton in conformity with State Retirement Board requirements (see note G).

6. Inventory

Materials and supplies inventory is carried at cost, principally on the average cost method.

7. Sick Leave Trust Fund

The Plant established a Sick Leave Trust Fund ("Trust") in 1982 for the financing of future sick leave payments. It is the Plant's intention that the Trust be funded to the extent of the Plant's sick leave liability and that future sick leave expense will be paid by the Trust once full funding is achieved. Full funding was achieved in 1999. The assets of the Trust are shown in the financial statements to provide a more meaningful presentation, as the assets of the Trust are for the sole benefit of the Plant.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In March 1997, the Governmental Accounting Standards Board issued Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" ("GASB 31"). Under GASB 31, investments are required to be reported at fair value in the balance sheet, and investment income, including changes in fair value of investments, is required to be recognized as revenue in the operating statement. The provisions of GASB 31 were adopted retroactively.

Realized gains and losses, and declines in value are included in the statement of earnings.

Net investment income for the Trust was approximately $239,000 and $224,000 in 2001 and 2000, respectively. The net (income) expense for sick leave was approximately $439,000 and ($167,000) for the years ended December 31, 2001 and 2000, respectively.

8. Deferred Fuel Costs/Rate Stabilization

The Plant's rates include a Purchased Power Cost Adjustment (PPCA) which allows an adjustment of rates charged to customers in order to recover all changes in power costs from stipulated base costs. The PPCA provides for a quarterly reconciliation of total power costs billed with the actual cost of power incurred.

9. Investment in Seabrook

The Plant's Investment in Seabrook represents a 0.10034% joint ownership share. The Plant records annually depreciation computed at 4% of the initial investment in Seabrook. The Plant's percentage share of new plant additions are capitalized and their share of operating and maintenance expenses, and decommissioning expenses (see note C) are charged against earnings.

10. Cash Equivalents

For purposes of the Statement of Cash Flows, the Plant considers certificates of deposit with maturities of three months or less to be cash equivalents.

11. Internet

The Plant experienced its first full year as an internet provider in 1999. This new venture generated revenues of approximately $1,100,000 and $947,000 for the years ended December 31, 2001 and 2000, respectively. Expenses were approximately $1,072,000 and $1,200,000 for the same periods.

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

### 12. Reclassifications

Certain reclassifications have been made to the 2000 financial statements in order to conform with current year's presentation.

## NOTE B - CASH AND CERTIFICATES OF DEPOSIT

The Plant's cash is deposited with the City of Taunton Treasurer who commingles it with other City funds. The City invests the cash and credits the Plant each year with interest earned on the cash deposits.

Cash, certificates of deposit deposited and short term investments with the City of Taunton consists of the following at December 31,

| | 2001 | 2000 |
|---|---|---|
| Interest bearing pooled funds including restricted customer deposits of $872,850 and $689,778, respectively | $ 6,837,887 | $10,876,249 |
| Certificates of deposit with rates of 2.55% maturing February 2002 | 2,000,000 | - |
| Certificates of deposit with rates of 6.52% maturing April 2001 | - | 2,000,000 |
| Certificates of deposit with rates of 3.00% maturing January 2002 | 2,000,000 | - |
| | $10,837,887 | $12,876,249 |

Cash, certificates of deposit and short term investments at December 31, is reflected as follows:

| | 2001 | 2000 |
|---|---|---|
| Depreciation Fund - capital additions and replacements | $ 1,888,108 | $ 4,942,077 |
| Depreciation Fund - Major overhaul | 327,318 | 327,318 |
| Depreciation Fund - Unit 9 principal and interest | 2,750,605 | 4,853,005 |
| Depreciation Fund - other | 728,684 | 728,684 |
| Cash – including operating and rate stabilization fund | 4,270,322 | 1,335,387 |
| Customer deposit - principal and interest fund | 872,850 | 689,778 |
| | $10,837,887 | $12,876,249 |

Certain cash amounts have been designated as restricted for the purpose of a rate stabilization fund. This fund is designated to offset potential future customer rate increases.

Taunton Municipal Lighting Plant

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2001 and 2000

## NOTE C - INVESTMENTS

The Plant is a 0.10034% joint owner of the Seabrook New Hampshire Unit 1.

The joint owners of Seabrook have established a Decommissioning Fund that is currently held by a Trustee. The Plant's share of the estimated decommissioning liability is approximately $556,000 as of January 1, 1998 (the most current valuation date). The Plant is currently contributing, based on a present value formula, $1,808 per month over 25 years.

### Energy New England

In 1998, the Plant, in conjunction with the Reading Municipal Light Department, the Braintree Electric Light Department and the Connecticut Municipal Electric Energy Cooperative, formed a new cooperative, Energy New England LLC, as allowed under Chapter 164 of the General Laws of the Commonwealth of Massachusetts. Each founding system invested $500,000 in order to initially fund the new corporation. Energy New England is an energy and energy services cooperative established to assist publicly owned entities to ensure their continued viability in the newly deregulated wholesale electric utility markets and to strengthen their competitive position in the retail energy market for the benefit of the municipal entities' customers. Energy New England functions as an autonomous, entrepreneurial business unit that is free from many of the constraints imposed on traditional municipal utility operations. Each founding member has one seat on the Board of Directors along with three outside Directors. Energy New England commenced the management of the founders power supply operations in the newly restructured NEPOOL wholesale markets as of May 1, 1999. The Plant records this investment under the equity method. Included in other (income) expense is approximately $216,000 and $113,000 of income for the years ended December 31, 2001 and 2000, respectively, representing the Plant's share of Energy New England's net (income) losses.

## NOTE D - LONG-TERM DEBT

Long-term debt is comprised of the following bonds:

| | 2001 | 2000 |
|---|---|---|
| Electric Loan Act of 1969 | | |
| Interest rate - 8%, interest payable February 1 and August 1, due serially to February 1, 2006 | $8,730,000 | $10,080,000 |
| Unamortized premium | 13,386 | 16,740 |
| | 8,743,386 | 10,096,740 |
| Less current maturities | 1,465,000 | 1,350,000 |
| Total long-term debt | $7,278,386 | $ 8,746,740 |

## NOTE D - LONG-TERM DEBT - Continued

Aggregate maturities of long-term debt at December 31, 2001, are as follows:

| | |
|---|---|
| 2002 | $1,465,000 |
| 2003 | 1,585,000 |
| 2004 | 1,750,000 |
| 2005 | 1,890,000 |
| 2006 | 2,040,000 |
| | $8,730,000 |

## NOTE E - CONTRIBUTION IN LIEU OF TAXES

The Plant contributed $2,430,000 and $2,360,000 in 2001 and 2000 to the City of Taunton in lieu of taxes. All contributions to the City are voted by the Municipal Light Commission.

## NOTE F - COMMITMENTS AND CONTINGENCIES

### Hydro-Quebec Agreement

In 1988, the Plant entered into an agreement with the Massachusetts Municipal Wholesale Electric Company and other New England Utilities to support the operation of a transmission line to permit the interchange of electricity between such utilities and Hydro-Quebec Electric Corporation (HydroQuebec). In connection with the agreement, the Plant advanced approximately $800,000 toward development of the project of which approximately $450,000 was returned after the project had obtained financing. In 1991, the Hydro Quebec project was completed. Upon completion of this project, each participant received stock in the New England Hydro Transmission Electric Company and The New England Hydro Transmission Corporation proportional to their advances. The investment is being accounted for on the cost basis. The stock received is not readily marketable, but gives the holder rights to purchase power at a percentage of the fossil fuel rate.

During the years ended December 31, 2001 and 2000, the Plant received dividends from the above noted companies of approximately $37,000 and $51,000, respectively.

## NOTE F - COMMITMENTS AND CONTINGENCIES - Continued

### Power Contracts

The Plant has commitments under long-term contracts for the purchase of electricity from various suppliers. These wholesale contracts are generally for fixed periods and require payment of demand and energy charges. The total costs under these contracts are included in purchased power in the statements of operations and are normally recoverable in revenues under cost recovery mechanisms mandated by the Commonwealth of Massachusetts. The status of these contracts is as follows:

| Unit Fuel Type | 2001 KW Entitlements | Contract End Date | Estimated Annual Minimum Payments |
|---|---|---|---|
| Fuel - Unspecified (fixed price contract) | 10,000 | 2005 | $ 5,743,000 |
| Fuel - Methane | 3,800 | 2016 | 2,727,000 |
| Fuel - Methane | 6,650 | 2019 | 3,762,000 |
| Fuel - Methane | 6,700 | 2019 | 2,768,000 |
| Fuel - Methane | 1,630 | 2016 | 800,000 |
| Fuel - Unspecified (fixed price contract) | 27,500 | 2007 | 11,147,000 |

### Litigation and Other Matters

1. The Plant has a contract with Vermont Yankee and certain of its Sponsors for 0.4602 percent of the output of the Vermont Yankee Plant. On January 6, 2000, Vermont Yankee Nuclear Power Corporation, Vermont Electric Power Company, and AmerGen Vermont, LLC, initiated a number of related proceedings before the Federal Energy Regulatory Commission ("FERC") all arising from the proposed sale of the Vermont Yankee Plant to AmerGen.

   On June 22, 2000, the Department and the 21 Municipals filed a complaint with FERC, in which they asserted that they were entitled to refunds for transaction costs incurred in the sale of the Plant and for certain decommissioning contributions.

   The proposed sale to AmerGen was eventually terminated by Vermont Yankee, and the parties to those FERC proceedings entered into a settlement that resolved all issues, including the purchases' agreement to withdraw their complaint. The settlement agreement was approved by the Commission on September 13, 2001. The Plant received a refund of certain decommissioning charges and transaction costs as a result of Settlement Agreement, as well as a reduction in future Vermont Yankee charges. The total refund amount was immaterial and was used to reduce power costs.

NOTE F - COMMITMENTS AND CONTINGENCIES - Continued

In the fall of 2001, Vermont Yankee informed the Plant and the other purchasers that it had entered into a new contract for the sale of the Vermont Yankee plant, this time to Energy Nuclear Vermont Yankee. Prior to new filings being made at the FERC for approval of this new proposed transaction, the Plant and the other purchasers entered into negotiations that produced an agreement pursuant to which the Plant and the other purchasers agreed not to contest the plant sale in exchange for early termination of their Vermont Yankee contracts as of February 28, 2002. Absent that agreement, the contracts would have remained in effect through November 30, 2002. Notices of cancellation of the Vermont Yankee contracts for the Plant and the other purchasers were submitted to FERC on December 7, 2001, and accepted by FERC order dated February 26, 2002. The Plant expects this early termination to reduce its power costs for 2002.

2. The Plant is involved in various legal matters incident to its business, none of which is believed by management to be significant to the financial condition or the results of operations of the Plant.

3. The Plant is also involved in proceedings relating to environmental matters. Although it is difficult to estimate the liability, if any, of the Plant related to these environmental matters, the Plant believes that these matters will not have a material adverse effect upon its financial condition or the results of operations.

4. The Plant has a program for insurance coverage provided by the Massachusetts Municipal Utility Self-Insurance Trust Fund ("Trust"). The insurance coverage provided by the Trust is in excess of a $50,000 self retention up to a maximum of $500,000 per occurrence. Additionally, coverage for certain environmental claims is provided by the Trust through a separate policy for which the plant is responsible for a $50,000 self-retention and the Trust covers the next $50,000.

NOTE G - PENSION PLANS

The Plant contributes to the City of Taunton Retirement System (the "System"), a public employee retirement system that acts as the investment and administrative agent for the City. All full-time employees participate in the System.

Instituted in 1937, the System is a member of the Massachusetts Contributory System and is governed by Massachusetts General Laws Chapter 32. Membership in the System is mandatory upon the commencement of employment for all permanent, full-time employees.

NOTE G - PENSION PLANS - Continued

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

Members of the System become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining twenty years of service. The System also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the City's payroll on January 1, 1978, (3) voluntarily left City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Active members contribute either 5%, 7%, 8%, or 9% of their regular compensation depending on the date upon which their membership began. The System also provides death and disability benefits.

The System does not make a separate measurement of assets and the pension benefit obligation for the Plant. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the System. As of January 1, 2000 (the most current valuation date), the Plant's unfunded actuarial accrued liability is approximately $12,393,611.

The Plant has established a separate Employees Retirement Trust Fund ("Trust Fund") for the financing of future pension payments. The market value of the net assets at December 31, 2001 and 2000 was approximately $13,593,000 and $13,710,000, respectively. These funds are invested in money market funds, fixed income securities including government and corporate bonds and other equity securities. The Plant has made no contributions to the Trust Fund in 2001 and 2000.

The Plant receives from the Trust Fund, over the next twenty-eight years, an amount equal to one hundred percent of the annual amortization of the unfunded pension liability.

## NOTE G - PENSION PLANS - Continued

The following represents the components of the Plant's recorded pension expense:

| | December 31, 2001 | December 31, 2000 |
|---|---|---|
| Contributions to the System | $1,890,456 | $1,822,402 |
| Contributions from the Trust Fund | (1,340,718) | (1,294,120) |
| Recorded pension expense | $ 549,738 | $ 528,282 |

Prior to 1993, the System's funding policy for the participating entities was not actuarially determined. The participating entities were required to contribute each fiscal year an amount approximating the pension benefits (less certain interest credits) expected to be paid during the year ("pay-as-you-go" method). Effective for fiscal year ends 1993 and beyond, the System has removed the "pay-as-you-go" method and will amortize the unfunded pension benefit obligation over thirty-two years. This change has been approved by Public Employees Retirement Association.

Accounting standards require certain related disclosures be made including the components of pension costs and the funded status of the System. The effect of omitting such disclosure on the accompanying financial statements has not been determined.

## NOTE H - POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in note G, the Plant provides post employment health care benefits to retirees that meet certain requirements. Retirees of the Plant under age 65 are eligible for the same health benefits as active employees, while retirees over the age of 65 are eligible for MEDEX. The costs of the benefits provided to retirees are borne 75% by the Plant, and 25% by the retirees.

The Plant is charged their prorata portion of the "pay-as-you-go" cost of benefits based on an allocation by the City done annually. For 2001 and 2000, the costs allocated to the Plant were approximately $599,000 and $510,000, respectively.

# HUDSON LIGHT AND POWER DEPARTMENT
Financial Statements
December 31, 2001 and 2000

# HUDSON LIGHT AND POWER DEPARTMENT
## TABLE OF CONTENTS
## DECEMBER 31, 2001 AND 2000

# *Goulet, Salvidio & Associates, P.C.*

*Certified Public Accountants*

James F. Goulet, CPA, MST
Catherine A. Kuzmeskus, CPA

Michael A. Salvidio, CPA
James R. Dube, CPA


## INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Hudson Light and Power Department

We have audited the accompanying financial statements of Hudson Light and Power Department of Hudson, Massachusetts, as of and for the years ended December 31, 2001 and 2000 as listed in the table of contents. These financial statements are the responsibility of the Department'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 of America. Those standards require that we plan and perform the audits 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 Hudson Light and Power Department as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Department adopted the provisions of Governmental Accounting Standards Board Statement of Accounting Standards No. 34 in 2001.

The Management's Discussion and Analysis on pages two through four is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio + Associates, P.C.

Worcester, Massachusetts
April 3, 2002


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## MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Hudson Light and Power Department's annual financial report, management provides narrative discussion and analysis of the financial activities of the Hudson Light and Power Department for the year ended December 31, 2001. The Department's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

**Overview of the Financial Statements:**

The basic financial statements include (1) the statements of net assets (2) the statements of revenues, expenses and changes in net assets (3) the cash flow statements and (4) notes to the financial statements.

The Statements of Net Assets are designed to indicate our financial position as of a specific point in time. At December 31, 2001, it shows our net worth has decreased compared to the year ended December 31, 2000. This decrease is due to the Department's appropriation of net assets to the rate stabilization fund.

The Statements of Revenues, Expenses and Changes in Net Assets summarizes our operating results and reveals how much, if any, of a profit was earned for the year. As discussed in more detail below, our net profit for December 31, 2001 was $889,222.

The Statements of Cash Flows provides information about the cash receipts and cash payments during the accounting period. It also provides information about the investing and financing activities for the same period. A review of our Statements of Cash Flows indicates that the cash receipts from operating activities, (that is, electricity sales and related services) adequately covers our operating expenses.

**Summary of Net Assets – Operating Fund**

| | 2001 | 2000 |
|---|---|---|
| Current Assets | $ 11,114,866 | $ 12,475,540 |
| Noncurrent Assets | 10,782,146 | 10,447,924 |
| Total Assets | 21,897,012 | 22,923,464 |
| Current Liabilities | 2,053,920 | 2,697,915 |
| Noncurrent Liabilities | 512,014 | 500,155 |
| Total Liabilities | 2,565,934 | 3,198,070 |
| Net Assets: | | |
| Restricted for Debt Service | 1,925,000 | 1,925,000 |
| Invested in Capital Assets, Net of Related Debt | 5,288,396 | 5,461,549 |
| Unrestricted | 12,117,682 | 12,338,845 |
| Total Net Assets | 19,331,078 | 19,725,394 |
| Total Liabilities and Net Assets | $ 21,897,012 | $ 22,923,464 |

## Summary of Changes in Net Assets – Operating Fund

| | 2001 | 2000 |
|---|---|---|
| Operating Revenues | $ 32,433,584 | $ 29,444,534 |
| Operating Expenses | 31,949,194 | 28,231,134 |
| Operating Income (Loss) | 484,390 | 1,213,400 |
| Nonoperating Revenues (Expenses) | 404,832 | 440,378 |
| Increase in Net Assets before Transfers | 889,222 | 1,653,778 |
| Transfers Out - Payment in Lieu of Taxes | (225,000) | (225,000) |
| Transfers Out - Rate Stabilization Trust Fund | (1,411,653) | (247,212) |
| Cash Received for Claims and Judgments | 353,115 | 1,131,345 |
| Beginning Net Assets | 19,725,394 | 17,412,483 |
| Ending Net Assets | $ 19,331,078 | $ 19,725,394 |

**Financial Highlights:**

Operating revenues increased by $2.9 million in 2001, or 10%. This increase in revenue can be attributed primarily to two issues: the increase in power consumption and the increase in the power adjustment charges.

Operating expenses increased by $3.7 million in 2001, or 13%. This increase in expense can be attributed to the increased energy costs and the additional power consumption requirements needed to meet increased sales.

**Utility Plant and Debt Administration:**

Utility Plant

Net utility plant decreased by $173,153 from 2000. This decrease is the difference between the current year additions of $477,217 and the annual depreciation (3%) write off of $650,370. During 2001, the Department purchased a bucket truck for approximately $135,000, which accounted for 30% of current year additions and line transformers placed in service accounted for approximately 48%.

In December 2001, the Department approved a substation redesign to improve reliability by taking advantage of a second transmission line being built by National Grid.

Debt Administration

The Hudson Light and Power Department remains a vertically integrated utility, as do all Municipal Light Departments in Massachusetts. This means that we are allowed under the Massachusetts Utility Restructuring Laws to retain our ownership and control over our electrical generation assets. Investor owned utilities, such as Massachusetts Electric Company, have been required to sell their generation assets as a result of the same restructuring laws.

Debt Administration – Continued

The generation assets, which we have a vested interest in through a Purchase Sales Agreement along with the other municipal electrical systems in New England, are financed through municipal bonds. The collective debt service owed under these bonds stand at approximately $1.5 billion, of which Hudson Light and Power Department's share is just over $162 million.

In an effort to ensure stable costs for electricity in future years the Hudson Light and Power Department, worked with the Massachusetts Municipal Wholesale Electric Company, on a bond refinancing in 2001. This refinancing is expected to save the Hudson Light and Power Department approximately $15 million in interest over the life of the bonds.

Though we will not gain any immediate benefit from the refinancing, it is part of a longer-term, strategic effort to maintain the competitive rates and reliable electric service into the future. The bulk of the savings from the refinancing program will be used to stabilize our power costs beginning in 2010. During this timeframe competition in the power markets is expected to intensify, and reduced debt service will place us in a better position to control costs.

**Significant Balances and Transactions:**

Retirement Trust Fund
The Retirement Trust Fund's purpose is to directly reimburse the Town of Hudson for retirement costs attributable to the Hudson Light and Power Department's retirees for whom the Town of Hudson is assessed annually by the Middlesex County Retirement System, and to satisfy the Department's anticipated future pension liabilities for it's current employees.

Rate Stabilization Trust Fund
The Rate Stabilization Trust Fund's purpose is to fund future power supply costs for which the department is presently obligated to make, so as to eliminate or reduce future power supply costs, in order to remain competitive within the electric industry and for other supply-related issues which the Trustees designate by vote.

Depreciation Fund
Hudson Light and Power Department maintains a depreciation fund, which is managed by the Town of Hudson Treasurer. This fund is used to pay for large capital investments such as new trucks and other long-term assets. Items such as these would be purchased from the operating funds, which would then be replenished by funds transferred from the depreciation fund. The depreciation fund is required by state statute. We set aside 3% of our cost of plant annually to be used for capital improvements and additions.

Purchased Power Working Capital
The purchased power working capital is an amount held by Massachusetts Municipal Wholesale Electric Company (MMWEC), our power supply agent. MMWEC requires that they hold a set amount of capital from which it may pay our power obligations when they are due. They replenish the fund as needed from our monthly invoice payments.

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2001 AND 2000

OPERATING FUND

ASSETS

| | 2001 | 2000 |
|---|---|---|
| CURRENT ASSETS: | | |
| Funds on Deposit with Town Treasurer | | |
| Operating Fund | $ 5,596,250 | $ 5,289,840 |
| Petty Cash | 500 | 500 |
| Customer Accounts Receivable | 3,461,668 | 3,306,247 |
| Other Receivables | 226,334 | 26,560 |
| Deferred Debit - Fuel Charge | 0 | 1,535,547 |
| Materials and Supplies | 944,516 | 1,058,832 |
| Purchased Power Prepayments | 255,799 | 621,187 |
| Purchased Power Working Capital | 629,799 | 636,827 |
| TOTAL CURRENT ASSETS | 11,114,866 | 12,475,540 |
| NONCURRENT ASSETS: | | |
| Funds on Deposit with Town Treasurer | | |
| Depreciation Fund | 292,539 | 471,269 |
| Depreciation Investment Fund | 4,602,207 | 3,919,583 |
| Customer Deposits | 315,891 | 321,548 |
| Customer Deposits - Interest | 194,696 | 177,181 |
| Investment | 88,417 | 96,794 |
| Utility Plant Assets, Net | 5,288,396 | 5,461,549 |
| TOTAL NONCURRENT ASSETS | 10,782,146 | 10,447,924 |
| TOTAL ASSETS | $ 21,897,012 | $ 22,923,464 |

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2001 AND 2000

## OPERATING FUND

## LIABILITIES

| | 2001 | 2000 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts Payable | $ 1,351,631 | $ 2,241,454 |
| Tax Collections Payable | 784 | 18,090 |
| Miscellaneous Current and Accrued Liabilities | 524,900 | 438,371 |
| Deferred Credit - Fuel Charge | 176,605 | 0 |
| TOTAL CURRENT LIABILITIES | 2,053,920 | 2,697,915 |
| NONCURRENT LIABILITIES: | | |
| Customer Deposits | 315,981 | 321,638 |
| Customer Deposits - Interest | 193,933 | 176,417 |
| Customer Advances for Construction | 2,100 | 2,100 |
| TOTAL NONCURRENT LIABILITIES | 512,014 | 500,155 |
| TOTAL LIABILITIES | 2,565,934 | 3,198,070 |

## NET ASSETS

| | 2001 | 2000 |
|---|---|---|
| Restricted for Debt Service | 1,925,000 | 1,925,000 |
| Invested in Capital Assets, Net of Related Debt | 5,288,396 | 5,461,549 |
| Unrestricted | 12,117,682 | 12,338,845 |
| TOTAL NET ASSETS | 19,331,078 | 19,725,394 |
| TOTAL LIABILITIES AND NET ASSETS | $ 21,897,012 | $ 22,923,464 |

See Accompanying Notes to Financial Statements

# HUDSON LIGHT AND POWER DEPARTMENT
## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
## FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

### OPERATING FUND

| | 2001 | 2000 |
|---|---|---|
| OPERATING REVENUES | $ 32,433,584 | $ 29,444,534 |
| OPERATING EXPENSES: | | |
| Operations and Maintenance | 31,321,473 | 27,608,108 |
| Depreciation Expense | 627,721 | 623,026 |
| TOTAL OPERATING EXPENSES | 31,949,194 | 28,231,134 |
| OPERATING INCOME | 484,390 | 1,213,400 |
| NONOPERATING REVENUES (EXPENSES): | | |
| Interest and Dividend Income | 404,928 | 440,165 |
| Realized Gains (Losses) on Maturities of Investments | 0 | 283 |
| Interest Expense | (96) | (70) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | 404,832 | 440,378 |
| Income Before Contributions and Transfers | 889,222 | 1,653,778 |
| NET ASSETS - JANUARY 1 | 19,725,394 | 17,412,483 |
| Transfers Out - Payment in Lieu of Taxes | (225,000) | (225,000) |
| Transfers Out - Rate Stabilization Trust Fund | (1,411,653) | (247,212) |
| Cash Received for Claims and Judgments | 353,115 | 1,131,345 |
| NET ASSETS - DECEMBER 31 | $ 19,331,078 | $ 19,725,394 |

See Accompanying Notes to Financial Statements

# HUDSON LIGHT AND POWER DEPARTMENT
## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

### OPERATING FUND

| | 2001 | 2000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Cash Received from Customers | $ 33,802,400 | $ 26,117,547 |
| Cash Paid to Suppliers and Employees | (30,863,848) | (26,352,408) |
| Cash Paid for Benefits | (768,844) | (678,994) |
| Payment in Lieu of taxes | (225,000) | (225,000) |
| Cash Received for Claims and Judgments | 353,115 | 1,131,345 |
| Net Cash Provided (Used) by Operating Activities | 2,297,823 | (7,510) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:** | | |
| Interest Expense | (96) | (70) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:** | | |
| Purchases of Utility Plant Assets | (451,676) | (160,075) |
| Purchases of Nuclear Fuel | (25,541) | (35,017) |
| Net Cash Used in Capital and Related Financing Activities | (477,217) | (195,092) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Rate Stabilization Reserve | (1,411,653) | (247,212) |
| Interest and Dividend Income | 404,928 | 440,165 |
| Due from Rate Stabilization Fund | 0 | 949,983 |
| Net Proceeds from Maturities (Purchases) of Investments | 732,743 | (112,721) |
| Net Cash Provided (Used) by Investing Activities | (273,982) | 1,030,215 |
| INCREASE IN CASH AND CASH EQUIVALENTS | 1,546,528 | 827,543 |
| CASH AND CASH EQUIVALENTS - JANUARY 1 | 6,366,220 | 5,538,677 |
| CASH AND CASH EQUIVALENTS - DECEMBER 31 | $ 7,912,748 | $ 6,366,220 |

See Accompanying Notes to Financial Statements

# HUDSON LIGHT AND POWER DEPARTMENT
## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

### OPERATING FUND

### RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

| | 2001 | 2000 |
|---|---|---|
| Operating Income | $ 484,390 | $ 1,213,400 |
| Adjustments to Reconcile Operating Income to | | |
| Net Cash Provided (Used) by Operating Activities: | | |
| Depreciation | 627,721 | 623,026 |
| Amortization of Nuclear Fuel | 22,649 | 20,982 |
| Appropriation in Lieu of Taxes | (225,000) | (225,000) |
| Cash Received for Claims and Judgments | 353,115 | 1,131,345 |
| Changes in Assets and Liabilities: | | |
| (Increase) Decrease in: | | |
| Customer Accounts Receivable | (155,421) | (1,277,413) |
| Other Accounts Receivable | (199,774) | 404,373 |
| Deferred Debit - Fuel Charge | 1,535,547 | (1,535,547) |
| Materials and Supplies | 114,316 | (204,079) |
| Purchased Power Prepayments | 365,388 | (446,219) |
| Purchased Power Working Capital | 7,028 | (296,751) |
| Increase (Decrease) in: | | |
| Accounts Payable | (889,823) | 1,463,657 |
| Customer Deposits | (5,657) | (4,185) |
| Customer Deposits - Interest | 17,516 | 24,041 |
| Tax Collections Payable | (17,306) | 4,685 |
| Deferred Credit - Fuel Charge | 176,605 | (332,862) |
| Miscellaneous Current and Accrued Liabilities | 86,529 | 34,431 |
| Accumulated Provision for Insurance | 0 | (605,394) |
| Net Cash Provided (Used) by Operating Activities | $ 2,297,823 | $ (7,510) |

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

OPERATING FUND

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

The following amounts are considered to be cash or cash equivalents for the purpose of the statements of cash flows:

| | 2001 | 2000 |
|---|---|---|
| Operating Fund | $ 5,596,250 | $ 5,289,840 |
| Petty Cash | 500 | 500 |
| Depreciation Fund | 292,539 | 471,269 |
| Depreciation Investment Fund (Note 8) | 1,512,872 | 105,882 |
| Customer Deposits | 315,891 | 321,548 |
| Customer Deposits - Interest | 194,696 | 177,181 |
| | $ 7,912,748 | $ 6,366,220 |

Cash paid for interest expense in 2001 and 2000 was $96 and $70, respectively.

# HUDSON LIGHT AND POWER DEPARTMENT
# STATEMENTS OF NET ASSETS
# DECEMBER 31, 2001 AND 2000

## RATE STABILIZATION TRUST FUND

### ASSETS

| | 2001 | 2000 |
|---|---|---|
| NONCURRENT ASSETS: | | |
| Funds on Deposit with Town Treasurer | | |
| Cash and Cash Equivalents | $ 2,474,284 | $ 748,918 |
| Investments | 5,278,082 | 6,062,409 |
| TOTAL ASSETS | $ 7,752,366 | $ 6,811,327 |

### NET ASSETS

| | 2001 | 2000 |
|---|---|---|
| NET ASSETS - Restricted | $ 7,752,366 | $ 6,811,327 |

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## RETIREMENT TRUST FUND

### ASSETS

| | 2001 | 2000 |
|---|---|---|
| NONCURRENT ASSETS: | | |
| Funds on Deposit with Town Treasurer | | |
| Cash and Cash Equivalents | $ 2,378,373 | $ 350,574 |
| Investments | 4,555,521 | 6,225,348 |
| TOTAL ASSETS | $ 6,933,894 | $ 6,575,922 |

### NET ASSETS

| | 2001 | 2000 |
|---|---|---|
| NET ASSETS - Restricted | $ 6,933,894 | $ 6,575,922 |

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

## RATE STABILIZATION TRUST FUND

| | 2001 | 2000 |
|---|---|---|
| NONOPERATING REVENUES (EXPENSES): | | |
| Interest Earned on Invested Funds | $ 439,363 | $ 467,924 |
| Accrued Interest Paid at Purchase | (2,258) | (4,892) |
| Gain (Loss) from Security Redemption | (41) | 10 |
| Annual Contribution from Operations | 692,322 | 1,563,202 |
| Annual Purchased Power Stabilization Transfer | (1,600,000) | (2,550,000) |
| NET LOSS | (470,614) | (523,756) |
| NET ASSETS - JANUARY 1 | 6,811,327 | 7,087,871 |
| Transfers In - Operating Fund | 1,411,653 | 247,212 |
| NET ASSETS - DECEMBER 31 | $ 7,752,366 | $ 6,811,327 |

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## RETIREMENT TRUST FUND

| | 2001 | 2000 |
|---|---|---|
| NONOPERATING REVENUES (EXPENSES): | | |
| Interest Earned on Invested Funds | $ 481,174 | $ 396,227 |
| Accrued Interest Paid at Purchase | (7,431) | (9,455) |
| Gain (Loss) from Security Redemption | 437 | 1,418 |
| Annual Contribution from Operations | 384,007 | 349,753 |
| Annual Pension Expense | (500,215) | (507,728) |
| NET INCOME | 357,972 | 230,215 |
| NET ASSETS - JANUARY 1 | 6,575,922 | 6,345,707 |
| NET ASSETS - DECEMBER 31 | $ 6,933,894 | $ 6,575,922 |

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

## RATE STABILIZATION TRUST FUND

| | 2001 | 2000 |
|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Interest Income | $ 437,105 | $ 463,032 |
| Net Proceeds from Maturities (Purchases) of Investments | 784,327 | 1,333,514 |
| Gain (Loss) on Security Redemption | (41) | 10 |
| Appropriation from Net Assets - Operating Fund | 1,411,653 | 247,212 |
| Annual Contribution from Operations | 692,322 | 1,563,202 |
| Annual Purchased Power Stabilization Transfer | (1,600,000) | (3,499,983) |
| INCREASE IN CASH AND CASH EQUIVALENTS | 1,725,366 | 106,987 |
| CASH AND CASH EQUIVALENTS - JANUARY 1 | 748,918 | 641,931 |
| CASH AND CASH EQUIVALENTS - DECEMBER 31 | $ 2,474,284 | $ 748,918 |

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## RETIREMENT TRUST FUND

| | 2001 | 2000 |
|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Interest Income | $ 473,743 | $ 386,772 |
| Net Proceeds from Maturities (Purchases) of Investments | 1,669,826 | (128,846) |
| Gain (Loss) on Security Redemption | 438 | 1,418 |
| Annual Contribution from Operations | 384,007 | 349,753 |
| Annual Pension Expense | (500,215) | (507,728) |
| INCREASE IN CASH AND CASH EQUIVALENTS | 2,027,799 | 101,369 |
| CASH AND CASH EQUIVALENTS - JANUARY 1 | 350,574 | 249,205 |
| CASH AND CASH EQUIVALENTS - DECEMBER 31 | $ 2,378,373 | $ 350,574 |

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies of Hudson Light and Power Department are as follows:

Reporting Entity
The Hudson Light and Power Department is a component unit of the Town of Hudson, Massachusetts. The Department purchases power from various sources and sells it to the ultimate customers at rates submitted to the Massachusetts Department of Telecommunications and Energy (DTE). The municipal light board appoints a manager of municipal lighting who shall, under the direction and control of the municipal light board, have full charge of the operation and management of the Department.

Regulation and Basis of Accounting
The Town of Hudson complies with Generally Accepted Accounting Principles (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

The Department uses the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Department has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, in 2001. The Department has restated the 2000 financial statements to reflect the effects of the adoption. Specifically, the Department has classified its retained earnings into unrestricted and restricted balances and has restated its 2000 statement of cash flows to conform to the direct method of operating cash flow presentation.

Under Massachusetts law, electric rates of the Department are set by the Municipal Light Board and may be changed not more often than once every three months. Rate schedules are filed with the Massachusetts Department of Telecommunications and Energy (DTE). While the DTE exercises general supervisory authority over the Department, the Department's rates are not subject to DTE approval.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

### Depreciation

The general laws of Massachusetts allow utility plant to be depreciated at an annual rate of 3%. In order to change this rate, approval must be obtained from the Department of Telecommunications and Energy. Changes in annual depreciation rates may be made for financial factors relating to cash flow rather than for engineering factors relating to estimates of useful lives. The Department used a depreciation rate of 3% for 2001 and 2000.

The Department charges maintenance to expense when incurred. Replacements and betterments are charged to utility plant.

### Revenues

Revenues from sales of electricity are recorded on the basis of bills rendered from monthly readings taken on a cycle basis. The revenues are based on rates established by the Department which are applied to the customers' consumption of electricity.

The Department has a fuel cost adjustment clause pursuant to which increased fuel costs (fuel costs in excess of amounts recovered through base rates) are billable to customers. The Department records estimated unbilled fuel adjustment charge revenue at the end of accounting periods.

### Materials and Supplies

Materials and supplies are valued using the average cost method.

### Taxes

The Department is exempt from federal and state income taxes. Although also exempt from property taxes, the Department pays amounts in lieu of taxes to the Town of Hudson. Taxes are paid to the State of New Hampshire resulting from ownership in the Seabrook, New Hampshire Nuclear Power Plant.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and 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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

### Cash and Cash Equivalents

For purposes of the statements of cash flows, the Department considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

### Advertising

The Department expenses advertising costs as incurred. At December 31, 2001 and 2000 advertising expense was $474 and $3,583, respectively.

### Reclassification

Certain amounts in the 2000 financial statements have been reclassified to conform with the 2001 presentation with no effect on previously reported net income.

### Compensated Absences

In accordance with Town and Light Department policies, employees are allowed to accumulate sick days up to a maximum of 960 hours. Upon termination of employment with the Light Department, the employee will not be paid for accumulated sick days. Upon retirement, employees are paid up to 50% of their accumulated sick time at their regular rate of pay. The percentage is based on employees age and number of years of service with the Light Department.

Employees are permitted to carry vacation time from one year to the next. Upon termination of employment with the Light Department, the employee will be paid for unused vacation time based on the employee's base rate of pay at the time of termination. Union employees have to use their vacation by April of the following year.

### Allowance for Doubtful Accounts

Accounts are charged to bad debt expense as they are deemed uncollectible based upon a periodic review of the accounts. At December 31, 2001 and 2000, no allowance for uncollectible accounts was considered necessary.

## NOTE 2 - UNBILLED REVENUE:

No recognition is given to the amount of sales to customers which are unbilled at the end of the accounting period.

NOTE 3 - CONCENTRATION OF CREDIT RISK:

The Hudson Light and Power Department's deposits with the Town Treasurer are commingled and invested with deposits from other Town funds. Accordingly, it is not practical to disclose the related bank balance and credit risk of such cash deposits for the Light Department. Funds on deposit with financial institutions are subject to the insurance coverage limits imposed by the Federal Deposit Insurance Corporation (FDIC). The amount of insurance coverage for the Light Department deposits is not determinable because the limits of insurance are computed on a Town-wide basis.

NOTE 4 - INVESTMENT:

The Department owns shares of Hydro Quebec Phase II stock. The securities are stated at cost. Fair market value approximates stated value.

NOTE 5 - DEPRECIATION FUND:

Pursuant to provisions of the Commonwealth General Laws, cash in an amount equivalent to the annual depreciation expense is transferred from unrestricted funds to the depreciation fund. Interest earned on the balance of the fund must also remain in the fund. Such cash may be used for the cost of plant, nuclear decommissioning costs, the costs of contractual commitments, and deferred costs related to such commitments which the municipal light board determines are above market value.

NOTE 6 - PURCHASED POWER WORKING CAPITAL:

The purchased power working capital is an amount held by Massachusetts Municipal Wholesale Electric Company (MMWEC), our power supply agent. The implementation of the Working Capital Program began August 1, 1985. MMWEC Participants approved certain working capital amendments to the various power purchase agreements. MMWEC requires that they hold a set amount of capital from which it may pay our power obligations when they are due. They replenish the fund as needed from our monthly invoice payments. The income earned allocated to the Light Department will be applied as a credit to MMWEC Power Sales Billing. The balance in the fund as of December 31, 2001 and 2000 is $629,799 and $636,827, respectively.

## NOTE 7 - MAJOR CUSTOMER:

The Department's revenues include approximately $11,744,600 and $8,485,423 billed to one major customer during 2001 and 2000, respectively. Amounts due from this customer included in accounts receivable were $1,082,342 and $802,544 at December 31, 2001 and 2000, respectively.

## NOTE 8 - CASH EQUIVALENTS:

The Department's cash, cash equivalents and investments are held by the Hudson Town Treasurer. The Department's investments are classified as held to maturity and are recorded at unamortized cost plus accrued interest paid at purchase. The Depreciation Investment Fund is allocated between investments and cash equivalents as follows:

| | 2001 | 2000 |
|---|---|---|
| Investments | $ 3,089,335 | $ 3,813,701 |
| Cash Equivalents | 1,512,872 | 105,882 |
| Total | $ 4,602,207 | $ 3,919,583 |

The gross unrealized holding gains on the U.S. Treasury Notes were $14,642 and $8,108 at December 31, 2001 and 2000, respectively.

## NOTE 9 – INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT:

| | 2001 | 2000 |
|---|---|---|
| Cost of Capital Assets Acquired | $ 21,475,449 | $ 21,314,492 |
| Less: Accumulated Depreciation | 16,187,053 | 15,852,943 |
| Invested in Capital Assets, Net of Related Debt | $ 5,288,396 | $ 5,461,549 |

HUDSON LIGHT AND POWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000

## NOTE 10 – UTILITY PLANT ASSETS:

| | Balance January 1, 2001 | Increases | Decreases | Balance December 31, 2001 |
|---|---|---|---|---|
| Capital Assets Not Being Depreciated: | | | | |
| Land | $ 60,557 | $ 0 | $ 0 | $ 60,557 |
| Intangible Plant | 3,880 | 0 | 0 | 3,880 |
| Total | 64,437 | 0 | 0 | 64,437 |
| Capital Assets Being Depreciated: | | | | |
| Production Plant | 7,012,363 | 8,907 | (1,368) | 7,019,902 |
| Nuclear Fuel | 349,015 | 25,541 | 0 | 374,556 |
| Transmission Plant | 1,596,346 | 3,780 | (2,123) | 1,598,003 |
| Distribution Plant | 10,070,367 | 267,857 | (226,031) | 10,112,193 |
| General Plant | 2,221,964 | 171,132 | (86,738) | 2,306,358 |
| Total | 21,250,055 | 477,217 | (316,260) | 21,411,012 |
| Less Accumulated Depreciation For: | | | | |
| Production Plant | (5,568,858) | (161,791) | 1,368 | (5,729,281) |
| Nuclear Fuel | (295,081) | (22,649) | 0 | (317,730) |
| Transmission Plant | (1,483,678) | (12,809) | 2,123 | (1,494,364) |
| Distribution Plant | (7,083,855) | (306,824) | 226,031 | (7,164,648) |
| General Plant | (1,421,471) | (146,297) | 86,738 | (1,481,030) |
| Total Accumulated Depreciation | (15,852,943) | (650,370) | 316,260 | (16,187,053) |
| Capital Assets Being Depreciated, Net | 5,397,112 | (173,153) | 0 | 5,223,959 |
| Utility Plant Assets, Net | $ 5,461,549 | $ (173,153) | $ 0 | $ 5,288,396 |

## NOTE 11 – CLAIMS AND JUDGMENTS:

During 2001 and 2000, the Department received and paid certain amounts relating to activities that occurred in prior years as follows:

| | | 2001 | 2000 |
|---|---|---|---|
| Pilgrim Decommissioning | -Decommissioning Refund | $ 278,557 | $ 287,780 |
| Mass Municipal Ins. Trust | -Oil Spill | 74,558 | 0 |
| Millstone 3 Litigation | -96-98 Transmission Settlement | 0 | 277,148 |
| Insurance Reserve | -Write off unfunded reserve | 0 | 605,394 |
| Deferred Fuel Charge Adj. | | 0 | 2,794 |
| NEPOOL | -97-98 Overcharge Settlement | 0 | (41,771) |
| | | $ 353,115 | $ 1,131,345 |

## NOTE 12 - MMWEC PARTICIPATION:

Town of Hudson acting through its Light Department is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in and to issue revenue bonds to finance electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other utilities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should any Project Participant fail to make any payment when due, other Project Participants may be required to increase (step-up) their payments and correspondingly their Participants' share of Project Capability to an additional amount not to exceed 25% of their original Participants' share of the Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

NOTE 12 – MMWEC PARTICIPATION (continued):

The payments required to be made to MMWEC under the PSAs and the PPAs are payable solely from Municipal Light Department revenues. Under the PSAs, each Participant is unconditionally obligated to make payments due to MMWEC whether or not the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

NOTE 13 - PENSION PLAN:

The Department is a member of the Middlesex Retirement System, which, in turn is a member of the Massachusetts Contributory Retirement System, which is governed by M.G.L. c.32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees. The plan is a contributory defined benefit plan for all county employees and employees of participating towns and districts except those employees who are covered by the teachers retirement board.

Massachusetts Contributory Retirement System benefits are uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

A $30,000 salary cap, upon which members' benefits were calculated, was removed by the Middlesex Retirement System effective January 1, 1991. Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total contributions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. Members hired after 1978 contribute an additional 2% of annual pay above $30,000. These contributions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Public Employees' Retirement Administration's Commission (PERAC's) actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund.

NOTE 13 - PENSION PLAN (continued):

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors, including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status, and group classification. Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those contributions.

Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

The Town of Hudson is assessed annually for its share of the current year pension payments which includes the retired employees of the Town of Hudson Light and Power Department. The Department then reimburses the Town for the Department's share of this assessment. The Department paid to the Town $500,215 in 2001, $507,728 in 2000 and $504,347 in 1999.

The Plan's separately issued financial statements can be obtained by contacting Middlesex County Regional Retirement System at 40 Thorndike Street, Cambridge, MA 02141.

The Department is making provisions for their share of the Town of Hudson's unfunded actuarial liability by setting up the Town of Hudson Light and Power Department Employees' Retirement Trust to which they make contributions as deemed necessary by an actuary hired every two years to analyze the trust's estimated actuarial liability and assets. In addition to its annual town assessment, the Department has set aside amounts totaling $6,933,894 and $6,575,922 as of December 31, 2001 and 2000, for the Department's anticipated future liabilities for its current employees. (See Footnote 15).

NOTE 14 - RATE STABILIZATION TRUST FUND:

The Hudson Light and Power Board of Commissioners voted (January 11, 1997) to establish a Rate Stabilization Trust Fund for the purpose of providing the necessary funds to meet future power supply costs. Under the terms of the trust any assets remaining after the final payment of Power Sales Agreement obligations will revert back to the Department.

The Department's cash equivalents and investments are held by the Hudson Town Treasurer. The Department's investments are classified as held to maturity and are recorded at unamortized cost plus accrued interest paid at purchase.

NOTE 14 - RATE STABILIZATION TRUST FUND (continued):

| | Cost Plus Accrued Interest | Accrued Interest | Unamortized Cost | Fair Value |
|---|---|---|---|---|
| | 2001 | | | |
| Cash Equivalents | $ 2,474,284 | $ 0 | $ 2,474,284 | $ 2,474,284 |
| U.S. Treasury Notes | 3,475,000 | 0 | 3,475,000 | 3,499,143 |
| Certificates of Deposit | 1,803,082 | 0 | 1,803,082 | 1,813,180 |
| | $ 7,752,366 | $ 0 | $ 7,752,366 | $ 7,786,607 |
| | 2000 | | | |
| Cash Equivalents | $ 748,918 | $ 0 | $ 748,918 | $ 748,918 |
| U.S. Treasury Notes | 4,927,304 | 252 | 4,927,052 | 4,905,507 |
| Certificates of Deposit | 1,135,105 | 0 | 1,135,105 | 1,133,001 |
| Total | $ 6,811,327 | $ 252 | $ 6,811,075 | $ 6,787,426 |

At December 31, 2001 the gross unrealized holding gains on the U.S. Treasury Notes were $24,143, and the gross unrealized holding gains on Certificates of Deposit were $10,098.

At December 31, 2000 the gross unrealized holding losses on the U.S. Treasury Notes were $21,545. The gross unrealized holding gains on Certificates of Deposit were $50 and the gross unrealized holding losses were $2,154.

HUDSON LIGHT AND POWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000

## NOTE 15 - RETIREMENT TRUST FUND:

The Department's cash equivalents and investments are held by the Hudson Town Treasurer. The Department's investments are classified as held to maturity and are recorded at unamortized cost plus accrued interest paid at purchase.

| | Cost Plus Accrued Interest | Accrued Interest | Unamortized Cost | Fair Value |
|---|---|---|---|---|
| | | 2001 | | |
| Cash Equivalents | $ 2,378,373 | $ 0 | $ 2,378,373 | $ 2,378,373 |
| U.S. Treasury Notes | 3,361,171 | 6,917 | 3,354,254 | 3,391,231 |
| Certificates of Deposit | 1,194,350 | 0 | 1,194,350 | 1,193,316 |
| | $ 6,933,894 | $ 6,917 | $ 6,926,977 | $ 6,962,920 |
| | | 2000 | | |
| Cash Equivalents | $ 350,574 | $ 0 | $ 350,574 | $ 350,574 |
| U.S. Treasury Notes | 4,122,597 | 0 | 4,122,597 | 4,091,983 |
| Certificates of Deposit | 2,102,751 | 651 | 2,102,100 | 2,103,344 |
| Total | $ 6,575,922 | $ 651 | $ 6,575,271 | $ 6,545,901 |

At December 31, 2001 the gross unrealized holding gains on the U.S. Treasury Notes were $36,977. The gross unrealized holding gains on Certificate of Deposits were $3,698 and the gross unrealized holding losses were $4,732.

At December 31, 2000 the gross unrealized holding gains on the U.S. Treasury Notes were $12,375, the gross unrealized holding losses were $42,989 and the gross unrealized holding gains on Certificate of Deposits were $1,244.

NOTE 16 - COMMITMENTS AND CONTINGENCIES:

Stow Municipal Electric Department
Hudson Light and Power Department has supplied the town of Stow with electric service since 1898 over a distribution system owned and operated by the Hudson Light and Power Department. In June 1994, Stow notified the Hudson Light and Power Department that it had voted to establish its own municipal lighting plant. The proceeding at the Department of Telecommunications and Energy (DTE) was commenced because the parties were unable to reach agreement on the price to be paid by Stow for Hudson Light and Power Department's assets, including the amount of damages to be paid for Hudson Light and Power Department's stranded power supply costs that would be incurred as a result of Stow's departure.

In its initial February 16, 1996 decision, the DTE denied Hudson Light and Power Department's request for damages associated with its stranded power supply costs. The DTE also calculated the price to be paid for Hudson Light & Power Department's distribution assets based upon a 50/50 weighting of Hudson Light & Power Department's method, reproduction cost new less depreciation and Stow's method, original cost less depreciation.

On appeal to the Supreme Judicial Court, the Court affirmed the DTE's ruling with respect to the valuation of the distribution assets, but reversed the ruling on stranded costs, and remanded the case to the DTE. Specifically, the Court ordered the DTE to consider whether it would be in the public interest to require Stow to take a slice of the Hudson Light and Power Department damages for the power supply costs that would become stranded due to Stow's departure from the system.

On remand, the DTE determined that a Slice of System would be in the public interest, and accordingly, ordered Stow take 12.9% of Hudson Light & Power Department's long term power supply if it departs from the Hudson Light & Power Department system. Stow requested reconsideration of the DTE's ruling, as well as a stay of the order pending any appeals.

MMWEC Contingencies and Litigation
Through its participation in MMWEC, the Hudson Light and Power Department is contingently liable on the various Projects in which they participate as detailed below.

NOTE 16 - COMMITMENTS AND CONTINGENCIES (continued):

MMWEC has eight Projects. MMWEC originally financed all eight Projects through the issuance of multiple series of revenue bonds under the General Bond Resolution adopted by MMWEC in 1976 (GBR). Security for these bonds included a pledge of the revenues derived by MMWEC from all its Project PSAs, without regard to Project or series of bonds. In late 2001, through a refinancing of all of its outstanding bonds, MMWEC amended and restated its GBR to eliminate this "cross-pledge" of revenues. In refinancing its debt, MMWEC issued a separate issue of bonds for each of the eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which such issue relates plus available funds pledged under the Amended and Restated GBR with respect to the bonds of such issue. The revenue derived from each Project is used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project fossil-fueled power plants. MMWEC has a 22.7 MW interest in the W.F. Wyman Unit No. 4 plant, owned and operated by subsidiaries of Florida Power & Light and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit operated by Dominion Nuclear Connecticut, Inc. (DNCI) a subsidiary of Dominion Resources, Inc.

MMWEC's 11.6% ownership interest in the Seabrook Station nuclear generating unit represents a substantial portion of its plant investment and financing program. It is anticipated that certain other joint owners of Seabrook, but not MMWEC, intend to sell their ownership interests in Seabrook through a bid process commencing in 2002.

Pursuant to the PSAs the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident as outlined in the Price-Anderson Act. The Project Participants are also liable for the decommissioning expenses, which are being funded through monthly Project billings.

In November 1997, the Commonwealth of Massachusetts enacted legislation effective March 1, 1998 to restructure the electric utility industry. MMWEC and the municipal light departments are not specifically subject to this legislation. However, it is management's belief that industry restructuring and customer choice promulgated by the legislation will have an effect on MMWEC and the Participant's operations.

NOTE 16 - COMMITMENTS AND CONTINGENCIES (continued):

MMWEC is involved in various legal actions. In the opinion of management, the outcome of such litigation or claims will not have a material adverse effect on the financial position of the Department.

As of December 31, 2001, total capital expenditures amounted to $1,491,205,000, of which $162,671,000 represents the amount associated with the Department's Project Capability. MMWEC's debt outstanding for the Projects and PPA included Power Supply System Revenue Bonds and commercial paper notes totals $1,055,290,000, of which $112,133,000 is associated with the Department's share of Project Capability and PPAs. As of December 31, 2001, MMWEC's total future debt service requirement on outstanding bonds issued for Projects and commercial paper notes for the PPA is $1,474,170,000, of which $161,798,000 is anticipated to be billed to the Department.

Hudson Light and Power Department has entered into PSAs and PPAs with MMWEC. Under these agreements, the Department is required to make certain payments to MMWEC. The aggregate amount of Hudson Light and Power Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2001 and estimated for future years is shown below.

| | | ANNUAL COSTS |
|---|---|---|
| For years ended December 31, | 2002 | $ 13,408,000 |
| | 2003 | 11,317,000 |
| | 2004 | 11,343,000 |
| | 2005 | 11,341,000 |
| | 2006 | 11,343,000 |
| Later Fiscal Years | | 103,046,000 |
| | TOTAL | $ 161,798,000 |

In addition, the Department is required to pay its share of the Operation and Maintenance (O&M) costs of the Projects in which they participate. The Department's total O&M costs including debt service under the PSAs were $17,240,000 and $17,430,000 for the years ended December 31, 2001 and 2000, respectively.

HUDSON LIGHT AND POWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(000)

| | PERCENTAGE SHARE | TOTAL PROJECT EXPENDITURES TO DATE | PARTICIPANTS SHARE | DEBT ISSUED & OUTSTANDING 12/31/01 | PARTICIPANTS SHARE | TOTAL DEBT SERVICE ON BONDS OUTSTANDING | PARTICIPANTS SHARE |
|---|---|---|---|---|---|---|---|
| Stony Brook Peaking Project | - | $ 56,791 | $ - | $ 16,435 | $ - | $ 18,234 | $ - |
| Stony Brook Intermediate Project | - | 155,558 | - | 66,270 | - | 78,788 | - |
| Nuclear Mix No. 1-SBK | 3.3984 | 15,033 | 511 | 12,073 | 410 | 16,132 | 548 |
| Nuclear Mix No. 1-MLS | 3.3984 | 111,185 | 3,779 | 89,292 | 3,034 | 119,311 | 4,055 |
| Nuclear Project No. 3-MLS | 1.5997 | 137,571 | 2,201 | 176,195 | 2,819 | 250,166 | 4,002 |
| Nuclear Project No. 4-SBK | 4.2300 | 313,823 | 13,275 | 196,470 | 8,311 | 279,105 | 11,806 |
| Nuclear Project No. 5-SBK | 1.8613 | 85,745 | 1,596 | 58,960 | 1,097 | 83,596 | 1,556 |
| Wyman Project | 9.2536 | 7,518 | 696 | 3,255 | 301 | 3,728 | 345 |
| Project No. 6-SBK | 23.1278 | 607,981 | 140,613 | 415,780 | 96,161 | 603,108 | 139,486 |
| TOTAL | | $ 1,491,205 | $ 162,671 | $ 1,034,730 | $ 112,133 | $ 1,452,168 | $ 161,798 |
| Commercial Paper Program | - | $ - | $ - | $ 20,560 | $ - | $ 22,002 | $ - |

| | PERCENTAGE SHARE | OPERATION & MAINTENANCE 12/31/00 | PARTICIPANTS SHARE | OPERATION & MAINTENANCE 12/31/01 | PARTICIPANTS SHARE |
|---|---|---|---|---|---|
| Stony Brook Peaking Project | - | $ 9,361 | $ - | $ 11,762 | $ - |
| Stony Brook Intermediate Project | - | 44,854 | - | 46,235 | - |
| Nuclear Mix No. 1-SBK | 3.3984 | 1,889 | 64 | 1,881 | 64 |
| Nuclear Mix No. 1-MLS | 3.3984 | 17,739 | 603 | 15,620 | 531 |
| Nuclear Project No. 3-MLS | 1.5997 | 30,182 | 483 | 29,084 | 465 |
| Nuclear Project No. 4-SBK | 4.2300 | 32,425 | 1,372 | 32,372 | 1,369 |
| Nuclear Project No. 5-SBK | 1.8613 | 9,451 | 176 | 9,390 | 175 |
| Wyman Project | 9.2536 | 3,324 | 308 | 2,434 | 225 |
| Project No. 6-SBK | 23.1278 | 62,367 | 14,424 | 62,310 | 14,411 |
| TOTAL | | $ 211,592 | $ 17,430 | $ 211,088 | $ 17,240 |
| Commercial Paper Program | - | $ - | $ - | $ - | $ - |

(000)

| | PERCENTAGE SHARE | 2002 ANNUAL COST | PARTICIPANTS SHARE | 2003 ANNUAL COST | PARTICIPANTS SHARE | 2004 ANNUAL COST | PARTICIPANTS SHARE |
|---|---|---|---|---|---|---|---|
| Stony Brook Peaking Project | - | $ 6,120 | $ - | $ 5,138 | $ - | $ 4,792 | $ - |
| Stony Brook Intermediate Project | - | 15,208 | - | 12,874 | - | 12,875 | - |
| Nuclear Mix No. 1-SBK | 3.3984 | 1,612 | 55 | 1,361 | 46 | 1,357 | 46 |
| Nuclear Mix No. 1-MLS | 3.3984 | 11,919 | 405 | 10,066 | 342 | 10,039 | 341 |
| Nuclear Project No. 3-MLS | 1.5997 | 18,809 | 301 | 16,867 | 270 | 16,929 | 271 |
| Nuclear Project No. 4-SBK | 4.2300 | 22,612 | 956 | 19,255 | 814 | 19,847 | 840 |
| Nuclear Project No. 5-SBK | 1.8613 | 7,015 | 131 | 5,991 | 112 | 6,094 | 113 |
| Wyman Project | 9.2536 | 670 | 62 | 559 | 52 | 563 | 52 |
| Project No. 6-SBK | 23.1278 | 49,715 | 11,498 | 41,860 | 9,681 | 41,855 | 9,680 |
| TOTAL | | $ 133,680 | $ 13,408 | $ 113,971 | $ 11,317 | $ 114,351 | $ 11,343 |
| Commercial Paper Program | - | $ 8,928 | $ - | $ 8,799 | $ - | $ 3,649 | $ - |

| | PERCENTAGE SHARE | 2005 ANNUAL COST | PARTICIPANTS SHARE | 2006 ANNUAL COST | PARTICIPANTS SHARE | AFTER 2006 | PARTICIPANTS SHARE |
|---|---|---|---|---|---|---|---|
| Stony Brook Peaking Project | - | $ 2,184 | $ - | $ - | $ - | $ - | $ - |
| Stony Brook Intermediate Project | - | 12,873 | - | 12,428 | - | 12,530 | - |
| Nuclear Mix No. 1-SBK | 3.3984 | 1,357 | 46 | 1,361 | 46 | 9,084 | 309 |
| Nuclear Mix No. 1-MLS | 3.3984 | 10,036 | 341 | 10,064 | 342 | 67,187 | 2,284 |
| Nuclear Project No. 3-MLS | 1.5997 | 16,947 | 271 | 16,955 | 271 | 163,659 | 2,618 |
| Nuclear Project No. 4-SBK | 4.2300 | 19,903 | 842 | 19,926 | 843 | 177,562 | 7,511 |
| Nuclear Project No. 5-SBK | 1.8613 | 6,099 | 114 | 6,109 | 114 | 52,288 | 972 |
| Wyman Project | 9.2536 | 523 | 48 | 528 | 49 | 885 | 82 |
| Project No. 6-SBK | 23.1278 | 41,848 | 9,679 | 41,847 | 9,678 | 385,983 | 89,270 |
| TOTAL | | $ 111,770 | $ 11,341 | $ 109,218 | $ 11,343 | $ 869,178 | $ 103,046 |
| Commercial Paper Program | - | $ 626 | $ - | $ - | $ - | $ - | $ - |

# *Goulet, Salvidio & Associates, P.C.*

*Certified Public Accountants*

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Michael A. Salvidio, CPA
James R. Dube, CPA


## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

The Municipal Light Board
Hudson Light and Power Department

Our audits were made for the purpose of forming an opinion on the financial statements of Hudson Light and Power Department for the years ended December 31, 2001 and 2000, which are presented in the preceding section of this report. The supplemental information presented on pages 31-33 is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
April 3, 2002


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HUDSON LIGHT AND POWER DEPARTMENT
SCHEDULES OF OPERATING REVENUES
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

| | 2001 | 2000 |
|---|---|---|
| Sales to Residential Customers | $ 7,171,091 | $ 6,886,770 |
| Sales to Commercial Customers | 1,849,972 | 1,861,175 |
| Sales to Power Customers | 12,947,863 | 11,591,450 |
| Private Property Lighting Sales | 88,763 | 87,888 |
| Municipal Sales | | |
| Hudson Street Lights | 113,012 | 101,000 |
| Hudson Municipal Buildings | 74,863 | 70,569 |
| Hudson Municipal Power | 384,240 | 374,720 |
| All Electric Municipal Buildings | 400,122 | 422,926 |
| Stow and Berlin Street Lights | 8,108 | 7,495 |
| Stow, Maynard and Other Municipal Services | 102,418 | 102,430 |
| Total Revenue from Sales of Electricity | 23,140,452 | 21,506,423 |
| Power Adjustment Charges | | |
| Residential Sales | 1,953,390 | 1,085,128 |
| Commercial Sales | 602,488 | 412,169 |
| Power Sales | 6,702,800 | 4,281,225 |
| Private Property Lighting | 21,192 | 15,507 |
| Municipal Power Adjustment Charges | | |
| Street Lighting Stow, et al | 1,655 | 10,240 |
| Municipal Power Hudson | 168,100 | 107,315 |
| Municipal Commercial Hudson | 23,550 | 15,717 |
| Municipal Power Stow, et al | 33,142 | 23,147 |
| Municipal Commercial Stow, et al | 4,946 | 3,044 |
| Municipal All Electric | 127,997 | 79,528 |
| Fuel Charge Adjustment | (390,710) | 1,868,409 |
| Total Power Adjustment Charges | 9,248,550 | 7,901,429 |
| Other Income | | |
| Other Electric Revenues | 44,582 | 36,682 |
| TOTAL OPERATING REVENUES | $ 32,433,584 | $ 29,444,534 |

See Independent Auditors' Report on Supplemental Information

HUDSON LIGHT AND POWER DEPARTMENT
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

| | 2001 | 2000 |
|---|---|---|
| PRODUCTION EXPENSES: | | |
| Nuclear Power Generation: | | |
| Operation Supervision | $ 18,997 | $ 17,581 |
| Fuel | 29,512 | 27,263 |
| Coolants and Water | 1,746 | 1,729 |
| Steam Expenses | 14,414 | 16,668 |
| Electric Expenses | 81 | 644 |
| Miscellaneous Nuclear Power Expenses | 38,033 | 39,345 |
| Maintenance Supervision | 8,797 | 9,701 |
| Maintenance of Structures | 2,269 | 2,524 |
| Maintenance of Reactor Plant Equipment | 6,602 | 14,160 |
| Maintenance of Generation and Electric Plant | 10,794 | 16,332 |
| Total Nuclear Power Generation Expenses | 131,245 | 145,947 |
| Other Power Generation: | | |
| Operation Supervision | 33,977 | 31,437 |
| Fuel-Oil | 75,394 | 107,769 |
| Fuel-Natural Gas | 67,934 | 92,806 |
| Generation Expenses | 73,398 | 82,175 |
| Generation Expenses-Lube | 4,164 | 5,775 |
| Miscellaneous Other Power Generation Expenses | 152,915 | 130,647 |
| Maintenance Supervision | 33,529 | 32,245 |
| Maintenance of Structures | 73,387 | 80,708 |
| Maintenance of Generation and Electric Plant | 111,318 | 99,563 |
| Total Other Power Generation Expenses | 626,016 | 663,125 |
| TOTAL PRODUCTION EXPENSES | 757,261 | 809,072 |
| PURCHASED POWER EXPENSES: | | |
| Purchased Power-Entitlement | 22,474,256 | 18,266,139 |
| Purchased Power-Nepex System | 3,939,007 | 4,540,129 |
| Control and Load Dispersion | 7,723 | 8,953 |
| TOTAL PURCHASED POWER EXPENSES | 26,420,986 | 22,815,221 |

(continued)

HUDSON LIGHT AND POWER DEPARTMENT
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

| | 2001 | 2000 |
|---|---|---|
| TRANSMISSION EXPENSES | $ 1,463,054 | $ 1,399,386 |
| DISTRIBUTION EXPENSES: | | |
| Operation Supervision and Engineering | 34,778 | 34,951 |
| Station Expenses | 155,092 | 127,815 |
| Overhead Line Expenses | 11,247 | 10,293 |
| Underground Line Expenses | 858 | 2,871 |
| Street Lighting and Signal Expenses | 9,681 | 8,193 |
| Meter Expenses | 83,907 | 92,766 |
| Customer Installation Expenses | 4,487 | 5,529 |
| Miscellaneous Distribution Expenses | 4,700 | 4,776 |
| Maintenance Supervision and Engineering | 35,831 | 34,782 |
| Maintenance of Station Equipment | 5,282 | 136 |
| Maintenance of Overhead Lines | 361,619 | 328,516 |
| Maintenance of Underground Lines | 13,599 | 19,698 |
| Maintenance of Line Transformer | 16,433 | 5,166 |
| Maintenance of Street Lighting | 11,953 | 10,536 |
| Maintenance of Meters | 403 | 959 |
| TOTAL DISTRIBUTION EXPENSES | 749,870 | 686,987 |
| GENERAL EXPENSES: | | |
| Supervision | 15,544 | 15,059 |
| Meter Reader Expenses | 62,451 | 53,075 |
| Customer Records and Collection Expenses | 275,842 | 257,900 |
| Miscellaneous Sales Expenses | 11,374 | 5,548 |
| Administrative and General Salaries | 465,060 | 422,242 |
| Office Supplies and Expenses | 15,387 | 14,747 |
| Outside Services Employed | 88,367 | 210,414 |
| Property Insurance | 28,844 | 25,221 |
| Injuries and Damages | 59,558 | 55,162 |
| Employee Pension and Benefits | 768,844 | 678,994 |
| General Advertising Expense | 474 | 3,583 |
| Miscellaneous General Expenses | 34,361 | 39,817 |
| Maintenance of General Plant | 54,052 | 61,667 |
| Transportation Expenses | 32,296 | 36,375 |
| TOTAL GENERAL EXPENSES | 1,912,454 | 1,879,804 |
| REAL ESTATE AND OTHER TAXES | 17,848 | 17,638 |
| TOTAL OPERATIONS AND MAINTENANCE | $ 31,321,473 | $ 27,608,108 |

See Independent Auditors' Report on Supplemental Information