Northeast Utilities System

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Northeast Utilities Service Company
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April 15, 2003

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

Dear Sir/Madam:

In Accordance with paragraph 50.71(b) of 10CFR, Part 50, enclosed is one copy of the 2002 Annual Financial Reports for The Connecticut Light and Power Company, Western Massachusetts Electric Company, and Public Service Company of New Hampshire, license holders.

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

Respectfully yours,

Sharyn Sinnott

Sharyn Sinnott
Manager - Corporate Accounting
Northeast Utilities Service Company

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Enclosures

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The Connecticut Light and Power Company
2002 Annual Report

Energy For a Changing World

Directors

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

Cheryl W. Grisé
President – Utility Group
Northeast Utilities

Lee J. Olivier
President and Chief Executive Officer
The Connecticut Light and Power Company

Officers

Cheryl W. Grisé
Chief Executive Officer

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

John H. Forsgren
Executive Vice President and Chief Financial Officer

David H. Boguslawski
Vice President – Transmission Business

Dana Louth
Vice President – Energy Delivery Services

James A. Muntz
Vice President – Customer Services

Rodney O. Powell
Vice President – Customer Relations

John P. Stack
Vice President – Accounting and Controller

Roger C. Zaklukiewicz
Vice President – Transmission Engineering and Operations

O. Kay Comendul
Secretary

Randy A. Shoop
Treasurer

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

Timothy J. Griffin
Assistant Controller – Corporate Accounting

Lori A. Mahler
Assistant Controller – Accounting Services

William J. Starr
Assistant Controller – Taxes

Daniel P. Venora
Assistant Secretary

2002 Annual Report

The Connecticut Light and Power Company and Subsidiaries

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Management's Discussion and Analysis

Financial Condition

Overview

The Connecticut Light and Power Company (CL&P or the company), the largest operating subsidiary of Northeast Utilities (NU), earned $85.6 million in 2002 compared with $109.8 million in 2001. The lower 2002 net income was largely attributable to an after-tax gain of $17.7 million CL&P recorded in 2001 associated with the sale of the Millstone nuclear units (Millstone). NU's other subsidiaries include Public Service Company of New Hampshire (PSNH), Western Massachusetts Electric Company (WMECO), Yankee Energy System, Inc., North Atlantic Energy Corporation (NAEC), Select Energy, Inc. (Select Energy), Northeast Generation Company, Northeast Generation Services Company, and Select Energy Services, Inc.

CL&P's revenues for 2002 decreased to $2.5 billion from revenues of $2.6 billion for 2001. The decrease in revenues was primarily due to lower wholesale revenues, partially offset by higher retail revenues. Wholesale revenues decreased due to the sale of the Millstone units in the first quarter of 2001, lower revenues from sales of energy and capacity resulting from the buyout of cogenerator purchase contracts and lower wholesale market prices, and lower revenue from expiring market based contracts. Retail revenues were higher due to the recovery of previously deferred fuel costs and higher sales.

Future Outlook

CL&P is expected to have reduced earnings in 2003 as compared to 2002. The primary reason for the earnings decrease at CL&P in 2003 is a significant reduction in the projected level of pension income in 2003 and forward.

CL&P recorded $50.6 million in pre-tax pension income in 2002, approximately 40 percent of which was capitalized and reflected as a reduction to the cost of capital expenditures with the remainder being recognized in the consolidated statements of income as reductions to operating expenses. In 2003, as a result of continued poor performance in the equity markets, CL&P is projecting the total level of pre-tax pension income to decline to approximately $27 million, with a similar percentage being reflected as a reduction to the cost of capital expenditures. Pension income is annually adjusted during the second quarter based upon updated actuarial valuations, at which time the 2003 estimate may be modified.

Liquidity

The year 2002 represented the final year of a four-year process of selling all of the regulated generation assets owned by CL&P. On November 1, 2002, CL&P consummated the sale of its 4.06 percent ownership interest in Seabrook. CL&P received approximately $36 million of total cash proceeds from the sale of Seabrook.

In November 2002, CL&P, along with NU's other regulated utilities, renewed their $300 million credit line under terms similar to the arrangement that expired in November 2002. A previous credit line had provided up to $350 million for the regulated companies. CL&P had no borrowings on this credit line at December 31, 2002.

In addition to its revolving credit arrangement, CL&P can access up to $100 million by selling certain of its accounts receivable. At December 31, 2002, CL&P had $40 million sold under this arrangement. This accounts receivable arrangement is expected to be renewed in July 2003.

Rate reduction bonds are included on the consolidated balance sheets of CL&P, even though the debt is nonrecourse to CL&P. At December 31, 2002, CL&P had $1.2 billion in rate reduction bonds outstanding, compared with $1.4 billion outstanding at December 31, 2001. All outstanding rate reduction bonds of CL&P are scheduled to be amortized by December 30, 2010. Interest on the rate reduction bonds totaled $75.7 million in 2002, compared with $60.6 million in 2001. Amortization of the rate reduction bonds totaled $112.9 million in 2002, compared with $79.7 million in 2001. CL&P fully recovered the amortization and interest payments from customers in 2002, and the bonds had no impact on net income. Moreover, because the debt is nonrecourse to CL&P, the three rating agencies that rate CL&P's debt and preferred stock securities do not include the revenues, expenses, or outstanding securities related to the rate reduction bonds in establishing the credit ratings of CL&P.

CL&P is also considering refinancing approximately $200 million of spent nuclear fuel obligations in 2003. These obligations are included in long-term debt.

CL&P's net cash flows provided by operating activities increased to $387.4 million in 2002, compared with $12.2 million in 2001. Cash flows provided by operating activities increased primarily due to changes in working capital, primarily receivables and unbilled revenues and accounts payable, partially offset by the decrease in net income in 2002.

There was a lower level of investing and financing activities in 2002 as compared to 2001, primarily due to the issuance of rate reduction certificates and the buyout and buydown of independent power producer contracts in 2001. The level of common dividends totaled $60.1 million in 2002 and 2001.

CL&P has embarked upon a significant upgrade program within its service territory. Over the past five years, CL&P has increased its annual investment in electric utility plant by approximately 50 percent. Much of the additional investment has been devoted to improving the reliability of CL&P's electric distribution system. Over the next several years, CL&P has proposed a significant expansion of its 345,000 volt electric transmission system into southwestern Connecticut at a cost that is likely to exceed $500 million. If Connecticut regulators approve the expansion, CL&P's construction expenditures are projected to exceed $350 million annually from 2004 through 2007. Such a program would significantly exceed CL&P's projections for internally generated operating cash flows and would require CL&P to access the capital markets for financing. In 2003, CL&P is expected to generate enough cash internally to fund most, if not all, of its capital needs.

Implementation of Standard Market Design

On March 1, 2003, the New England independent system operator (ISO) implemented a new Standard Market Design (SMD). As part of this effort, locational marginal pricing (LMP) will be utilized to assign value and causation to transmission congestion. Transmission congestion costs will be assigned to the load zone in which the congestion occurs. Those costs are now spread across virtually all New England electric customers. In addition, the implementation of

SMD will impact wholesale energy contracts with respect to the energy delivery points contained in those contracts.

Connecticut has been designated a single load zone. Due to the transmission constraints and inadequate generation, Connecticut could experience significant additional congestion costs under SMD. The New England ISO estimates that the costs of transmission congestion for 2003 in New England will range between $50 million and $300 million. The New England ISO estimates that the majority of this congestion and its costs will be in Connecticut, where approximately 80 percent are expected to be paid by CL&P beginning on March 1, 2003. CL&P believes that under the terms of its contracts with its standard offer suppliers, these costs are its responsibility. The contracts with the standard offer suppliers expire on December 31, 2003. In addition, the determination of the energy delivery points associated with the standard offer service contracts under SMD could also produce significant costs for CL&P that management cannot determine at this time.

Another factor affecting the level of congestion costs is the designation of certain generating units by the New England ISO as units needed for system reliability. Some of the companies owning these units have applied to the Federal Energy Regulatory Commission (FERC) for "reliability must run" (RMR) treatment. RMR treatment allows these units to receive cost of service - based payments that recognize their reliability value. Prior to March 1, 2003, all RMR costs were spread across New England with all utilities being billed by the New England ISO based upon their share of New England's load. NU's regulated electric utilities were responsible for approximately 25 percent of these costs. Effective with the March 1, 2003 implementation of SMD by the New England ISO, RMR costs will be allocated to the load zone in which the RMR unit is located. At present, the only load zone that will experience a cost increase in which a NU regulated electric company operates is Connecticut. With respect to the Connecticut load zone, there are two generating units operating under a RMR contract with an additional contract pending before FERC. These contracts are for one year terms, and one contract contains an extension option. On a combined basis, these two RMR contracts will result in an annual cost of approximately $45 million to the Connecticut load zone. CL&P accounts for approximately 80 percent of the Connecticut load zone, and would be responsible for approximately $36 million of this cost. In the near future, it is probable that there will be significant new requests for RMR treatment in Connecticut which, if approved by FERC, would add significant additional costs to the total cost of energy in Connecticut. However, generating units operating under RMR contracts could potentially mitigate the overall level of congestion costs.

These unavoidable congestion and RMR costs are part of the prudent cost of providing regulated electric service in Connecticut. A Connecticut Department of Public Utility Control (DPUC) regulatory proceeding is expected to be initiated soon to determine the appropriate recovery mechanism for these costs. If these costs are incurred before the final recovery mechanism is established by the DPUC, CL&P expects to record a regulatory asset for those costs incurred. See Critical Accounting Policies and Estimates - Regulatory Accounting and Assets included in management's discussion and analysis for further information.

Business Development and Capital Expenditures

CL&P's capital expenditures, excluding nuclear fuel, totaled $242.3 million in 2002, compared with $237.4 million in 2001 and $208.2 million in 2000. CL&P expects capital expenditures to increase to $326.9 million in 2003. CL&P spent $141.2 million related to its overhead and underground electric distribution system in 2002 and expects to spend a similar amount in 2003. CL&P spent $35.6 million to upgrade its transmission system in 2002, and expects its transmission capital expenditures to increase to $95 million in 2003, if its current construction plans receive regulatory approval. CL&P also spent $20 million on new meters and customer services, and $17 million on substations in 2002.

In 2001, CL&P announced plans for three transmission projects. In September 2002, the Connecticut Siting Council (CSC) approved the first project, a plan to replace an undersea electric transmission line between Norwalk, Connecticut and Northport - Long Island, New York, at an estimated cost of $80 million. CL&P owns 50 percent of the line with the Long Island Power Authority also owning 50 percent. The project still requires federal and New York state approvals. Given the approval process and the uncertainty created by the recent damage to the existing transmission line, the expected in-service date is currently under evaluation. At December 31, 2002, CL&P has capitalized approximately $4.8 million related to this project.

In early 2003, the CSC completed hearings on the second project, a $135 million proposal to build a new 345,000 volt transmission line between Norwalk, Connecticut and Bethel, Connecticut. A decision is expected in April 2003. The current cost estimate is based on building the entire transmission line aboveground. Alternative proposals have been made to build all or part of the line underground, which likely would result in significantly higher construction costs. CL&P hopes to have the new transmission line operational by the summer of 2005. At December 31, 2002, CL&P has capitalized approximately $8.8 million related to this project.

By mid-2003, CL&P expects to apply to the CSC for approval of a third project, the installation of another 345,000 volt transmission line between Norwalk, Connecticut and Middletown, Connecticut. Estimated construction costs of this overhead line are approximately $500 million. CL&P will jointly construct this project with United Illuminating with CL&P owning 80 percent or approximately $400 million of the project. At December 31, 2002, CL&P has capitalized approximately $2.4 million related to this project.

Construction of these three projects would significantly enhance CL&P's ability to provide reliable electric service to the rapidly growing energy market in southwestern Connecticut. Despite the need for such facilities, significant opposition has been raised. As a result, management cannot be certain as to the expected in-service dates or the ultimate cost of these projects. Should the plans proceed, applicable law provides that CL&P will be able to recover its operating cost and carrying costs through federally approved transmission tariffs.

Regional Transmission Organization

The FERC has required all transmission owning utilities, including CL&P, to voluntarily start forming regional transmission organizations (RTO) or to state why this process has not begun.

CL&P has been discussing with the other transmission owners in New England the potential to form an Independent Transmission Company (ITC). If formed, the ITC would be a for-profit entity and would perform certain transmission functions required by the FERC, including tariff control, system planning and system operations. The remaining functions required by the FERC would be performed by the ISO regarding the energy market and short-term reliability.

Together, the ITC, if formed, and ISO would form the FERC-desired RTO.

In January 2002, the New York and New England ISOs announced their intention to form an RTO. On November 22, 2002, the two ISOs withdrew their joint petition to FERC. The New England ISO intends to make an RTO filing with the transmission owners in New England in 2003. The agreements needed to create the RTO and to define the working relationships among the ISO and the transmission owners should be created in 2003, and will allow the RTO to begin operation shortly thereafter. The agreements are expected to include provisions for the future creation of one or more ITCs within the RTO. The creation of the RTO will require a FERC rate case, and the impact on CL&P's return on equity as a result of this rate case cannot be estimated at this time. At December 31, 2002, CL&P capitalized $0.8 million related to RTO formation activities.

Merchant Energy Company Counterparty Exposures

CL&P has entered into various transactions with subsidiaries of NRG Energy, Inc. (NRG). NRG's credit rating has been downgraded to below investment grade by all three major rating agencies, and NRG is presently in default on debt service payments. Management does not expect that the resolution of the transactions with NRG will have a material adverse effect on CL&P's consolidated financial condition or results of operations. Additionally, CL&P does not have a significant level of exposure to other merchant energy companies. For further information regarding these transactions, see NU's 2002 report on Form 10-K, Item 1, "Business."

Restructuring and Rate Matters

Since retail competition began in Connecticut in 2000, an extremely small number of customers have opted to choose an alternate supplier. At December 31, 2002, virtually all of CL&P's customers were procuring their electricity through CL&P's standard offer service. In 2003, Select Energy will continue to supply 50 percent of CL&P's standard offer supply service with NRG Power Marketing, Inc. (NRG-PM), a subsidiary of NRG, contracted to supply 45 percent and a subsidiary of Duke Energy, Inc. contracted to supply the remaining 5 percent of service. On November 18, 2001, at NRG-PM's request, CL&P filed an application with the DPUC to raise the standard offer rate from an average of $0.0495 per kilowatt-hour (kWh) to $0.0595 per kWh to help promote competition in advance of the January 1, 2004 termination of the standard offer period and to provide financial relief to standard offer suppliers. In December 2001, the DPUC rejected CL&P's request, but opened two new dockets to examine the absence of effective retail competition in Connecticut and the financial condition of the suppliers. The first docket culminated in a joint study report issued in a DPUC decision on February 15, 2002, which provided the DPUC's and the Office of Consumer Counsel's findings on how to best structure default service and other issues related to electric industry restructuring. In the second docket, the DPUC concluded on June 17, 2002, that it would not commence further proceedings.

On July 18, 2002, CL&P, concerned with NRG-PM's financial viability, filed a new proposal with the DPUC to maintain current total rates, but to shift $0.007 per kWh from being used to recover stranded costs to instead provide additional payments to NRG-PM and Select Energy to ensure electric reliability in southwestern Connecticut. On July 26, 2002, the DPUC denied the proposal. CL&P continues to evaluate NRG-PM's ability to meet its obligations under the standard offer service contract. If CL&P is required to seek an alternate source of supply, CL&P would pursue recovery of any additional costs associated with obtaining such supply from NRG-PM pursuant to the contract and may be required to seek DPUC approval to flow through any such costs to customers. Management believes that recovery of these costs, should they be incurred, would be permitted under the provisions of Connecticut's electric utility restructuring legislation and with the DPUC's prior decisions. On February 21, 2003, Fitch Ratings lowered its rating outlook on CL&P to negative as a result of its concern over timely recovery of purchased-power costs if NRG-PM were to default on its CL&P standard offer obligations and CL&P needs to acquire replacement supply service at significantly higher prices.

On September 27, 2001, CL&P filed its application with the DPUC for approval of the disposition of the proceeds in the amount of approximately $1.2 billion from the sale of the Millstone units. This application described and requested DPUC approval for CL&P's treatment of its share of the proceeds from the sale. In accordance with Connecticut's electric utility industry restructuring legislation, CL&P was required to utilize any gains from the Millstone sale to offset stranded costs. The DPUC's final decision regarding this application was issued on February 27, 2003, and increased the amount of net proceeds used to reduce stranded costs by $26.9 million. The earnings impact of the final decision will be reflected in 2003 earnings and will result in an increase in first quarter net income of $2.6 million.

On November 1, 2002, CL&P sold its interest in Seabrook to a subsidiary of FPL Group, Inc. The gain on the sale was used to reduce stranded costs.

CL&P continues to be subject to the earnings sharing mechanism implemented by the DPUC, under which CL&P's earnings in excess of a 10.3 percent return on equity will be shared equally by shareholders and ratepayers.

CL&P expects to file a distribution rate case with the DPUC in mid-2003 that would be effective January 1, 2004. Also in the second half of 2003, CL&P will need to secure bids for power supply contracts for 2004 to meet the needs of its customers. Management has not yet identified what level of rates it will request in 2004, but believes that several factors could combine to result in a significant increase in supply costs in 2004. The first is the expiration of current standard offer supply contracts. Another factor is the likely impact of LMP in New England with the implementation of SMD. Implementation of such pricing, which occurred on March 1, 2003, will force Connecticut electric customers to bear the significant additional costs of serving southwestern Connecticut with less efficient local generation because of insufficient transmission capacity to bring cheaper energy into the region. CL&P's completed and planned reliability improvements and transmission construction program will also impact the level of rates management will request in 2004.

For further information regarding commitments and contingencies related to restructuring, see Note 6A, "Commitments and Contingencies – Restructuring and Rate Matters," to the consolidated financial statements.

Nuclear Generation Asset Divestitures

Seabrook: On November 1, 2002, CL&P, NAEC, and certain other joint owners consummated the sale of their ownership interest in Seabrook.

VYNPC: On July 31, 2002, Vermont Yankee Nuclear Power Corporation (VYNPC) consummated the sale of its nuclear generating unit. CL&P owns 10.1 percent of VYNPC.

Millstone: On March 31, 2001, CL&P and WMECO consummated the sale of Millstone 1 and 2, and CL&P, PSNH, and WMECO sold their ownership interests in Millstone 3.

Under the terms of these asset divestitures, the purchasers agreed to assume responsibility for decommissioning their respective units. For further information regarding these divestitures and nuclear decommissioning, see Note 5, "Nuclear Generation Asset Divestitures," and Note 6F, "Nuclear Decommissioning and Plant Closure Costs," to the consolidated financial statements. For further information regarding spent nuclear fuel disposal costs, see Note 6C, "Commitments and Contingencies - Spent Nuclear Fuel Disposal Costs," to the consolidated financial statements.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates, assumptions and at times difficult, subjective or complex judgments. Changes in these estimates, assumptions and judgments, in and of themselves, could materially impact the financial condition of CL&P. The following describes accounting policies and estimates that management believes are the most critical in nature:

Presentation: In accordance with current accounting pronouncements, CL&P's consolidated financial statements include all subsidiaries upon which significant control is maintained and all intercompany transactions between these subsidiaries are eliminated as part of the consolidation process. CL&P has less than 50 percent ownership interests in the Connecticut Yankee Atomic Power Company, Yankee Atomic Electric Company, Maine Yankee Atomic Power Company, VYNPC, and two companies that transmit electricity imported from the Hydro-Quebec system, which are classified as variable interest entities under Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities," and for which CL&P is not the primary beneficiary. As a result, management does not expect the adoption of Interpretation No. 46 to result in the consolidation of any currently unconsolidated entities or to have any other material impacts on CL&P's consolidated financial statements.

Revenue Recognition: Revenues are based on rates approved by the DPUC. These regulated rates are applied to customers' accounts based on their use of energy. In general, rates can only be changed through formal proceedings with the DPUC.

The determination of the energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on generation volumes, estimated customer usage by class, line losses, and applicable customer rates.

Regulatory Accounting and Assets: The accounting policies of CL&P historically reflect the effects of the rate-making process in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." CL&P's transmission and distribution businesses continue to be cost-of-service rate regulated, and management believes the application of SFAS No. 71 continues to be appropriate. Management must reaffirm this conclusion at each balance sheet date. If, as a result of a change in circumstances, it is determined that any portion of this business no longer meets the criteria of regulatory accounting under SFAS No. 71, that portion of the company will have to discontinue regulatory accounting and write off regulatory assets. Such a write-off could have a material impact on CL&P's consolidated financial statements.

The application of SFAS No. 71 results in the deferral of costs as regulatory assets that, in some cases, have not yet been approved for recovery by the applicable regulatory commission. Management must conclude that any costs deferred as regulatory assets are probable of future recovery in rates. However, the regulatory commission can reach different conclusions about the recovery of costs, which can have a material impact on CL&P's consolidated financial statements. Management believes it is probable that CL&P will recover its investments in long-lived assets, including regulatory assets.

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

CL&P's pre-tax periodic pension income for the Plan, excluding settlements, curtailments, and special termination benefits, totaled $50.6 million and $61.4 million for the years ended December 31, 2002 and 2001, respectively. Pension income is calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on Plan assets of 9.25 percent for 2002 and 9.5 percent for 2001. CL&P expects to use a long-term rate of return assumption of 8.75 percent for 2003. The pension income amounts exclude one-time items recorded under SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," associated with early termination programs and the sale of the Millstone and Seabrook nuclear units. Net SFAS No. 88 expenses totaled $8.1 million and $1.2 million for the years ended December 31, 2002 and 2001, respectively. Approximately 40 percent of net pension income is capitalized as a reduction to capital additions to utility plant.

In developing the expected long-term rate of return assumption, CL&P evaluated input from actuaries, consultants and economists as well as long-term inflation assumptions and NU's historical 20-year compounded return of 10.7 percent. NU's expected long-term rate of return on Plan assets is based on target asset allocation assumptions of 45 percent in United States equities and 14 percent in non-United States equities, both with expected long-term rates of return of 9.25 percent, 3 percent in emerging market equities with an expected long-term return of 10.25 percent, 20 percent in fixed income securities with an expected long-term rate of return of 5.5 percent, 5 percent in high yield fixed income securities with expected long-term rates of return of 7.5 percent, 8 percent in private equities with expected long-term rates of return of 14.25 percent, and 5 percent in real estate with expected long-term rates of return of 7.5 percent. The combination of these target allocations and expected returns results in the overall assumed long-term rate of return of 8.75 percent for 2003. The actual asset allocation at December 31, 2002, was close to these target asset allocations, and NU regularly reviews the actual asset allocations and periodically rebalances the investments to the targeted allocation when appropriate. NU reduced the long-term rate of return assumption by 0.5 percent and 0.25 percent, respectively, each of the last two years due to lower rate of return assumptions for most asset classes. CL&P believes that 8.75 percent is a reasonable long-term rate of return on Plan assets for 2003. CL&P will continue to evaluate the actuarial assumptions, including the expected rate of return, at least annually, and will adjust the appropriate assumptions as necessary.

CL&P bases the actuarial determination of Plan pension income/expense on a market-related valuation of assets, which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a four-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the fair value of assets. Since the market-related value of assets recognizes gains or losses over a four-year period, the future value of the market-related assets will be impacted as previously deferred gains or losses are recognized. There will be no impact on the fair value of Plan assets. At December 31, 2002, CL&P's portion of the Plan had cumulative unrecognized investment losses of $234.2 million, which will increase Plan expense over the next four years by reducing the expected return on Plan assets. At December 31, 2002, CL&P's portion of the Plan also had cumulative unrecognized actuarial gains of $57.6 million, which will reduce Plan expenses over the expected future working lifetime of active Plan participants, or approximately 13 years. The combined total of unrecognized investment losses and actuarial gains at December 31, 2002 is $176.6 million. This amount impacts the actuarially determined prepaid pension amount recorded on the consolidated balance sheet but has no impact on expected Plan funding.

The discount rate that is utilized in determining future pension obligations is based on a basket of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. To compensate for the Plan's longer duration 0.25 percent was added to this rating. The discount rate determined on this basis has decreased from 7.25 percent at December 31, 2001 to 6.75 percent at December 31, 2002.

Due to the effect of the unrecognized actuarial losses and based on an expected rate of return on Plan assets of 8.75 percent, a discount rate of 6.75 percent and various other assumptions, CL&P estimates that pension income/expense for the Plan will be approximately $27 million in income, approximately $10 million in income and approximately $4 million in expense in 2003, 2004 and 2005, respectively. Future actual pension income/expense will depend on future investment performance, changes in future discount rates and various other factors related to the populations participating in the plan.

The value of CL&P's portion of the Plan assets has decreased from $910.4 million at December 31, 2001 to $752.7 million at December 31, 2002. The investment performance returns and declining discount rates have reduced the funded status of CL&P's portion of the Plan, on a projected benefit obligation (PBO) basis, from an overfunded position of $284.4 million at December 31, 2001 to $72.3 million at December 31, 2002. The PBO includes expectations of future employee service and compensation increases. The significant deterioration in the funded position of the Plan will likely result in Plan contributions sooner than previously expected. CL&P has not made contributions since 1991. This deterioration could also lead to the requirement under defined benefit plan accounting to record an additional minimum liability. The total accumulated benefit obligation (ABO) of the entire Plan was $78 million less than Plan assets at December 31, 2002. The ABO is the obligation for employee service provided through December 31, 2002. If the ABO exceeds Plan assets, CL&P may need to record an additional minimum liability in 2003.

Income Taxes: Income tax expense is calculated for each period for which a statement of income is presented. This process involves estimating CL&P's actual current tax exposures as well as assessing temporary differences resulting from differing treatment of items, such as timing of the deduction of expenses for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheets. CL&P must also assess the likelihood that the deferred tax assets will be recovered from future taxable income, and to the extent that recovery is not likely, a valuation allowance must be established. Significant management judgment is required in determining income tax expense, deferred tax assets and liabilities and valuation allowances. CL&P accounts for deferred taxes under SFAS No. 109, "Accounting for Income Taxes." For temporary differences recorded as deferred tax liabilities that will be recovered in rates in the future, CL&P has established a regulatory asset. This asset amounted to $170.5 million and $154.2 million at December 31, 2002 and 2001, respectively.

Depreciation: Depreciation expense is calculated based on an asset's useful life, and judgment is involved when estimating the useful lives of certain assets. A change in the estimated useful lives of these assets could have a material impact on CL&P's consolidated financial statements.

Environmental Matters: At December 31, 2002, CL&P has recorded a reserve for various environmental liabilities. CL&P's environmental liabilities are based on the best estimate of the amounts to be incurred for the investigation, remediation and monitoring of the remediation sites. It is possible that future cost estimates will either increase or decrease as additional information becomes known.

Special Purpose Entities: CL&P has two special purpose entities (SPE), which are currently consolidated in the financial statements. During 2001, to facilitate the issuance of rate reduction certificates intended to finance certain stranded costs, CL&P established one SPE, CL&P Funding LLC. The funding company was created as part of state sponsored securitization programs. CL&P Funding LLC is restricted from engaging in non-related activities and is required to operate in a manner intended to reduce the likelihood that it would be included in CL&P's bankruptcy estate if it ever becomes involved in such bankruptcy proceedings.

The CL&P Receivables Corporation (CRC) is an SPE that was incorporated on September 5, 1997, and is a wholly owned subsidiary of CL&P. The CRC was established for the sole purpose of selling CL&P's accounts receivable and is included in the consolidation of CL&P's financial statements. On July 10, 2002 the CRC renewed its Receivables Purchase and Sale Agreement with CL&P and a subsidiary of Citigroup, Inc. (Citigroup). The agreement gives the CRC the right to sell and Citigroup the right to purchase up to $100 million in receivables through July 9, 2003. At December 31, 2002 there was $40 million outstanding under this facility. Sales of receivables to Citigroup under this arrangement meet the accounting criteria for derecognition from the consolidated balance sheet. Accordingly, the $40 million outstanding under this facility is not reflected as debt or included in the consolidated financial statements.

For further information regarding these types of activities, see Note 1, "Summary of Significant Accounting Policies," Note 3, "Pension Benefits and Postretirement Benefits Other Than Pensions," Note 4, "Sale of Customer Receivables," Note 6B, "Commitments and Contingencies - Environmental Matters," and Note 12, "Income Tax Expense," to the consolidated financial statements.

Other Matters

Other Commitments and Contingencies: For further information regarding other commitments and contingencies, see Note 6, "Commitments and Contingencies," to the consolidated financial statements.

Contractual Obligations and Commercial Commitments: Information regarding CL&P's contractual obligations and commercial commitments at December 31, 2002, is summarized through 2007 as follows:

(Millions of Dollars)	2003	2004	2005	2006	2007
Capital leases	$ 2.6	$ 2.5	$ 2.4	$ 2.4	$ 2.4
Operating leases	12.0	11.0	10.2	9.1	6.1
Long-term contractual arrangements	230.3	231.9	233.7	236.7	240.4
Totals	$244.9	$245.4	$246.3	$248.2	$248.9

Rate reduction bond amounts are not included in this table. For further information regarding CL&P's contractual obligations and commercial commitments, see Note 8, "Leases," and Note 6E, "Long-Term Contractual Arrangements," to the consolidated financial statements.

Forward Looking Statements: This discussion and analysis includes forward looking statements, which are statements of future expectations and not facts including, but not limited to, statements regarding future earnings, refinancings, the use of proceeds from restructuring, and the recovery of operating costs. Words such as *estimates, expects, anticipates, intends, plans,* and similar expressions identify forward looking statements. Actual results or outcomes could differ materially as a result of further actions by state and federal regulatory bodies, competition and industry restructuring, changes in economic conditions, changes in weather patterns, changes in laws, developments in legal or public policy doctrines, technological developments, volatility in electric and natural gas commodity markets, and other presently unknown or unforeseen factors.

Results of Operations

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

Income Statement Variances *(Millions of Dollars)*	2002 over/(under) 2001 Amount	2002 over/(under) 2001 Percent	2001 over/(under) 2000 Amount	2001 over/(under) 2000 Percent
Operating Revenues	$(139)	(5)%	$(290)	(10)%
Operating Expenses:				
Fuel, purchased and net interchange power	(37)	(2)	(151)	(9)
Other operation	(10)	(3)	(102)	(25)
Maintenance	(26)	(25)	(30)	(22)
Depreciation	2	2	(21)	(18)
Amortization of regulatory assets, net	(568)	(76)	649	(a)
Taxes other than income taxes	7	5	(7)	(5)
Gain on sale of utility plant	505	97	(522)	(100)
Total operating expenses	(127)	(5)	(184)	(7)
Operating income	(12)	(4)	(106)	(29)
Interest expense, net	-	-	22	23
Other income/(loss), net	(30)	(58)	75	(a)
Income before income tax expense	(42)	(22)	(53)	(22)
Income tax expense	(18)	(21)	(15)	(15)
Net income/(loss)	$ (24)	(22)%	$ (38)	(26)%

(a) Percent greater than 100.

Operating Revenues
Operating revenues decreased $139 million or 5 percent in 2002, primarily due to lower wholesale and other revenues ($184 million), partially offset by higher retail revenues ($45 million). Wholesale revenues were lower due to the inclusion in 2001 of revenue from the output of the Millstone nuclear units ($62 million), lower revenues from sales of energy and capacity ($63 million) resulting from the buyout of cogenerator purchase contracts and lower wholesale market prices, and lower revenue from expiring market based contracts ($24 million). Retail revenues were higher due to the collection of deferred fuel costs ($25 million) and higher retail sales. Retail sales increased 1.8 percent compared to 2001.

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

Fuel, Purchased and Net Interchange Power
Fuel, purchased and net interchange power expense decreased $37 million in 2002 primarily due to lower purchased-power costs resulting from the buydown and buyout of various cogeneration contracts ($50 million), lower market-based contracts ($23 million) and lower nuclear fuel expense ($8 million), partially offset by the 2002 amortization of deferred fuel expenses which are being recovered ($25 million) and the higher expenses related to the standard offer supply and associated deferrals ($17 million).

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

Other Operation and Maintenance
Other operation and maintenance (O&M) expenses decreased $36 million in 2002, primarily due to lower nuclear expense as a result of the sale of the Millstone units at the end of the first quarter of 2001 ($52 million), lower distribution expenses ($8 million), partially offset by higher transmission expenses ($16 million) and higher administrative and general expenses ($10 million).

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

Depreciation
Depreciation expense increased $2 million in 2002, primarily due to higher utility plant balances.

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

Amortization of Regulatory Assets, Net
Amortization of regulatory assets, net decreased $568 million in 2002, primarily due to lower amortizations related to the sale of the Millstone units ($524 million) and lower amortizations of the nuclear investment ($42 million).

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

Taxes Other Than Income Taxes

Taxes other than income taxes increased $7 million in 2002, primarily due to payments to the Town of Waterford for its loss of property tax resulting from electric utility restructuring ($15 million), partially offset by the recognition of a Connecticut sales and use tax audit settlement for the years 1993 through 2001 ($7 million). CL&P is recovering through rates the additional property tax payments to the Town of Waterford.

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

Gain on Sale of Utility Plant

CL&P recorded a gain on the sale of its ownership share in Seabrook in 2002 ($16 million) as compared to the 2001 gain on the sale of the Millstone units ($522 million). A corresponding amount of amortization expenses was recorded.

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

Interest Expense, Net

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

Other Income/(Loss), Net

Other income, net decreased $30 million in 2002, primarily due to the gain recognized in 2001 on the sale of the Millstone units ($29 million).

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

Income Tax Expense

Income tax expense decreased in 2002 primarily due to lower book taxable income.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of The Connecticut Light and Power Company and subsidiaries (a Connecticut corporation and a wholly owned subsidiary of Northeast Utilities) (the "Company") as of December 31, 2002 and 2001, and the related consolidated statements of income, comprehensive income, common stockholder's equity, and cash flows for the years then ended. The consolidated financial statements of the Company as of December 31, 2000, and for the year then ended, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated January 22, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 that our audits provide a reasonable basis for our opinion.

In our opinion, the 2002 and 2001 consolidated financial statements present fairly, in all material respects, the financial position of The Connecticut Light and Power Company and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Hartford, Connecticut
January 28, 2003
(February 27, 2003 as to Note 6A)

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of The Connecticut Light and Power Company (a Connecticut corporation and a wholly owned subsidiary of Northeast Utilities) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, comprehensive income, common stockholder's equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Connecticut Light and Power Company and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Hartford, Connecticut
January 22, 2002

Readers of these consolidated financial statements should be aware that this report is a copy of a previously issued Arthur Andersen LLP report and that this report has not been reissued by Arthur Andersen LLP. Furthermore, this report has not been updated since January 22, 2002, and Arthur Andersen LLP completed its last post-audit review of December 31, 2001, consolidated financial information on May 13, 2002.

THE CONNECTICUT LIGHT AND POWER COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

At December 31,	2002	2001
	(Thousands of Dollars)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 159	$ 773
Investments in securitizable assets	178,908	206,367
Receivables, less provision for uncollectible accounts of $525 in 2002 and 2001	88,001	77,801
Accounts receivable from affiliated companies	51,060	22,134
Unbilled revenues	5,801	7,492
Notes receivable from affiliated companies	1,900	77,200
Fuel, materials and supplies, at average cost	32,379	33,085
Prepayments and other	19,407	17,873
	377,615	442,725
Property, Plant and Equipment:		
Electric utility	3,139,128	3,127,548
Less: Accumulated depreciation	1,113,991	1,236,638
	2,025,137	1,890,910
Construction work in progress	153,556	134,964
Nuclear fuel, net	-	3,299
	2,178,693	2,029,173
Deferred Debits and Other Assets:		
Regulatory assets	1,702,677	1,877,191
Prepaid pension	276,173	233,692
Nuclear decommissioning trusts, at market	-	6,231
Other	96,925	138,715
	2,075,775	2,255,829
Total Assets	$ 4,632,083	$ 4,727,727

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

THE CONNECTICUT LIGHT AND POWER COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

At December 31,	2002	2001
	(Thousands of Dollars)	
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Accounts payable	$ 174,890	$ 132,593
Accounts payable to affiliated companies	117,904	85,057
Accrued taxes	34,350	34,993
Accrued interest	10,077	10,369
Other	48,495	47,342
	385,716	310,354
Rate Reduction Bonds	1,245,728	1,358,653
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	756,461	820,444
Accumulated deferred investment tax credits	93,408	95,996
Deferred contractual obligations	234,537	141,497
Other	276,325	283,399
	1,360,731	1,341,336
Capitalization:		
Long-Term Debt	827,866	824,349
Preferred Stock - Nonredeemable	116,200	116,200
Common Stockholder's Equity:		
Common stock, $10 par value - authorized 24,500,000 shares; 6,035,205 shares outstanding in 2002 and 7,584,884 shares outstanding in 2001.	60,352	75,849
Capital surplus, paid in	327,299	414,018
Retained earnings	308,554	286,901
Accumulated other comprehensive (loss)/income	(363)	67
Common Stockholder's Equity	695,842	776,835
Total Capitalization	1,639,908	1,717,384
Commitments and Contingencies (Note 6)		
Total Liabilities and Capitalization	$ 4,632,083	$ 4,727,727

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

THE CONNECTICUT LIGHT AND POWER COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31,	2002	2001	2000
	(Thousands of Dollars)		
Operating Revenues	$ 2,507,036	$ 2,646,123	$ 2,935,922
Operating Expenses:			
Operation -			
Fuel, purchased and net interchange power	1,477,347	1,514,418	1,665,806
Other	300,439	310,477	412,230
Maintenance	80,132	106,228	136,141
Depreciation	98,360	96,212	117,305
Amortization of regulatory assets, net	178,274	746,693	97,315
Taxes other than income taxes	137,299	130,656	137,846
Gain on sale of utility plant	(16,143)	(521,590)	-
Total operating expenses	2,255,708	2,383,094	2,566,643
Operating Income	251,328	263,029	369,279
Interest Expense:			
Interest on long-term debt	41,332	56,527	85,980
Interest on rate reduction bonds	75,705	60,644	-
Other interest	3,925	3,958	12,886
Interest expense, net	120,962	121,129	98,866
Other Income/(Loss), Net	22,112	52,804	(22,224)
Income Before Income Tax Expense	152,478	194,704	248,189
Income Tax Expense	66,866	84,901	100,054
Net Income	$ 85,612	$ 109,803	$ 148,135

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2002	2001	2000
Net Income	$ 85,612	$ 109,803	$ 148,135
Other comprehensive (loss)/income, net of tax:			
Unrealized (losses)/gains on securities	(452)	(439)	90
Minimum pension liability adjustments	(22)	-	-
Other comprehensive (loss)/income, net of tax	(474)	(439)	90
Comprehensive Income	$ 85,138	$ 109,364	$ 148,225

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

THE CONNECTICUT LIGHT AND POWER COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

	Common Stock	Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total (a)
			(Thousands of Dollars)		
Balance at January 1, 2000	$ 122,229	$ 665,598	$ 153,254	$ 416	$ 941,497
Net income for 2000			148,135		148,135
Cash dividends on preferred stock			(7,402)		(7,402)
Cash dividends on common stock			(72,014)		(72,014)
Redemption of preferred stock		(749)			(749)
Repurchase of common stock	(46,380)	(253,620)			(300,000)
Capital stock expenses, net		1,963			1,963
Allocation of benefits - ESOP (b)			21,224		21,224
Other comprehensive income				90	90
Balance at December 31, 2000	75,849	413,192	243,197	506	732,744
Net income for 2001			109,803		109,803
Cash dividends on preferred stock			(5,559)		(5,559)
Cash dividends on common stock			(60,072)		(60,072)
Capital stock expenses, net		826			826
Allocation of benefits - ESOP			(468)		(468)
Other comprehensive loss				(439)	(439)
Balance at December 31, 2001	75,849	414,018	286,901	67	776,835
Net income for 2002			85,612		85,612
Cash dividends on preferred stock			(5,559)		(5,559)
Cash dividends on common stock			(60,145)		(60,145)
Repurchase of common stock	(15,497)	(84,493)			(99,990)
Capital stock expenses, net		232			232
Allocation of benefits - ESOP		(2,458)	1,745		(713)
Other comprehensive loss				(430)	(430)
Balance at December 31, 2002	$ 60,352	$ 327,299	$ 308,554	$ (363)	$ 695,842

(a) The company has a dividend restriction as well as two tests it must meet before it can pay out any dividends. The most restrictive of which limits the company's ability to pay out approximately $275.4 million of equity at December 31, 2002.

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

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

THE CONNECTICUT LIGHT AND POWER COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2002	2001	2000
		(Thousands of Dollars)	
Operating Activities:			
Net income	$ 85,612	$ 109,803	$ 148,135
Adjustments to reconcile to net cash flows provided by operating activities:			
Depreciation	98,360	96,212	117,305
Deferred income taxes and investment tax credits, net	(71,880)	(144,559)	5,672
Net amortization of recoverable energy costs	30,787	5,162	4,155
Amortization of regulatory assets, net	178,274	746,693	97,315
Tax benefit for 1993-1999 from reduction in NU parent losses	-	-	21,461
Gain on sale of utility plant	(16,143)	(521,590)	-
Prepaid pension	(42,481)	(63,020)	(170,672)
Net other sources/(uses) of cash	62,868	(107,024)	111,594
Changes in working capital:			
Receivables and unbilled revenues, net	(37,435)	(144,419)	(109,938)
Fuel, materials and supplies	(1,017)	3,247	1,271
Accounts payable	74,831	(58,400)	171,729
Accrued taxes	(643)	1,922	(136,313)
Investments in securitizable assets	27,459	61,779	9,474
Other working capital (excludes cash)	(1,184)	26,440	3,204
Net cash flows provided by operating activities	387,408	12,246	274,392
Investing Activities:			
Investments in plant:			
Electric utility plant	(242,301)	(237,423)	(208,249)
Nuclear fuel	(57)	(1,992)	(35,709)
Cash flows used for investments in plant	(242,358)	(239,415)	(243,958)
NU system Money Pool borrowing/(lending)	75,300	(39,200)	(49,700)
Investments in nuclear decommissioning trusts	(1,086)	(74,866)	(25,133)
Net proceeds from the sale of utility plant	35,887	827,681	686,807
Buyout/buydown of IPP contracts	-	(1,029,008)	-
Other investment activities, net	23,395	(10,164)	10,246
Net cash flows (used in)/provided by investing activities	(108,862)	(564,972)	378,262
Financing Activities:			
Repurchase of common stock	(99,990)	-	(300,000)
Issuance of rate reduction bonds	-	1,438,400	-
Retirement of rate reduction bonds	(112,924)	(79,747)	-
Net(decrease)/increase in short-term debt	-	(115,000)	25,000
Reacquisitions and retirements of long-term debt	-	(416,155)	(179,071)
Reacquisitions and retirements of preferred stock	-	-	(99,539)
Retirement of monthly income preferred securities	-	(100,000)	-
Retirement of capital lease obligation	-	(145,800)	-
Cash dividends on preferred stock	(5,559)	(5,559)	(7,402)
Cash dividends on common stock	(60,145)	(60,072)	(72,014)
Other financing activities, net	(542)	31,971	(14,531)
Net cash flows (used in)/provided by financing activities	(279,160)	548,038	(647,557)
Net (decrease)/increase in cash and cash equivalents	(614)	(4,688)	5,097
Cash and cash equivalents - beginning of year	773	5,461	364
Cash and cash equivalents - end of year	$ 159	$ 773	$ 5,461
Supplemental Cash Flow Information:			
Cash paid during the year for:			
Interest, net of amounts capitalized	$ 117,718	$ 120,645	$ 96,735
Income taxes	$ 141,724	$ 230,144	$ 226,380

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

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

A. About The Connecticut Light and Power Power Company

The Connecticut Light and Power Company (CL&P or the company) along with the Public Service Company of New Hampshire (PSNH), Western Massachusetts Electric Company (WMECO), North Atlantic Energy Corporation (NAEC), Holyoke Water Power Company (HWP), and Yankee Energy System, Inc. (Yankee) are the operating companies comprising the Northeast Utilities system and are wholly owned by Northeast Utilities (NU). CL&P furnishes franchised retail electric service in Connecticut, while PSNH and WMECO furnish franchised retail electric service in New Hampshire and western Massachusetts. NAEC previously sold all of its entitlement to the capacity and output of the Seabrook Station nuclear unit (Seabrook) to PSNH under the terms of two life-of-unit, full cost recovery contracts (Seabrook Power Contracts). Seabrook was sold on November 1, 2002. NU's other subsidiaries include HWP, a company engaged in the production of electric power, Yankee, the parent company of Yankee Gas Services Company (Yankee Gas), Connecticut's largest natural gas distribution system, and several competitive subsidiaries including Select Energy, Inc., Northeast Generation Company, Northeast Generation Services Company, and Select Energy Services, Inc.

CL&P is registered with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934. NU is registered with the SEC as a holding company under the Public Utility Holding Company Act of 1935 (1935 Act), and NU, including CL&P, is subject to the provisions of the 1935 Act. Arrangements among CL&P, other NU companies, outside agencies, and other utilities covering interconnections, interchange of electric power and sales of utility property, are subject to regulation by the Federal Energy Regulatory Commission (FERC) and/or the SEC. CL&P is subject to further regulation for rates, accounting and other matters by the FERC and the Connecticut Department of Public Utility Control (DPUC).

Several wholly owned subsidiaries of NU provide support services for NU's companies, including CL&P, and in some cases, for other New England utilities. Northeast Utilities Service Company (NUSCO) provides centralized accounting, administrative, engineering, financial, information resources, legal, operational, planning, purchasing, and other services to NU's companies. Until the sale of Seabrook on November 1, 2002, North Atlantic Energy Service Corporation had operational responsibility for Seabrook. Three other subsidiaries construct, acquire or lease some of the property and facilities used by NU's companies.

B. Presentation

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

C. New Accounting Standards

Asset Retirement Obligations: In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations." This statement requires that legal obligations associated with the retirement of property, plant and equipment be recognized as a liability at fair value when incurred and when a reasonable estimate of the fair value of the liability can be made. SFAS No. 143 is effective on January 1, 2003, for CL&P. Management has completed its review process for potential asset retirement obligations (AROs) and has not identified any material AROs which have been incurred. However, management has identified certain removal obligations which arise in the ordinary course of business that either have a low probability of occurring or are not material in nature. These types of obligations primarily relate to transmission and distribution lines and poles, telecommunication towers, transmission cables and certain FERC or state regulatory agency re-licensing issues.

A portion of CL&P's regulated rates is intended to recover the cost of removal of certain utility assets. The amounts recovered do not represent AROs. At December 31, 2002, CL&P maintained approximately $154.5 million in cost of removal regulatory liabilities, which are included in its accumulated provision for depreciation.

Guarantees: In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45 requires that disclosures be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued and clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. Interpretation No. 45 does not apply to certain guarantee contracts, such as residual value guarantees provided by lessees in capital leases, guarantees that are accounted for as derivatives, guarantees that represent contingent consideration in a business combination, guarantees issued between either parents and their subsidiaries or corporations under common control, a parent's guarantee of a subsidiary's debt to a third party, and a subsidiary's guarantee of the debt owed to a third party by either its parent or another subsidiary of that parent. The initial recognition and initial measurement provisions of Interpretation No. 45 are applicable to CL&P on a prospective basis to guarantees issued or modified after January 1, 2003. Currently, management does not expect the adoption of the initial recognition and initial measurement provisions of Interpretation No. 45 to have a material impact on CL&P's consolidated financial statements.

Consolidation of Variable Interest Entities: In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." Interpretation No. 46 addresses the consolidation and disclosure requirements for companies that hold an equity interest in a variable interest entity (VIE), regardless of the date on which the VIE was created. Interpretation No. 46 requires consolidation of a VIE's assets, liabilities and noncontrolling interests at fair value when a company is the primary beneficiary, which is defined as a company that absorbs a majority of the expected losses, risks and revenues from the VIE as a result of holding a contractual or other financial interest in the VIE. Consolidation is not required under Interpretation No. 46 for those companies that hold a significant equity interest in a VIE but are not the primary beneficiary. Interpretation No. 46 is effective for CL&P beginning in the third quarter of 2003. At December 31, 2002, CL&P held equity interests in various VIEs, for which CL&P was not the primary beneficiary, as CL&P does not absorb a majority of the expected losses, risks and revenues from the VIEs or provide a substantial portion of financial support. As a result, management does not expect the adoption of Interpretation No. 46 to have a material impact on CL&P's consolidated financial statements. For further information regarding CL&P's investments in its VIEs, see Note 1D, "Equity Investments and Jointly Owned Electric Utility Plant" to the consolidated financial statements.

D. Equity Investments and Jointly Owned Electric Utility Plant

Regional Nuclear Generating Companies: CL&P owns common stock in four regional nuclear companies (Yankee Companies). CL&P's ownership interests in the Yankee Companies at December 31, 2002 and 2001, which are accounted for on the equity method, are 34.5 percent of the Connecticut Yankee Atomic Power Company (CYAPC), 24.5 percent of the Yankee Atomic Electric Company (YAEC), 12 percent of the Maine Yankee Atomic Power Company (MYAPC), and 10.1 percent of the Vermont Yankee Nuclear Power Corporation (VYNPC). CL&P's total equity investment in the Yankee Companies and its exposure to loss as a result of these investments at December 31, 2002 and 2001, is $32.2 million and $34.7 million, respectively. These investments are VIE's under FASB Interpretation No. 46. Excluding VYNPC, which sold its nuclear generating plant, each Yankee Company owns a single decommissioned nuclear generating plant. On July 31, 2002, VYNPC consummated the sale of its nuclear generating plant to a subsidiary of Entergy Corporation for approximately $180 million.

Seabrook: CL&P had a 4.06 percent joint ownership interest in Seabrook, a 1,148 megawatt nuclear generating unit. On November 1, 2002, CL&P consummated the sale of its ownership interest in Seabrook to a subsidiary of FPL Group, Inc. (FPL). At December 31, 2001, plant-in-service and the accumulated provision for depreciation for CL&P's share of Seabrook totaled $174.7 million and $164.8 million, respectively.

E. Depreciation

The provision for depreciation is calculated using the straight-line method based on the estimated remaining useful lives of depreciable utility plant-in-service, which range primarily from 3 years to 50 years, adjusted for salvage value and removal costs, as approved by the appropriate regulatory agency where applicable. Depreciation rates are applied to plant-in-service from the time they are placed in service. When plant is retired from service, the original cost of the plant, including costs of removal less salvage, is charged to the accumulated provision for depreciation. The depreciation rates for the several classes of electric utility plant-in-service are equivalent to a composite rate of 3.2 percent in 2002 and 3.1 percent in 2001 and 3 percent in 2000.

F. Revenues

Revenues are based on rates approved by the DPUC. These regulated rates are applied to customer's accounts based on their use of energy. In general, rates can only be changed through formal proceedings with the DPUC.

The determination of the energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on generation volumes, estimated customer usage by class, line losses, and applicable customer rates.

G. Regulatory Accounting and Assets

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

CL&P's transmission and distribution businesses continue to be cost-of-service rate regulated, and management believes the application of SFAS No. 71 to that portion of those businesses continues to be appropriate. Management also believes it is probable that CL&P will recover its investments in long-lived assets, including regulatory assets. In addition, all material regulatory assets are earning a return, except for securitized regulatory assets. The components of CL&P's regulatory assets are as follows:

	At December 31,	
(Millions of Dollars)	2002	2001
Recoverable nuclear costs	$ 10.6	$ 158.1
Securitized regulatory assets	1,244.5	1,356.3
Income taxes, net	170.5	154.2
Unrecovered contractual obligations	116.8	2.1
Recoverable energy costs, net	49.3	80.1
Other	111.0	126.4
Totals	$1,702.7	$1,877.2

In March 2001, CL&P sold its ownership interests in the Millstone units. The gain on this sale of approximately $521.6 million was used to offset recoverable nuclear costs, resulting in an unamortized balance of $6 million and $148.9 million at December 31, 2002 and 2001, respectively. Also included in recoverable nuclear costs is $4.6 million and $9.2 million at December 31, 2002 and 2001, respectively, associated with Millstone 1 recoverable nuclear costs relating to the recoverable portion of the undepreciated plant and related assets.

In March 2001, CL&P issued $1.4 billion in rate reduction certificates and used $1.1 billion of those proceeds to buyout or buydown certain contracts with independent power producers. The majority of the payments to buyout or buydown these contracts were recorded as securitized regulatory assets. CL&P also securitized a portion of its SFAS No. 109 regulatory asset.

CL&P, under the terms of contracts with the Yankee Companies, is responsible for its proportionate share of the remaining costs of the units, including decommissioning. These amounts are recorded as unrecovered contractual obligations. A portion of these obligations was securitized in 2001 and is included in securitized regulatory assets. During 2002, CL&P was notified by the Yankee Companies that the estimated cost of decommissioning their units had increased over prior estimates due to higher anticipated costs for spent fuel storage, security and liability and property insurance. In December 2002, CL&P recorded an additional $115.6 million in deferred contractual obligations and a corresponding increase in the unrecovered contractual obligations regulatory asset as a result of these increased costs.

CL&P, under the Energy Policy Act of 1992 (Energy Act), was assessed for its proportionate share of the costs of decontaminating and decommissioning uranium enrichment plants owned by the United States Department of Energy (DOE) (D&D Assessment) when they owned nuclear generating plants. The Energy Act requires that regulators treat D&D Assessments as a reasonable and necessary current cost of fuel, to be fully recovered in rates like any other fuel cost. CL&P is currently recovering these costs through rates. At December 31, 2002 and 2001, CL&P's total D&D Assessment deferrals were $17.6 million and $21.1 million, respectively, and have been recorded as recoverable energy costs, net.

Through December 31, 1999, CL&P had an energy adjustment clause under which fuel prices above or below base-rate levels were charged to or credited to customers. CL&P's energy costs deferred and not yet collected under the energy adjustment clause amounted to $31.7 million and $59 million at December 31, 2002 and 2001, respectively, which have been recorded as recoverable energy costs, net. On July 26, 2001, the DPUC authorized CL&P to assess a charge of approximately $0.002 per kilowatt-hour (kWh) from August 2001 through December 2003 to collect these costs.

H. Income Taxes

The tax effect of temporary differences (differences between the periods in which transactions affect income in the financial statements and the periods in which they affect the determination of taxable income) is accounted for in accordance with the rate-making treatment of the applicable regulatory commissions and SFAS No. 109, "Accounting for Income Taxes."

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

	At December 31,	
(Millions of Dollars)	2002	2001
Accelerated depreciation and other plant-related differences	$239.6	$279.1
Regulatory assets:		
Nuclear stranded investment and other asset divestitures	213.5	276.1
Securitized contract termination costs and other	57.5	63.4
Income tax gross-up	134.4	134.4
Other	111.5	67.4
Totals	$756.5	$820.4

I. Cash and Cash Equivalents

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

J. Other Income/(Loss), Net

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

	For the Years Ended December 31,		
(Millions of Dollars)	2002	2001	2000
Seabrook-related gains	$ 2.1	$ -	$ -
Gain related to Millstone sale	-	29.5	-
Nuclear related costs	-	-	(14.1)
Investment income	10.2	12.9	6.5
Other, net	9.8	10.4	(14.6)
Totals	$22.1	$52.8	$(22.2)

2. Short-Term Debt

Limits: The amount of short-term borrowings that may be incurred by CL&P is subject to periodic approval by either the SEC under the 1935 Act or by the DPUC. Currently, SEC authorization allows CL&P to incur total short-term borrowings up to a maximum of $375 million. In addition, the charter of CL&P contains preferred stock provisions restricting the amount of unsecured debt that CL&P may incur. At December 31, 2002, CL&P's charter permits CL&P to incur $480 million of additional unsecured debt.

Credit Agreement: On November 12, 2002, CL&P, PSNH, WMECO, and Yankee Gas entered into a 364-day unsecured revolving credit facility for $300 million. This facility replaced a $350 million facility for CL&P, PSNH, WMECO and Yankee Gas, which expired on November 15, 2002 and CL&P may draw up to $150 million under the facility. Unless extended, the credit facility will expire on November 11, 2003. At December 31, 2002 and 2001, there were no borrowings under these facilities.

Under the aforementioned credit agreement, CL&P may borrow at fixed or variable rates plus an applicable margin based upon certain debt ratings, as rated by the lower of Standard and Poor's or Moody's Investors Service.

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

Money Pool: CL&P is a member of the Northeast Utilities System Money Pool (Pool). The Pool provides a more efficient use of the cash resources of NU and reduces outside short-term borrowings. NUSCO administers the Pool as agent for the member companies. Short-term borrowing needs of the member companies are first met with available funds of other member companies, including funds borrowed by NU parent. NU parent may lend to the Pool but may not borrow. Funds may be withdrawn from or repaid to the Pool at any time without prior notice. Investing and borrowing subsidiaries receive or pay interest based on the average daily federal funds rate. Borrowings based on loans from NU parent, however, bear interest at NU parent's cost and must be repaid based upon the terms of NU parent's original borrowing. At December 31, 2002 and 2001, CL&P had $1.9 million and $77.2 million of lendings to the Pool, respectively. The interest rate on lendings to the Pool at December 31, 2002 and 2001 was 1.2 percent and 1.5 percent, respectively.

3. Pension Benefits and Postretirement Benefits Other Than Pensions

Pension Benefits: CL&P participates in a uniform noncontributory defined benefit retirement plan (Plan) covering substantially all regular NU employees. Benefits are based on years of service and the employees' highest eligible compensation during 60 consecutive months of employment. Pre-tax pension income, approximately 40 percent of which was credited to utility plant, was $50.6 million in 2002, $61.4 million in 2001, and $57.2 million in 2000. These amounts exclude pension settlements, curtailments and net special termination expenses of $8.1 million and $1.2 million in 2002 and 2001, respectively. There were no pension settlements, curtailments, or net special termination expenses recognized in 2000. Pension income attributable to earnings is as follows:

	For Years Ended December 31,		
(Millions of Dollars)	2002	2001	2000
Pension income before settlements, curtailments and special termination benefits	$(50.6)	$(61.4)	$(57.2)
Net pension income capitalized as utility plant (a)	20.2	24.6	22.9
Net pension income before settlements, curtailments and special termination benefits	(30.4)	(36.8)	(34.3)
Settlements, curtailments and special termination benefits reflected in earnings	-	3.3	-
Total pension income included in earnings	$(30.4)	$(33.5)	$(34.3)

(a) Net pension income capitalized as utility plant was calculated utilizing an average of 40 percent.

Effective February 1, 2002, certain CL&P employees who were displaced were eligible for a Voluntary Retirement Program (VRP). The VRP supplements NU's Plan and provides special provisions. Eligible employees include non-bargaining unit employees or employees belonging to a collective bargaining unit that has agreed to accept the VRP who are active participants in NU's Plan at January 1, 2002, and that have been displaced as part of the reorganization between January 22, 2002 and March 3, 2003. Eligible employees received a special retirement benefit under the VRP whose value was roughly equivalent to a multiple of base pay based on years of credited service. During 2002, CL&P recorded an expense of $8.1 million associated with special pension termination benefits related to the VRP. CL&P believes that the cost of the VRP is probable of recovery through regulated utility rates, and accordingly, the $8.1 million was recorded as a regulatory asset with no impact on 2002 earnings.

In conjunction with the Voluntary Separation Program (VSP) that was announced in December 2000, CL&P recorded $1.6 million in settlement income and $0.8 million in curtailment income in 2001. The VSP was intended to reduce the generation-related support staff between March 1, 2001 and February 28, 2002, and was available to non-bargaining unit employees who, by February 1, 2002, were at least age 50, with a minimum of five years of credited service, and at December 15, 2000, were assigned to certain groups and in eligible job classifications.

One component of the VSP included special pension termination benefits equal to the greater of five years added to both age and credited service of eligible participants or two weeks of pay for each year of service subject to a minimum level of 12 weeks and a maximum of 52 weeks for eligible participants. The special pension termination benefits expense associated with the VSP totaled $3.6 million in 2001. The net total of the settlement and curtailment income and the special termination benefits expense was $1.2 million, of which $3.3 million of costs were included in operating expenses and $2.1 million was deferred as a regulatory liability and has been returned to customers.

Postretirement Benefits Other Than Pensions (PBOP): NU's subsidiaries, including CL&P, also provide certain health care benefits, primarily medical and dental, and life insurance benefits through a benefit plan to retired employees. These benefits are available for employees retiring from NU who have met specified service requirements. For current employees and certain retirees, the total benefit is limited to two times the 1993 per retiree health care cost. These costs are charged to expense over the estimated work life of the employee. CL&P annually funds postretirement costs through external trusts with amounts that have been rate-recovered and which also are tax deductible.

In 2001, CL&P recorded PBOP special termination benefits expense of $0.7 million in connection with the VSP. This amount was recorded as a regulatory asset and collected through regulated utility rates in 2002.

In 2002, the PBOP plan was amended to change the claims experience basis, to increase minimum retiree contributions and to reduce the cap on the company's subsidy to the dental plan. These amendments resulted in a $13.5 million decrease in CL&P's benefit obligation under the PBOP plan at December 31, 2002.

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

	At December 31,			
	Pension Benefits		Postretirement Benefits	
(Millions of Dollars)	2002	2001	2002	2001
Change in benefit obligation				
Benefit obligation at beginning of year	$(626.0)	$(587.3)	$(165.7)	$(136.3)
Service cost	(11.7)	(10.0)	(2.0)	(1.9)
Interest cost	(44.8)	(43.7)	(13.4)	(11.1)
Plan amendment	(4.5)	-	13.5	-
Transfers	(2.2)	(2.4)	(20.4)	-
Actuarial loss	(45.3)	(24.9)	(17.7)	(32.2)
Benefits paid - excluding lump sum payments	41.5	40.2	18.3	16.0
Benefits paid - lump sum payments	20.7	4.9	-	-
Curtailments and settlements	-	0.8	-	(0.2)
Special termination benefits	(8.1)	(3.6)	-	-
Benefit obligation at end of year	$(680.4)	$(626.0)	$(187.4)	$(165.7)
Change in plan assets				
Fair value of plan assets at beginning of year	$ 910.4	$ 998.8	$ 55.7	$ 62.4
Actual return on plan assets	(97.7)	(45.7)	(5.9)	(5.8)
Employer contribution	-	-	18.3	14.5
Benefits paid - excluding lump sum payments	(41.5)	(40.2)	(18.3)	(16.0)
Benefits paid - lump sum payments	(20.7)	(4.9)	-	-
Transfers	2.2	2.4	9.5	0.6
Fair value of plan assets at end of year	$ 752.7	$ 910.4	$ 59.3	$ 55.7
Funded status at December 31	$ 72.3	$ 284.4	$(128.1)	$(110.0)
Unrecognized transition (asset)/obligation	(1.8)	(2.7)	62.7	80.3
Unrecognized prior service cost	29.1	27.6	(2.9)	-
Unrecognized net loss/(gain)	176.6	(75.6)	60.9	29.1
Prepaid/(accrued) benefit cost	$ 276.2	$ 233.7	$ (7.4)	$ (0.6)

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

	At December 31,			
	Pension Benefits		Postretirement Benefits	
	2002	2001	2002	2001
Discount rate	6.75%	7.25%	6.75%	7.25%
Compensation/progression rate	4.00%	4.25%	4.00%	4.25%
Health care cost trend rate (a)	N/A	N/A	10.00%	11.00%

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

The components of net periodic benefit (income)/expense are as follows:

	For the Years Ended December 31,					
	Pension Benefits			Postretirement Benefits		
(Millions of Dollars)	2002	2001	2000	2002	2001	2000
Service cost	$ 11.7	$ 10.0	$ 9.7	$ 2.0	$ 1.9	$ 1.9
Interest cost	44.8	43.7	42.3	13.4	11.1	10.1
Expected return on plan assets	(94.2)	(95.3)	(88.4)	(6.3)	(5.5)	(4.9)
Amortization of unrecognized net transition (asset)/obligation	(0.9)	(0.9)	(0.9)	6.9	7.3	7.3
Amortization of prior service cost	3.0	2.6	2.7	-	-	-
Amortization of actuarial gain	(15.0)	(21.5)	(22.6)	-	-	-
Other amortization, net	-	-	-	2.0	(0.5)	(1.9)
Net periodic (income)/expense - before settlements, curtailments and special termination benefits	(50.6)	(61.4)	(57.2)	18.0	14.3	12.5
Settlement income	-	(1.6)	-	-	-	-
Curtailment income	-	(0.8)	-	-	-	-
Special termination benefits expense	8.1	3.6	-	-	0.7	-
Total - settlements, curtailments and special termination benefits	8.1	1.2	-	-	0.7	-
Total - net periodic (income)/expense	$(42.5)	$ (60.2)	$(57.2)	$ 18.0	$ 15.0	$12.5

For calculating pension and postretirement benefit income and expense amounts, the following assumptions were used:

	For the Years Ended December 31,					
	Pension Benefits			Postretirement Benefits		
	2002	2001	2000	2002	2001	2000
Discount rate	7.25%	7.50%	7.75%	7.25%	7.50%	7.75%
Expected long-term rate of return	9.25%	9.50%	9.50%	N/A	N/A	N/A
Compensation/progression rate	4.25%	4.50%	4.75%	4.25%	4.50%	4.75%
Long-term rate of return - Health assets, net of tax	N/A	N/A	N/A	7.25%	7.50%	7.50%
Life assets	N/A	N/A	N/A	9.25%	9.50%	9.50%

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

(Millions of Dollars)	One Percentage Point Increase	One Percentage Point Decrease
Effect on total service and interest cost components	$ 0.4	$(0.4)
Effect on postretirement benefit obligation	$ 5.7	$(5.1)

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

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

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

4. Sale of Customer Receivables

At December 31, 2002, CL&P had sold accounts receivable of $40 million to a subsidiary of Citigroup, Inc. with limited recourse through the CL&P Receivables Corporation (CRC), a wholly owned subsidiary of CL&P. Additionally, at December 31, 2002, $3.8 million of assets were designated as collateral and restricted under the agreement with the CRC and included in the consolidated balance sheets as cash and cash equivalents. Concentrations of credit risk to the purchaser under this agreement with respect to the receivables are limited due to CL&P's diverse customer base within its service territory. At December 31, 2002, amounts sold to CRC from CL&P, but not sold to the Citgroup, Inc. subsidiary, totaling $178.9 million are included in investments in securitizable assets on the consolidated balance sheets. No amounts were sold in 2001.

5. Nuclear Generation Asset Divestitures

Seabrook: On November 1, 2002, CL&P consummated the sale of its 4.06 percent ownership interest in Seabrook to a subsidiary of FPL. CL&P, NAEC and certain other of the joint owners collectively sold 88.2 percent of Seabrook to FPL. CL&P received approximately $36 million of total cash proceeds from the sale of Seabrook. As part of the sale, FPL assumed responsibility for decommissioning Seabrook. In connection with the sale, CL&P recorded a gain in the amount of approximately $16 million, which was primarily used to offset stranded costs. In the third quarter of 2002, CL&P received regulatory approvals for the sale of Seabrook from the DPUC. As a result of these approvals, CL&P eliminated $0.6 million, on a pre-tax basis, of reserves related to its ownership shares of certain Seabrook assets.

VYNPC: On July 31, 2002, VYNPC consummated the sale of its nuclear generating plant to a subsidiary of Entergy Corporation (Entergy) for approximately $180 million. As part of the sale, Entergy assumed responsibility for decommissioning VYNPC's nuclear generating unit. Under the terms of the sale, CL&P will continue to buy 9.5 percent of the plant's output through March 2012 at a range of fixed prices.

Millstone: On March 31, 2001, CL&P and WMECO consummated the sale of Millstone 1 and 2 to a subsidiary of Dominion Resources, Inc. (Dominion). CL&P, PSNH and WMECO sold their ownership interests in Millstone 3 to Dominion along with all of the unaffiliated joint ownership interests in Millstone 3. CL&P received approximately $828 million of cash proceeds from the sale and applied the proceeds to taxes and reductions of debt and equity. As part of the sale, Dominion assumed responsibility for decommissioning the three Millstone units. In connection with the sale, CL&P recorded a gain in the amount of $521.6 million, which was used to offset stranded costs.

6. Commitments and Contingencies

A. Restructuring and Rate Matters

On September 27, 2001, CL&P filed its application with the DPUC for approval of the disposition of the proceeds in the amount of approximately $1.2 billion from the sale of the Millstone units to a subsidiary of Dominion. This application described and requested DPUC approval for CL&P's treatment of its share of the proceeds from the sale. In accordance with Connecticut's electric utility industry restructuring legislation, CL&P was required to utilize any gains from the Millstone sale to offset stranded costs. The DPUC's final decision regarding this application was received on February 27, 2003, and did not have a material impact on NU's 2002 results of operations.

B. Environmental Matters

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

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

Based upon currently available information for the estimated remediation costs at December 31, 2002 and 2001, the liability recorded by CL&P for its estimated environmental remediation costs amounted to $7.3 million and $2.5 million, respectively.

C. Spent Nuclear Fuel Disposal Costs

Under the Nuclear Waste Policy Act of 1982, CL&P must pay the DOE for the disposal of spent nuclear fuel and high-level radioactive waste. The DOE is responsible for the selection and development of repositories for, and the disposal of, spent nuclear fuel and high-level radioactive waste. For nuclear fuel used to generate electricity prior to April 7, 1983 (Prior Period Fuel), an accrual has been recorded for the full liability and payment must be made prior to the first delivery of spent fuel to the DOE. Until such payment is made, the outstanding balance will continue to accrue interest at the 3-month treasury bill yield rate. At December 31, 2002 and 2001, fees due to the DOE for the disposal of Prior Period Fuel were $205.5 million and $201.9 million, respectively, including interest costs of $138.9 million and $135.4 million, respectively.

Fees for nuclear fuel burned on or after April 7, 1983, were billed currently to customers and paid to the DOE on a quarterly basis. At December 31, 2002, as CL&P's ownership shares of Millstone and Seabrook have been sold, CL&P is no longer responsible for fees relating to current fuel burned at these facilities.

D. Nuclear Insurance Contingencies

In conjunction with the divestiture of Millstone in 2001 and Seabrook in 2002, NU and CL&P terminated their nuclear insurance related to these plants, and CL&P has no further exposure for potential assessments related to Millstone and Seabrook. However, through its continuing association with Nuclear Electric Insurance Limited (NEIL) and CYAPC and VYNPC, NU is subject to potential retrospective assessments totaling $0.8 million under its respective NEIL insurance policies.

E. Long-Term Contractual Arrangements

VYNPC: Previously, under the terms of its agreements, CL&P paid its ownership (or entitlement) shares of costs, which included depreciation, operation and maintenance (O&M) expenses, taxes, the estimated cost of decommissioning, and a return on invested capital to VYNPC and recorded these costs as purchased-power expenses. On July 31, 2002, VYNPC consummated the sale of its nuclear generating unit to a subsidiary of Entergy for approximately $180 million. Under the terms of the sale, CL&P will continue to buy 9.5 percent of the plant's output through March 2012 at a range of fixed prices. CL&P's cost of purchases under contracts with VYNPC amounted to $16.4 million in 2002, $14.7 million in 2001, and $14.5 million in 2000.

Electricity Procurement Contracts: CL&P has entered into various arrangements for the purchase of electricity. The total cost of purchases under these arrangements amounted to $154.6 million in 2002, $205 million in 2001, and $308.6 million in 2000. These amounts are for independent power producer contracts and do not include contractual commitments related to CL&P's standard offer.

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

Estimated Future Annual Costs: The estimated future annual costs of CL&P's significant long-term contractual arrangements are as follows:

(Millions of Dollars)	2003	2004	2005	2006	2007
VYNPC	$ 18.3	$ 17.4	$ 16.1	$ 16.8	$ 16.3
Electricity Procurement Contracts	197.0	200.0	203.4	206.9	211.7
Hydro-Quebec	15.0	14.5	14.2	13.0	12.4
Totals	$230.3	$231.9	$233.7	$236.7	$240.4

F. Nuclear Decommissioning and Plant Closure Costs

In conjunction with the Millstone, Seabrook and VYNPC nuclear generation asset divestitures, the applicable liabilities and nuclear decommissioning trusts were transferred to the purchasers and the purchasers agreed to assume responsibility for decommissioning their respective units.

During 2002, NU, along with the other joint owners, were notified by the Yankee Companies that the estimated cost of decommissioning the units owned by CYAPC, YAEC and MYAPC increased in total by approximately $380 million over prior estimates due to higher anticipated costs for spent fuel storage, security and liability and property insurance. CL&P's share of this increase would total $115.6 million. Following rate cases to be filed by the Yankee Companies with the FERC, NU will seek recovery of the higher decommissioning costs from retail customers through the appropriate state regulatory agency. At December 31, 2002 and 2001, CL&P's remaining estimated obligations, for decommissioning for the units owned by CYAPC, YAEC and MYAPC, which have been shut down, were $234.5 million and $141.5 million, respectively.

7. Fair Value of Financial Instruments

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

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

Preferred Stock, Long-Term Debt and Rate Reduction Bonds: The fair value of CL&P's fixed-rate securities is based upon the quoted market price for those issues or similar issues. Adjustable rate securities are assumed to have a fair value equal to their carrying value. The carrying amounts of CL&P's financial instruments and the estimated fair values are as follows:

	At December 31, 2002	
(Millions of Dollars)	Carrying Amount	Fair Value
Preferred stock not subject to mandatory redemption	$ 116.2	$ 84.0
Long-term debt –		
First mortgage bonds	198.8	242.0
Other long-term debt	629.3	643.0
Rate reduction bonds	1,245.7	1,356.1

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

Other Financial Instruments: The carrying value of financial instruments included in current assets and current liabilities, including investments in securitizable assets, approximates their fair value.

8. Leases

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

Capital lease rental payments charged to operating expense were $3 million in 2002, $9.2 million in 2001, and $36.3 million in 2000. Interest included in capital lease rental payments was $2 million in 2002, $3.4 million in 2001, and $7.9 million in 2000. Operating lease rental payments charged to expense were $6.9 million in 2002, $7.1 million in 2001, and $9.8 million in 2000.

Future minimum rental payments excluding executory costs, such as property taxes, state use taxes, insurance, and maintenance, under long-term noncancelable leases, at December 31, 2002 are as follows:

(Millions of Dollars) Year	Capital Leases	Operating Leases
2003	$ 2.6	$12.0
2004	2.5	11.0
2005	2.4	10.2
2006	2.4	9.1
2007	2.4	6.1
After 2007	22.2	15.2
Future minimum lease payments	$34.5	$63.6
Less amount representing interest	19.0	
Present value of future minimum lease payments	$15.5	

9. Accumulated Other Comprehensive Income/(Loss)

The accumulated balance for each other comprehensive income/(loss) item is as follows:

(Millions of Dollars)	December 31, 2001	Current Period Change	December 31, 2002
Unrealized gains/(losses) on securities	$ 0.4	$(0.5)	$(0.1)
Minimum pension liability adjustments	(0.3)	-	(0.3)
Accumulated other comprehensive income/(loss)	$ 0.1	$(0.5)	$(0.4)

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

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

(Millions of Dollars)	2002	2001	2000
Unrealized gains/(losses) on securities	$0.3	$0.3	$(0.1)
Minimum pension liability adjustments	-	-	-
Accumulated other comprehensive income/(loss)	$0.3	$0.3	$(0.1)

10. Preferred Stock Not Subject to Mandatory Redemption

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

Description	December 31, 2002 Redemption Price	Shares Outstanding at December 31, 2002	December 31, 2002	December 31, 2001
			(Millions of Dollars)	
$1.90 Series of 1947	$52.50	163,912	$ 8.2	$ 8.2
$2.00 Series of 1947	54.00	336,088	16.8	16.8
$2.04 Series of 1949	52.00	100,000	5.0	5.0
$2.20 Series of 1949	52.50	200,000	10.0	10.0
3.90% Series of 1949	50.50	160,000	8.0	8.0
$2.06 Series E of 1954	51.00	200,000	10.0	10.0
$2.09 Series F of 1955	51.00	100,000	5.0	5.0
4.50% Series of 1956	50.75	104,000	5.2	5.2
4.96% Series of 1958	50.50	100,000	5.0	5.0
4.50% Series of 1963	50.50	160,000	8.0	8.0
5.28% Series of 1967	51.43	200,000	10.0	10.0
$3.24 Series G of 1968	51.84	300,000	15.0	15.0
6.56% Series of 1968	51.44	200,000	10.0	10.0
Totals			$116.2	$116.2

11. Long-Term Debt

Details of long-term debt outstanding are as follows:

At December 31,	2002	2001
	(Millions of Dollars)	
First Mortgage Bonds:		
8 1/2% Series C due 2024	$ 59.0	$ 59.0
7 7/8% Series D due 2024	139.8	139.8
	198.8	198.8
Pollution Control Notes:		
Fixed rate, due 2016-2022	46.4	46.4
Fixed rate, tax exempt, due 2028	315.5	315.5
Variable rate, tax exempt, due 2031	62.0	62.0
Fees and interest due for spent nuclear fuel disposal costs	205.5	201.9
	629.4	625.8
Less amounts due within one year	-	-
Unamortized premium and discount, net	(0.3)	(0.3)
Long-term debt	$827.9	$824.3

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

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

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

The average effective interest rates on the variable-rate pollution control notes ranged from 1.2 percent to 1.7 percent for 2002 and from 1.3 percent to 3.6 percent for 2001.

12. Income Tax Expense

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

For the Years Ended December 31,	2002	2001	2000
	(Millions of Dollars)		
Current income taxes:			
Federal	$114.4	$190.7	$ 77.2
State	24.3	38.8	17.2
Total current	138.7	229.5	94.4
Deferred income taxes, net:			
Federal	(53.3)	(117.0)	10.6
State	(15.2)	(23.8)	2.4
Total deferred	(68.5)	(140.8)	13.0
Investment tax credits, net	(3.3)	(3.8)	(7.3)
Total income tax expense	$ 66.9	$ 84.9	$100.1

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

For the Years Ended December 31,	2002	2001	2000
	(Millions of Dollars)		
Depreciation, leased nuclear fuel, settlement credits and disposal costs	$ 34.4	$ (9.2)	$ 13.8
Regulatory deferral	(68.3)	(33.1)	(14.1)
State net operating loss carryforward	-	-	-
Regulatory disallowance	0.3	-	-
Sale of generation assets	(18.4)	(197.6)	-
Pension (deferral)/accrual	(6.3)	19.9	13.6
Securitized contract termination costs and other	(5.9)	63.4	-
Other	(4.3)	15.8	(0.3)
Deferred income taxes, net	$(68.5)	$(140.8)	$ 13.0

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

For the Years Ended December 31,	2002	2001	2000
	(Millions of Dollars)		
Expected federal income tax	$53.4	$68.1	$ 86.9
Tax effect of differences:			
Depreciation	3.8	4.0	5.8
Amortization of regulatory assets	13.7	(0.6)	3.6
Investment tax credit amortization	(3.3)	(3.8)	(7.3)
State income taxes, net of federal benefit	5.9	9.8	12.7
Other, net	(6.6)	7.4	(1.6)
Total income tax expense	$66.9	$84.9	$100.1

13. Segment Information

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

Selected Consolidated Financial Data

(Thousands of Dollars)	2002	2001	2000	1999	1998
Operating Revenues	$2,507,036	$2,646,123	$2,935,922	$2,452,855	$2,386,864
Net Income/(Loss)	85,612	109,803	148,135	(13,568)	(195,725)
Cash Dividends on Common Stock	60,145	60,072	72,014	-	-
Total Assets	4,632,083	4,727,727	4,764,198	5,298,284	6,050,198
Rate Reduction Bonds	1,245,728	1,358,653	-	-	-
Long-Term Debt (a)	827,866	824,349	1,232,688	1,400,056	2,007,957
Preferred Stock Not Subject to Mandatory Redemption	116,200	116,200	116,200	116,200	116,200
Preferred Stock Subject to Mandatory Redemption (a)	-	-	-	99,539	119,289
Obligations Under Capital Leases (a)	15,499	16,040	129,869	144,400	162,884

Consolidated Quarterly Financial Data (Unaudited)

(Thousands of Dollars)	Quarter Ended			
2002	March 31	June 30	September 30	December 31
Operating Revenues	$604,420	$581,731	$687,938	$632,947
Operating Income	$ 64,111	$ 45,528	$ 72,946	$ 68,743
Net Income	$ 21,684	$ 11,407	$ 29,297	$ 23,224
2001				
Operating Revenues	$733,905	$610,275	$675,578	$626,365
Operating Income	$ 65,096	$ 68,114	$ 63,103	$ 66,716
Net Income	$ 38,300	$ 18,812	$ 18,824	$ 33,867

(a) Includes portions due within one year.

Consolidated Statistics (Unaudited)

	Gross Electric Utility Plant December 31, *(Thousands of Dollars)* (a)	kWh Sales *(Millions)*	Average Annual Use Per Residential Customer *(kWh)*	Electric Customers *(Average)*	Employees December 31,
2002	$3,292,685	29,623	9,244	1,158,307	2,130
2001	3,265,811	32,645	8,884	1,153,234	2,160
2000	5,964,605	42,120	8,976	1,121,551	2,057
1999	6,007,421	29,235	8,969	1,120,846	2,377
1998	6,345,215	27,300	8,476	1,111,370	2,379

(a) Amount includes construction work in progress.

The Connecticut Light and Power Company

First and Refunding Mortgage Bonds
Trustee and Interest Paying Agent
Deutsche Bank
280 Park Avenue – 9th Floor
New York, NY 10017

Preferred Stock
Transfer Agent, Dividend Disbursing Agent and Registrar
The Bank of New York
101 Barclay Street
New York, NY 10286

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

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

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

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

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

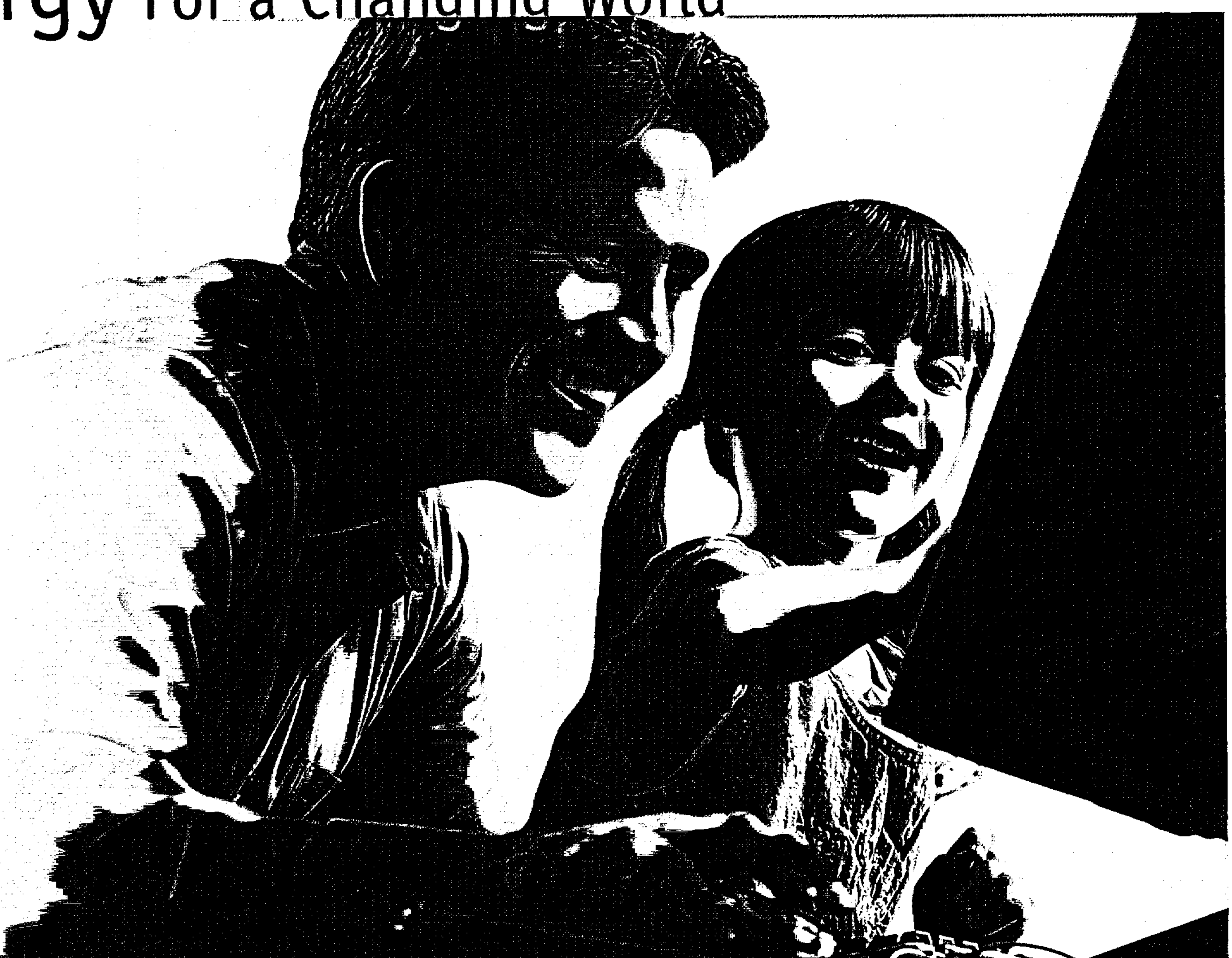
Connecticut
Light & Power

The Northeast Utilities System

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

Public Service of New Hampshire
2002 Annual Report

Energy For a Changing World



Directors

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

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

Cheryl W. Grisé
President – Utility Group
Northeast Utilities

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

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

Officers

Michael G. Morris
Chairman

Cheryl W. Grisé
Chief Executive Officer

Gary A. Long
President and Chief Operating Officer

John H. Forsgren
Executive Vice President and Chief Financial Officer

David H. Boguslawski
Vice President – Transmission Business

John M. MacDonald
Vice President – Operations

David R. McHale
Vice President and Treasurer

Paul E. Ramsey
Vice President – Customer Services

John P. Stack
Vice President – Accounting and Controller

Roger C. Zaklukiewicz
Vice President – Transmission Engineering and Operations

O. Kay Comendul
Secretary

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

Timothy J. Griffin
Assistant Controller – Corporate Accounting

Lori A. Mahler
Assistant Controller – Accounting Services

William J. Starr
Assistant Controller – Taxes

Robert A. Bersak
Assistant Secretary

Daniel P. Venora
Assistant Secretary

Randy A. Shoop
Assistant Treasurer – Finance

Richard E. Rudolf
Principal Engineer

2002 Annual Report

Public Service Company of New Hampshire and Subsidiaries

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Management's Discussion and Analysis

Financial Condition

Overview

Public Service Company of New Hampshire (PSNH or the company), a wholly owned subsidiary of Northeast Utilities (NU), earned $62.9 million in 2002 compared with $81.8 million in 2001. The lower 2002 net income was largely due to an after-tax gain of $15.5 million PSNH recorded in 2001 as a result of the sale of PSNH's share of the Millstone 3 nuclear unit (Millstone). NU's other subsidiaries include The Connecticut Light and Power Company (CL&P), Western Massachusetts Electric Company (WMECO), Yankee Energy System, Inc., North Atlantic Energy Corporation (NAEC), Select Energy, Inc., Northeast Generation Company, Northeast Generation Services Company, and Select Energy Services, Inc.

PSNH's revenues during 2002 decreased to $1 billion from $1.2 billion during 2001. The decrease in revenues primarily relates to lower retail and wholesale revenues. Retail revenues decreased primarily due to an 11 percent rate decrease that was effective May 1, 2001. Wholesale revenues decreased due to a reduction in prices and a lower volume of bilateral transactions and sales of excess capacity and energy.

Future Outlook

PSNH is expected to have reduced earnings in 2003 compared to 2002. The primary reasons for the reduction in 2003 earnings include a significant reduction in rate base due to the gain on the sale of Seabrook in 2002 and a significant increase in the projected level of pension expense in 2003 and forward. In addition, PSNH earnings are expected to be reduced due to the 2002 amortization of investment tax credits, the elimination of certain operating reserves and the positive settlement of certain previously disputed sales transactions in 2002.

PSNH recorded $0.6 million in pre-tax pension expense in 2002, approximately 35 percent of which was capitalized and reflected as an increase to the cost of capital expenditures with the remainder being recognized in the consolidated statements of income as operating expenses. In 2003, as a result of continued poor performance in the equity markets, PSNH is projecting the total level of pre-tax pension expense to increase to approximately $7 million, with a similar percentage being reflected as a increase to the cost of capital expenditures. Pension expense/income is annually adjusted during the second quarter based upon updated actuarial valuations, at which time the 2003 estimate may be modified.

Liquidity

On November 1, 2002, NAEC consummated the sale of its 35.98 percent ownership interest in Seabrook. NAEC received approximately $331 million of total cash proceeds from the sale of Seabrook. A portion of this cash was used to repay all $90 million of NAEC's outstanding debt, to return a portion of NAEC's equity to NU and will be used to pay approximately $95 million in taxes. The remaining proceeds received by NAEC were refunded to PSNH through the Seabrook Power Contracts.

In January 2002, PSNH issued an additional $50 million in rate reduction bonds and used the proceeds to repay short-term debt that was incurred to buyout a purchased-power contract in December 2001.

In November 2002, PSNH, along with NU's other regulated utilities, renewed their $300 million credit line, under terms similar to the arrangement that expired in November 2002. A previous credit line had provided up to $350 million for the regulated companies. PSNH had no borrowings on this credit line at December 31, 2002.

Rate reduction bonds are included on the consolidated balance sheets of PSNH, even though the debt is nonrecourse to PSNH. At December 31, 2002, PSNH had a total of $510.8 million in rate reduction bonds outstanding, compared with $507.4 million outstanding at December 31, 2001. All outstanding rate reduction bonds of PSNH are scheduled to be fully amortized by May 1, 2013. Interest on the rate reduction bonds totaled $30.5 million in 2002, compared with $20.7 million in 2001. Amortization of the rate reduction bonds totaled $46.5 million in 2002, compared with $17.6 million in 2001. PSNH fully recovered the amortization and interest payments from customers in 2002 and the bonds had no impact on net income. Moreover, because the debt is nonrecourse to PSNH, the three rating agencies that rate PSNH's debt do not include the revenues, expenses, or outstanding securities related to the rate reduction bonds in establishing the credit ratings of PSNH.

PSNH funded its capital expenditures through internally generated cash flows and through proceeds returned from NAEC as a result of the sale of Seabrook. PSNH returned $37 million in equity capital to NU in 2002. PSNH's capital expenditures are expected to total $116.3 million in 2003 and remain largely funded through internally generated cash flows.

PSNH's net cash flows provided by operating activities increased to $326 million in 2002, compared with $272.6 million in 2001. Cash flows provided by operating activities increased primarily due to changes in working capital, primarily accrued taxes and accounts payable, partially offset by the decrease in net income in 2002. The increase in accrued taxes relates primarily to the refund PSNH received from NAEC related to the gain on the sale of Seabrook.

There was a lower level of financing activities in 2002 as compared to 2001, primarily due to the issuance and retirements of long-term debt, issuance and retirements of rate reduction bonds and the buyout of independent power producer contracts in 2001. The level of common dividends totaled $45 million in 2002, as compared to $27 million in 2001.

Business Development and Capital Expenditures

The expectation that PSNH will retain its generation assets, at least through 2004, will result in higher near-term capital expenditures at PSNH. PSNH's capital expenditures, excluding nuclear fuel, totaled $109.8 million in 2002, compared with $92.6 million in 2001. Capital expenditures are expected to total $116.3 million in 2003, as PSNH continues to upgrade and expand its distribution and transmission system and upgrade its generation plants. The expenditures will be funded primarily through internally generated cash flows.

On December 5, 2002, PSNH announced an agreement to acquire the franchise and electric system of Connecticut Valley Electric Company, Inc. (CVEC), a subsidiary of Central Vermont Public Service Corporation (CVPS) that serves approximately 10,000 customers in western New Hampshire. Under the agreement, PSNH will pay CVPS approximately $9 million for its assets and an additional $21 million to terminate a wholesale power contract between CVPS and CVEC. Customers of CVEC will become customers of PSNH, whose residential rates are now approximately 20 percent lower than those of CVEC. PSNH will be allowed to recover the $21 million payment with a return consistent with Part 3 stranded cost treatment under the "Agreement to Settle PSNH Restructuring" (Restructuring Settlement). Part 3 stranded costs are nonsecuritized regulatory assets which must be recovered by a recovery end date determined in accordance with the Restructuring Settlement or be written off. The sale agreement is supported by the New Hampshire Governor's Office, New Hampshire Public Utilities Commission (NHPUC) staff, the state Office of Consumer Advocate, the City of Claremont, and New Hampshire Legal Assistance. The Federal Energy Regulatory Commission (FERC) and the NHPUC must approve the sale, which is expected to become effective on January 1, 2004.

Regional Transmission Organization

The FERC has required all transmission owning utilities, including PSNH, to voluntarily start forming Regional Transmission Organizations (RTO) or to state why this process has not begun.

PSNH has been discussing with the other transmission owners in New England the potential to form an Independent Transmission Company (ITC). If formed, the ITC would be a for-profit entity and would perform certain transmission functions required by the FERC, including tariff control, system planning and system operations. The remaining functions required by the FERC would be performed by the Independent System Operator (ISO) regarding the energy market and short-term reliability. Together, the ITC, if formed, and ISO would form the FERC-desired RTO.

In January 2002, the New York and New England ISOs announced their intention to form an RTO. On November 22, 2002, the two ISOs withdrew their joint petition to FERC. The New England ISO intends to make an RTO filing with the transmission owners in New England in 2003. The agreements needed to create the RTO and to define the working relationships among the ISO and the transmission owners should be created in 2003, and will allow the RTO to begin operation shortly thereafter. The agreements are expected to include provisions for the future creation of one or more ITCs within the RTO. The creation of the RTO will require a FERC rate case, and the impact on PSNH's return on equity as a result of this rate case cannot be estimated at this time. At December 31, 2002, PSNH capitalized $0.3 million related to RTO formation activities.

Restructuring and Rate Matters

In July 2001, the NHPUC opened a docket to review the fuel and purchased-power adjustment clause (FPPAC) costs incurred between August 2, 1999 and April 30, 2001. Under the Restructuring Settlement, FPPAC deferrals are recovered as a Part 3 stranded cost through the stranded cost recovery charge. On December 31, 2002, the NHPUC issued its final order allowing recovery of virtually all such costs.

On June 28, 2002, PSNH made its first stranded cost recovery charge reconciliation filing with the NHPUC for the period May 1, 2001, through December 31, 2001. This filing reconciles stranded cost revenues against actual stranded cost charges with any difference being credited against stranded costs or deferred for future recovery. Included in the stranded cost charges are the generation costs for the filing period. The generation costs included in this filing were subject to a prudence review by the NHPUC. In January 2003, PSNH entered into a settlement agreement with the Office of Consumer Advocate and the staff of the NHPUC that resolved all outstanding issues. In conjunction with the settlement agreement, the NHPUC staff recommended no disallowances resulting from their review of the outages at PSNH's generating plants. A final order approving the settlement agreement was issued by the NHPUC in February 2003. The NHPUC order approved PSNH's reconciliation of stranded costs as outlined within the settlement agreement and had no impact on PSNH's earnings.

On September 12, 2002, the NHPUC issued a final decision approving the auction results in the sale of Seabrook to FPL. On November 1, 2002, the sale was consummated. The proceeds received by NAEC, after NAEC repaid its outstanding debt, were refunded to PSNH through the Seabrook Power Contracts. PSNH used the proceeds received from NAEC to recover stranded costs and repay debt with the remaining proceeds to be returned to NU. As a result of the Seabrook sale, PSNH expects its wholesale electric sales to decline significantly in 2003. However, PSNH expects to generate most of the electricity it needs to serve retail customers from its own generating plants or purchased-power obligations and to purchase the remainder in the wholesale market.

On February 1, 2003, in accordance with the Restructuring Settlement, PSNH raised the transition service rate for residential and small commercial customers to $0.0460 per kWh from $0.0440 per kWh. On the same date, PSNH also raised its transition service rate for large commercial and industrial customers to $0.0467 per kWh from $0.0440 per kWh. PSNH expects these rates to be adequate to recover its generation and purchased-power costs, including the recovery of carrying costs on PSNH's generation investment. If recoveries exceed PSNH's costs, those overrecoveries will be credited against PSNH's Part 3 stranded cost balance. If actual costs exceed those recoveries, PSNH will defer those costs for future recovery from customers through its Stranded Cost Recovery Charge.

PSNH's delivery rates are fixed until February 1, 2004. Under the Restructuring Settlement, PSNH must file a rate case by December 31, 2003, for the purpose of commencing a review of PSNH's delivery rates. Also, under New Hampshire electric industry restructuring statutes, PSNH cannot divest its nonnuclear generation assets until at least February 1, 2004. At this time, management does not expect PSNH to propose selling its 1,200 megawatts of generation assets.

For further information regarding commitments and contingencies related to restructuring, see Note 6A, "Commitments and Contingencies – Restructuring and Rate Matters," to the consolidated financial statements.

Nuclear Generation Asset Divestitures

Seabrook: On November 1, 2002, CL&P, NAEC, and certain other joint owners consummated the sale of their ownership interest in Seabrook. NAEC formerly sold all of its entitlement in Seabrook to PSNH and billed PSNH all costs related to the entitlement under the terms of the Seabrook Power Contracts.

VYNPC: On July 31, 2002, Vermont Yankee Nuclear Power Corporation (VYNPC) consummated the sale of its nuclear generating unit. PSNH owns 4.3 percent of VYNPC.

Millstone: On March 31, 2001, PSNH, CL&P and WMECO sold their ownership interests in Millstone 3.

Under the terms of these asset divestitures, the purchasers agreed to assume responsibility for decommissioning their respective units. For further information regarding these divestitures and nuclear decommissioning, see Note 5, "Nuclear Generation Asset Divestitures," and Note 6E, "Nuclear Decommissioning and Plant Closure Costs," to the consolidated financial statements.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates, assumptions and at times difficult, subjective or complex judgments. Changes in these estimates, assumptions and judgments, in and of themselves, could materially impact the financial condition of PSNH. The following describes accounting policies and estimates that management believes are the most critical in nature:

Presentation: In accordance with current accounting pronouncements, PSNH's consolidated financial statements include all subsidiaries upon which significant control is maintained and all intercompany transactions between these subsidiaries are eliminated as part of the consolidation process. PSNH has less than 50 percent ownership interests in the Connecticut Yankee Atomic Power Company, Yankee Atomic Electric Company, Maine Yankee Atomic Power Company, VYNPC, and two companies that transmit electricity imported from the Hydro-Quebec system, which are classified as variable interest entities under Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities," and for which PSNH was not classified as the primary beneficiary. As a result, management does not expect the adoption of Interpretation No. 46 to result in the consolidation of any currently unconsolidated entities or to have any other material impacts on PSNH's consolidated financial statements.

Revenue Recognition: Revenues are based on rates approved by the NHPUC. These regulated rates are applied to customers' accounts based on their use of energy. In general, rates can only be changed through formal proceedings with the NHPUC.

The determination of the energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on generation volumes, estimated customer usage by class, line losses, and applicable customer rates.

Regulatory Accounting and Assets: The accounting policies of PSNH historically reflect the effects of the rate-making process in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." PSNH's transmission, distribution and generation businesses continue to be cost-of-service rate regulated, and management believes the application of SFAS No. 71 continues to be appropriate.

On May 22, 2001, the Governor of New Hampshire signed a bill modifying the state's electric utility industry restructuring laws delaying the sale of PSNH's fossil and hydroelectric generation assets until at least February 1, 2004. Since then there has been no regulatory action, and management currently has no plans to divest these generation assets. The NHPUC has allowed and is expected to continue to allow rate recovery of a return of and on these generation assets, as well as all operating expenses.

Management must reaffirm this conclusion at each balance sheet date. If, as a result of a change in circumstances, it is determined that any portion of these businesses no longer meets the criteria of regulatory accounting under SFAS No. 71, that portion of the company will have to discontinue regulatory accounting and write off regulatory assets. Such a write-off could have a material impact on PSNH's consolidated financial statements.

The application of SFAS No. 71 results in the deferral of costs as regulatory assets that, in some cases, have not yet been approved for recovery by the applicable regulatory commission. Management must conclude that any costs deferred as regulatory assets are probable of future recovery in rates. However, the regulatory commission can reach different conclusions about the recovery of costs, which can have a material impact on PSNH's consolidated financial statements. Management believes it is probable that PSNH will recover its investments in long-lived assets, including regulatory assets.

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

PSNH's pre-tax periodic pension expense/income for the Plan, excluding settlements, curtailments, and special termination benefits, totaled $0.6 million in expense and $3.9 million in income for the years ended December 31, 2002 and 2001, respectively. Pension expense or income is calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on Plan assets of 9.25 percent for 2002 and 9.5 percent for 2001. PSNH expects to use a long-term rate of return assumption of 8.75 percent for 2003. The pension expense/income amounts exclude one-time items recorded under SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," associated with early termination programs and the sale of the Millstone and Seabrook nuclear units. Net SFAS No. 88 expenses totaled $1.3 million for the year ended December 31, 2001. Approximately 35 percent of net pension expense/income is capitalized as additions or reductions to capital additions to utility plant.

In developing the expected long-term rate of return assumption, PSNH evaluated input from actuaries, consultants and economists as well as long-term inflation assumptions and NU's historical 20-year compounded return of 10.7 percent. NU's expected long-term rate of return on Plan assets is based on target asset allocation assumptions of 45 percent in United States equities and 14 percent in non-United States equities, both with expected long-term rates of return of 9.25 percent, 3 percent in emerging market equities with an expected long-term return of 10.25 percent, 20 percent in fixed income securities with an expected long-term rate of return of 5.5 percent, 5 percent in high yield fixed income securities with expected long-term rates of return of 7.5 percent, 8 percent in private equities with expected long-term rates of return of 14.25 percent, and 5 percent in real estate with expected long-term rates of return of 7.5 percent. The combination of these target allocations and expected returns results in the overall assumed long-term rate of return of 8.75 percent for 2003. The actual asset allocation at December 31, 2002, was close to these target asset allocations, and NU regularly reviews the actual asset allocations and periodically rebalances the investments to the targeted allocation when appropriate. NU reduced the long-term rate of return assumption by 0.5 percent and 0.25 percent, respectively, each of the last two years due to lower rate of return assumptions for most asset classes. PSNH believes that 8.75 percent is a reasonable long-term rate of return on Plan assets for 2003. PSNH will continue to evaluate the actuarial assumptions, including the expected rate of return, at least annually, and will adjust the appropriate assumptions as necessary.

PSNH bases the actuarial determination of Plan pension income/expense on a market-related valuation of assets, which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a four-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the fair value of assets. Since the market-related value of assets recognizes gains or losses over a four-year period, the future value of the market-related assets will be impacted as previously deferred gains or losses are recognized. There will be no impact on the fair value of Plan assets. At December 31, 2002, PSNH's portion of the Plan had cumulative unrecognized investment losses of $50.9 million, which will increase Plan expense over the next four years by reducing the expected return on Plan assets. At December 31, 2002, PSNH's portion of the Plan also had cumulative unrecognized actuarial gains of $8.2 million, which will reduce Plan expenses over the expected future working lifetime of active Plan participants, or approximately 13 years. The combined total of unrecognized investment losses and actuarial gains at December 31, 2002 is $42.7 million. This amount impacts the actuarially determined prepaid pension amount recorded on the consolidated balance sheet but has no impact on expected Plan funding.

The discount rate that is utilized in determining future pension obligations is based on a basket of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. To compensate for the Plan's longer duration 0.25 percent was added to this rating. The discount rate determined on this basis has decreased from 7.25 percent at December 31, 2001 to 6.75 percent at December 31, 2002.

Due to the effect of the unrecognized actuarial losses and based on an expected rate of return on Plan assets of 8.75 percent, a discount rate of 6.75 percent and various other assumptions, PSNH estimates that pension expense for the Plan will be approximately $7 million, approximately $11 million and approximately $15 million in 2003, 2004 and 2005, respectively. Future actual pension income/expense will depend on future investment performance, changes in future discount rates and various other factors related to the populations participating in the plan.

The value of PSNH's portion of the Plan assets has decreased from $196.6 million at December 31, 2001 to $163.5 million at December 31, 2002. The investment performance returns and declining discount rates have reduced the funded status of PSNH's portion of the Plan, on a projected benefit obligation (PBO) basis, from an underfunded position of $31.3 million at December 31, 2001 to $97.4 million at December 31, 2002. The PBO includes expectations of future employee service and compensation increases. The significant deterioration in the funded position of the Plan will likely result in Plan contributions sooner than previously expected. PSNH has not made contributions since 1991. This deterioration could also lead to the requirement under defined benefit plan accounting to record an additional minimum liability. The total accumulated benefit obligation (ABO) of the entire Plan was $78 million less than Plan assets at December 31, 2002. The ABO is the obligation for employee service provided through December 31, 2002. If the ABO exceeds Plan assets, PSNH may need to record an additional minimum liability in 2003.

Income Taxes: Income tax expense is calculated for each period for which a statement of income is presented. This process involves estimating PSNH's actual current tax exposures as well as assessing temporary differences resulting from differing treatment of items, such as timing of the deduction of expenses for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheets. PSNH must also assess the likelihood that the deferred tax assets will be recovered from future taxable income, and to the extent that recovery is not likely, a valuation allowance must be established. Significant management judgment is required in determining income tax expense, deferred tax assets and liabilities and valuation allowances. PSNH accounts for deferred taxes under SFAS No. 109, "Accounting for Income Taxes." For temporary differences recorded as deferred tax liabilities that will be recovered in rates in the future, PSNH has established a regulatory asset. This asset amounted to $96.5 million and $87.9 million at December 31, 2002 and 2001, respectively.

Depreciation: Depreciation expense is calculated based on an asset's useful life, and judgment is involved when estimating the useful lives of certain assets. A change in the estimated useful lives of these assets could have a material impact on PSNH's consolidated financial statements.

Environmental Matters: At December 31, 2002, PSNH has recorded a reserve for various environmental liabilities. PSNH's environmental liabilities are based on the best estimate of the amounts to be incurred for the investigation, remediation and monitoring of the remediation sites. It is possible that future cost estimates will either increase or decrease as additional information becomes known. Changes in future cost estimates will have a smaller impact on PSNH, because they have a regulatory mechanism in place to recover environmental remediation costs.

Special Purpose Entities: PSNH has two special purpose entities, both of which are currently consolidated in the financial statements. During 2001 and 2002, to facilitate the issuance of rate reduction bonds and certificates intended to finance certain stranded costs, PSNH established PSNH Funding LLC and PSNH Funding LLC 2 (the funding companies). The funding companies were created as part of state sponsored securitization programs. The funding companies are restricted from engaging in non-related activities and are required to operate in a manner intended to reduce the likelihood that they would be included in their respective parent company's bankruptcy estate if they ever become involved in such bankruptcy proceedings.

For further information regarding these types of activities, see Note 1, "Summary of Significant Accounting Policies," Note 4, "Pension Benefits and Postretirement Benefits Other Than Pensions," Note 6B, "Commitments and Contingencies - Environmental Matters," and Note 11, "Income Tax Expense," to the consolidated financial statements.

Other Matters

Other Commitments and Contingencies: For further information regarding other commitments and contingencies, see Note 6, "Commitments and Contingencies," to the consolidated financial statements.

Contractual Obligations and Commercial Commitments: Information regarding PSNH's contractual obligations and commercial commitments at December 31, 2002, is summarized through 2007 as follows:

(Millions of Dollars)	2003	2004	2005	2006	2007
Capital leases	$ 0.5	$ 0.4	$ 0.4	$ 0.3	$ 0.2
Operating leases	4.6	4.1	3.4	3.1	1.7
Long-term contractual arrangements	154.6	157.6	158.4	154.3	77.2
Totals	$159.7	$162.1	$162.2	$157.7	$79.1

Rate reduction bond amounts are not included in this table. For further information regarding NU's contractual obligations and commercial commitments, see Note 8, "Leases," and Note 6D, "Commitments and Contingencies - Long-Term Contractual Arrangements," to the consolidated financial statements.

Forward Looking Statements: This discussion and analysis includes forward looking statements, which are statements of future expectations and not facts including, but not limited to, statements regarding future earnings, refinancings, the use of proceeds from restructuring, and the recovery of operating costs. Words such as *estimates, expects, anticipates, intends, plans,* and similar expressions identify forward looking statements. Actual results or outcomes could differ materially as a result of further actions by state and federal regulatory bodies, competition and industry restructuring, changes in economic conditions, changes in weather patterns, changes in laws, developments in legal or public policy doctrines, technological developments, volatility in electric and natural gas commodity markets, and other presently unknown or unforeseen factors.

Results of Operations

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

Income Statement Variances *(Millions of Dollars)*	2002 over/(under) 2001 Amount	2002 over/(under) 2001 Percent	2001 over/(under) 2000 Amount	2001 over/(under) 2000 Percent
Operating Revenues	$(125)	(11)%	$(120)	(9)%
Operating Expenses:				
Fuel, purchased and net interchange power	(326)	(46)	(140)	(16)
Other operation	3	2	1	1
Maintenance	8	14	9	19
Depreciation	1	3	(4)	(9)
Amortization of regulatory assets, net	174	(a)	20	43
Taxes other than income taxes	(4)	(11)	(4)	(9)
Total operating expenses	(144)	(14)	(118)	(10)
Operating Income	19	14	(2)	(1)
Interest expense, net	(2)	(4)	13	36
Other income/(loss), net	(38)	(a)	22	(a)
Income before income tax expense	(17)	(14)	7	7
Income tax expense	2	4	(7)	(15)
Income before extraordinary loss	(19)	(23)	14	21
Extraordinary loss	-	-	214	(a)
Net income/(loss)	$ (19)	(23)%	$ 228	(a)%

(a) Percent greater than 100.

Operating Revenues

Operating revenue decreased $125 million or 11 percent in 2002, primarily due to lower retail and wholesale revenues. Retail revenues decreased $24 million, primarily due to the May 2001 rate decrease. Retail kilowatt-hour sales were essentially flat with a 0.1 percent decrease. Wholesale revenues decreased $100 million due to a reduction in prices and a lower volume of bilateral transactions and sales of excess capacity and energy.

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

Fuel, Purchased and Net Interchange Power

Fuel, purchased and net interchange power expense decreased $326 million in 2002, primarily due to the gain on the sale of utility plant resulting from the sale of Seabrook Station recorded on NAEC's books which was transferred to PSNH through the Seabrook Power Contracts ($171 million), lower purchased power from NAEC ($67 million), and lower expenses resulting from the decrease in wholesale energy sales.

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

Other Operation and Maintenance

Other operation and maintenance (O&M) expenses increased $11 million in 2002, primarily due to higher fossil/hydro production expense ($8 million) and higher transmission and distribution expense ($3 million).

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

Depreciation

Depreciation increased $1 million in 2002, primarily due to the construction of the new corporate headquarters.

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

Amortization of Regulatory Assets, Net

Amortization of regulatory assets, net increased $174 million primarily due to recovery of stranded costs associated with the sale of the Seabrook Station.

Amortization of regulatory assets, net increased in 2001, primarily due to higher amortization related to restructuring.

Taxes Other Than Income Taxes

Taxes other than income taxes decreased $4 million in 2002, primarily due to the discontinuance of New Hampshire franchise taxes in 2001.

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

Interest Expense, Net

Interest expense, net decreased in 2002 primarily due to the December 2001 refinancing of long-term debt at lower rates.

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

Other Income/(Loss), Net

Other Income/(loss), net decreased in 2002 as a result of PSNH's sale of its ownership in Millstone 3 in 2001 ($26 million), a gain on the disposition of property in 2001 ($4 million) and lower dividend income in 2002 ($2 million).

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

Income Tax Expense

Income tax expense increased in 2002 primarily as a result of reduced investment tax credit amortization, partially offset by the tax consequences of lower acquisition premium amortization.
Income tax expense decreased in 2001, primarily due to the acceleration of investment tax credits associated with Seabrook due to the expected sale.

Extraordinary Loss, Net of Tax Benefit

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

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheet of Public Service Company of New Hampshire and subsidiaries (a New Hampshire corporation and a wholly owned subsidiary of Northeast Utilities) (the "Company") as of December 31, 2002, and the related consolidated statements of income, comprehensive income, common stockholder's equity, and cash flows for the year then ended. The consolidated financial statements of the Company as of December 31, 2001 and 2000, and for the years then ended, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated January 22, 2002. 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.

We conducted our audit 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 consolidated financial statements present fairly, in all material respects, the financial position of Public Service Company of New Hampshire and subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Hartford, Connecticut
January 28, 2003

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Public Service Company of New Hampshire and subsidiaries (a New Hampshire corporation and a wholly owned subsidiary of Northeast Utilities) as of December 31, 2001 and 2000, and the related consolidated statements of income, comprehensive income, common stockholder's equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Service Company of New Hampshire and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Hartford, Connecticut
January 22, 2002

Readers of these consolidated financial statements should be aware that this report is a copy of a previously issued Arthur Andersen LLP report and that this report has not been reissued by Arthur Andersen LLP. Furthermore, this report has not been updated since January 22, 2002, and Arthur Andersen LLP completed its last post-audit review of December 31, 2001, consolidated financial information on May 13, 2002.

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PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

At December 31,	2002	2001
	(Thousands of Dollars)	
ASSETS		
Current Assets:		
Cash	$ 5,319	$ 1,479
Receivables, less provision for uncollectible accounts of $1,990 in 2002 and $1,737 in 2001	68,204	70,540
Accounts receivable from affiliated companies	9,667	13,055
Unbilled revenues	32,004	29,268
Notes receivable from affiliated companies	23,000	-
Fuel, materials and supplies, at average cost	49,182	42,047
Prepayments and other	10,032	10,211
	197,408	166,600
Property, Plant and Equipment:		
Electric utility	1,431,710	1,447,955
Other	6,195	6,221
	1,437,905	1,454,176
Less: Accumulated depreciation	715,736	689,397
	722,169	764,779
Construction work in progress	50,547	44,961
	772,716	809,740
Deferred Debits and Other Assets:		
Regulatory assets	859,871	1,046,760
Other	92,280	71,414
	952,151	1,118,174
Total Assets	$ 1,922,275	$ 2,094,514

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

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

At December 31,	2002	2001
	(Thousands of Dollars)	
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes payable to banks	$ -	$ 60,500
Notes payable to affiliated companies	-	23,000
Obligations under Seabrook Power Contracts and other capital leases - current portion	206	24,164
Accounts payable	54,588	32,285
Accounts payable to affiliated companies	4,008	18,727
Accrued taxes	65,317	2,281
Accrued interest	11,333	9,428
Overcollections on rate reduction bonds	25,555	12,479
Other	12,468	12,685
	173,475	195,549
Rate Reduction Bonds	510,841	507,381
Obligations under Seabrook Power Contracts and Other Capital Leases	986	86,111
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	359,910	423,050
Accumulated deferred investment tax credits	2,680	12,015
Deferred contractual obligations	56,165	37,712
Accrued pension	37,933	37,326
Other	51,170	46,260
	507,858	556,363
Capitalization:		
Long-Term Debt	407,285	407,285
Common Stockholder's Equity:		
Common stock, $1 par value - authorized 100,000,000 shares; 301 shares outstanding in 2002 and 388 shares in 2001	-	-
Capital surplus, paid in	126,937	165,000
Retained earnings	194,998	176,419
Accumulated other comprehensive (loss)/income	(105)	406
Common Stockholder's Equity	321,830	341,825
Total Capitalization	729,115	749,110
Commitments and Contingencies (Note 6)		
Total Liabilities and Capitalization	$ 1,922,275	$ 2,094,514

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

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31,	2002	2001	2000
	(Thousands of Dollars)		
Operating Revenues	$ 1,046,738	$ 1,171,686	$ 1,291,332
Operating Expenses:			
Operation -			
Fuel, purchased and net interchange power	387,987	713,668	853,563
Other	126,506	123,533	122,268
Maintenance	64,146	56,276	47,429
Depreciation	40,941	39,741	43,873
Amortization of regulatory assets, net	238,960	65,445	45,874
Taxes other than income taxes	34,226	38,375	42,321
Total operating expenses	892,766	1,037,038	1,155,328
Operating Income	153,972	134,648	136,004
Interest Expense:			
Interest on long-term debt	16,752	29,308	37,086
Interest on rate reduction bonds	30,499	20,721	-
Other interest	1,874	915	471
Interest expense, net	49,125	50,944	37,557
Other (Loss)/Income, Net	(1,671)	36,643	14,360
Income Before Income Tax Expense	103,176	120,347	112,807
Income Tax Expense	40,279	38,571	45,256
Income Before Extraordinary Loss	62,897	81,776	67,551
Extraordinary loss, net of tax benefit of $155,783	-	-	(214,217)
Net Income/(Loss)	$ 62,897	$ 81,776	$ (146,666)
STATEMENTS OF COMPREHENSIVE INCOME			
Net Income/(Loss)	$ 62,897	$ 81,776	$ (146,666)
Other comprehensive (loss)/income, net of tax:			
Unrealized (losses)/gains on securities	(620)	(801)	133
Minimum pension liability adjustments	109	-	-
Comprehensive Income/(Loss)	$ 62,386	$ 80,975	$ (146,533)

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

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

	Common Stock	Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total (a)
	(Thousands of Dollars)				
Balance at January 1, 2000	$ 1	$ 424,654	$ 319,938	$ 1,074	$ 745,667
Net loss for 2000			(146,666)		(146,666)
Cash dividends on preferred stock			(3,962)		(3,962)
Cash dividends on common stock			(50,000)		(50,000)
Capital stock expenses, net		255			255
Allocation of benefits - ESOP (b)			3,867		3,867
Other comprehensive income				133	133
Balance at December 31, 2000	1	424,909	123,177	1,207	549,294
Net income for 2001			81,776		81,776
Cash dividends on preferred stock			(1,286)		(1,286)
Cash dividends on common stock			(27,000)		(27,000)
Repurchase of common stock	(1)	(259,999)			(260,000)
Capital stock expenses, net		90			90
Allocation of benefits - ESOP			(248)		(248)
Other comprehensive loss				(801)	(801)
Balance at December 31, 2001	-	165,000	176,419	406	341,825
Net income for 2002			62,897		62,897
Cash dividends on common stock			(45,000)		(45,000)
Repurchase of common stock		(37,000)			(37,000)
Allocation of benefits - ESOP		(1,063)	682		(381)
Other comprehensive loss				(511)	(511)
Balance at December 31, 2002	$ -	$ 126,937	$ 194,998	$ (105)	$ 321,830

(a) The company has no dividend restrictions. However, the company has two tests it must meet before it can pay out any dividends. The most restrictive of which limits the company to paying out no greater than $195.0 million of equity at December 31, 2002.

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

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

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2002	2001	2000
		(Thousands of Dollars)	
Operating activities:			
Income before extraordinary loss	$ 62,897	$ 81,776	$ 67,551
Adjustments to reconcile to net cash flows provided by operating activities:			
Depreciation	40,941	39,741	43,873
Deferred income taxes and investment tax credits, net	(79,866)	195,422	(521)
Net amortization/(deferral) of recoverable energy costs	9,859	(21,234)	(35,860)
Amortization of regulatory assets, net	238,960	65,445	45,874
Net other (uses)/sources of cash	(27,703)	(62,298)	140,308
Changes in working capital:			
Receivables and unbilled revenues, net	2,989	3,212	20,597
Fuel, materials and supplies	(7,135)	(13,287)	9,316
Accounts payable	7,583	(48,888)	23,110
Accrued taxes	63,036	1,624	(33,048)
Other working capital (excludes cash)	14,432	31,095	6,646
Net cash flows provided by operating activities	325,993	272,608	287,846
Investing Activities:			
Investments in plant:			
Electric utility plant	(109,770)	(92,626)	(69,500)
Nuclear fuel	-	(37)	(1,153)
Cash flows used for investments in plant	(109,770)	(92,663)	(70,653)
NU system Money Pool (lending)/borrowing	(46,000)	23,000	-
Investments in nuclear decommissioning trusts	-	(137)	(686)
Net proceeds from sale of utility plant	-	24,888	-
Buyout of IPP contracts	(5,152)	(48,164)	-
Other investment activities, net	(8,269)	(30,906)	2,268
Net cash flows used in investing activities	(169,191)	(123,982)	(69,071)
Financing Activities:			
Repurchase of common stock	(37,000)	(260,000)	-
Issuance of long-term debt	-	287,485	-
Issuance of rate reduction bonds	50,000	525,000	-
Retirement of rate reduction bonds	(46,540)	(17,619)	-
Net (decrease)/increase in short-term debt	(60,500)	60,500	-
Reacquisitions and retirements of long-term debt	-	(287,485)	(109,200)
Reacquisitions and retirements of preferred stock	-	(24,268)	(25,732)
Buydown of capital lease obligation	-	(497,508)	-
Cash dividends on preferred stock	-	(1,286)	(3,962)
Cash dividends on common stock	(45,000)	(27,000)	(50,000)
Other financing activities, net	(13,922)	(21,448)	(96,922)
Net cash flows used in financing activities	(152,962)	(263,629)	(285,816)
Net increase/(decrease) in cash	3,840	(115,003)	(67,041)
Cash - beginning of year	1,479	116,482	183,523
Cash - end of year	$ 5,319	$ 1,479	$ 116,482
Supplemental Cash Flow Information:			
Cash paid during the year for:			
Interest, net of amounts capitalized	$ 47,506	$ 47,369	$ 38,819
Income taxes	$ 56,458	$ 168,021	$ 22,575

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

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

A. About Public Service Company of New Hampshire

Public Service Company of New Hampshire (PSNH or the company) along with The Connecticut Light and Power Company (CL&P), and Western Massachusetts Electric Company (WMECO), North Atlantic Energy Corporation (NAEC), Holyoke Water Power Company (HWP) and Yankee Energy System, Inc. (Yankee) are the operating companies comprising the Northeast Utilities system and are wholly owned by Northeast Utilities (NU). PSNH furnishes franchised retail electric service in New Hampshire and CL&P and WMECO furnish franchised retail electric service in Connecticut and western Massachusetts. NAEC previously sold all of its entitlement to the capacity and output of the Seabrook Station nuclear unit (Seabrook) to PSNH under the terms of two life-of-unit, full cost recovery contracts (Seabrook Power Contracts). Seabrook was sold on November 1, 2002. NU's other subsidiaries include HWP, a company engaged in the production of electric power, Yankee, the parent company of Yankee Gas Services Company (Yankee Gas), Connecticut's largest natural gas distribution system, and several other competitive subsidiaries including Select Energy, Inc., Northeast Generation Company, Northeast Generation Services Company, and Select Energy Services, Inc.

PSNH is registered with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934. NU is registered with the SEC as a holding company under the Public Utility Holding Company Act of 1935 (1935 Act) and NU, including PSNH, is subject to the provisions of the 1935 Act. Arrangements among PSNH, other NU companies, outside agencies, and other utilities covering interconnections, interchange of electric power and sales of utility property are subject to regulation by the Federal Energy Regulatory Commission (FERC) and/or the SEC. PSNH is subject to further regulation for rates, accounting and other matters by the FERC and the New Hampshire Public Utilities Commission (NHPUC).

Several wholly owned subsidiaries of NU provide support services for various NU's companies, and, in some cases, for other New England utilities. Northeast Utilities Service Company (NUSCO) provides centralized accounting, administrative, engineering, financial, information resources, legal, operational, planning, purchasing, and other services to NU's companies. Until the sale of Seabrook on November 1, 2002, North Atlantic Energy Service Corporation had operational responsibility for Seabrook. Three other subsidiaries construct, acquire or lease some of the property and facilities used by NU's companies.

B. Presentation

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

C. New Accounting Standards

Asset Retirement Obligations: In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations." This statement requires that legal obligations associated with the retirement of property, plant and equipment be recognized as a liability at fair value when incurred and when a reasonable estimate of the fair value of the liability can be made. SFAS No. 143 is effective on January 1, 2003, for PSNH. Management has completed its review process for potential asset retirement obligations (AROs) and has not identified any material AROs which have been incurred. However, management has identified certain removal obligations which arise in the ordinary course of business that either have a low probability of occurring or are not material in nature. These types of obligations primarily relate to transmission and distribution lines and poles, telecommunication towers, transmission cables and certain FERC or state regulatory agency re-licensing issues.

A portion of PSNH's rates are intended to recover the cost of removal of certain utility assets. The amounts recovered do not represent AROs. At December 31, 2002, PSNH maintained approximately $66.6 million in cost of removal regulatory liabilities, which are included in the accumulated provision for depreciation.

Guarantees: In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45 requires that disclosures be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued and clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. Interpretation No. 45 does not apply to certain guarantee contracts, such as residual value guarantees provided by lessees in capital leases, guarantees that are accounted for as derivatives, guarantees that represent contingent consideration in a business combination, guarantees issued between either parents and their subsidiaries or corporations under common control, a parent's guarantee of a subsidiary's debt to a third party, and a subsidiary's guarantee of the debt owed to a third party by either its parent or another subsidiary of that parent. The initial recognition and initial measurement provisions of Interpretation No. 45 are applicable to PSNH on a prospective basis to guarantees issued or modified after January 1, 2003. Currently, management does not expect the adoption of the initial recognition and initial measurement provisions of Interpretation No. 45 to have a material impact on PSNH's consolidated financial statements.

Consolidation of Variable Interest Entities: In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." Interpretation No. 46 addresses the consolidation and disclosure requirements for companies that hold an equity interest in a variable interest entity (VIE), regardless of the date on which the VIE was created. Interpretation No. 46 requires consolidation of a VIE's assets, liabilities and noncontrolling interests at fair value when a company is the primary beneficiary, which is defined as a company that absorbs a majority of the expected losses, risks and revenues from the VIE as a result of holding a contractual or other financial interest in the VIE. Consolidation is not required under Interpretation No. 46 for those companies that hold a significant equity interest in a VIE but are not the primary beneficiary. Interpretation No. 46 is effective for PSNH beginning in the third quarter of 2003. At December 31, 2002, PSNH held equity interests in various VIEs, for which PSNH was not the primary beneficiary, as PSNH does not absorb a majority of the expected losses, risks and revenues from the VIEs or provide a substantial portion of financial support. As a result, management does not expect the adoption of Interpretation No. 46 to have a material impact on PSNH's consolidated financial statements. For further information regarding PSNH's investments in its VIEs, see Note 1D, "Equity Investments and Jointly Owned Electric Utility Plant" to the consolidated financial statements.

D. Equity Investments and Jointly Owned Electric Utility Plant

Regional Nuclear Generating Companies: PSNH owns common stock in four regional nuclear companies (Yankee Companies). PSNH's ownership interests in the Yankee Companies at December 31, 2002 and 2001, which are accounted for on the equity method are 5 percent of the Connecticut Yankee Atomic Power Company (CYAPC), 7 percent of the Yankee Atomic Electric Company (YAEC), 5 percent of Maine Yankee Atomic Power Company (MYAPC), and 4.3 percent of Vermont Yankee Nuclear Power Corporation (VYNPC). PSNH's total equity investment in the Yankee Companies and its exposure to loss as a result of these investments at December 31, 2002 and 2001, is $8 million and $8.5 million, respectively. These investments are VIEs under FASB Interpretation No. 46. Excluding VYNPC, which sold its nuclear generating plant, each Yankee Company owns a single decommissioned nuclear generating plant. On July 31, 2002, VYNPC consummated the sale of its nuclear generating plant to a subsidiary of Entergy Corporation for approximately $180 million.

Wyman Unit 4: PSNH has a 3.14 percent ownership interest in Wyman Unit 4, a 632 megawatt oil-fired generating unit. At December 31, 2002 and 2001, plant-in-service included $6.2 million and $6.1 million, respectively, net of the accumulated provision for depreciation of $4.7 million and $4.5 million, respectively.

E. Depreciation

The provision for depreciation is calculated using the straight-line method based on the estimated remaining useful lives of depreciable utility plant-in-service, which range primarily from 14 years to 75 years, adjusted for salvage value and removal costs, as approved by the appropriate regulatory agency where applicable. Depreciation rates are applied to plant-in-service from the time they are placed in service. When plant is retired from service, the original cost of the plant, including costs of removal less salvage, is charged to the accumulated provision for depreciation. The depreciation rates for the several classes of electric utility plant-in-service are equivalent to a composite rate of 3 percent in 2002 and 2001 and 3.2 percent in 2000.

F. Revenues

Revenues are based on rates approved by the state regulatory commissions. These regulated rates are applied to customer's accounts based on their use of energy. In general, rates can only be changed through formal proceedings with the NHPUC.

The determination of the energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on generation volumes, estimated customer usage by class, line losses, and applicable customer rates.

G. Regulatory Accounting and Assets

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

PSNH's transmission and distribution businesses continue to be cost-of-service rate regulated, and management believes the application of SFAS No. 71 to that portion of those businesses continues to be appropriate. Management believes it is probable that PSNH will recover its investments in long-lived assets, including regulatory assets. In addition, all material regulatory assets are earning a return, except for securitized regulatory assets. The components of PSNH's regulatory assets are as follows:

	At December 31,	
(Millions of Dollars)	2002	2001
Recoverable nuclear costs	$ 36.8	$ 40.5
Securitized regulatory assets	505.4	498.2
Income taxes, net	96.5	87.9
Unrecovered contractual obligations	58.7	38.8
Recoverable energy costs, net	241.7	251.6
Other	(79.2)	129.8
Total	$ 859.9	$1,046.8

At December 31, 2002, other regulatory assets included a regulatory liability in the amount of $166.2 million, related primarily to the gain on the sale of Seabrook.

In 2000, PSNH discontinued the application of SFAS No. 71 for its generation business and created a regulatory asset for Seabrook over market generation. In April 2001, PSNH issued rate reduction bonds in the amount of $525 million. PSNH used the majority of this amount to buydown its power contracts with NAEC. The Seabrook over market generation was securitized at that time and is reflected in securitized regulatory assets at December 31, 2002 and 2001. On May 22, 2001, the Governor of New Hampshire signed a bill modifying the state's electric utility industry restructuring laws delaying the sale of PSNH's fossil and hydroelectric generation assets until at least February 1, 2004. Since then there has been no regulatory action, and management currently has no plans to divest these generation assets. As the NHPUC has allowed and is expected to continue to allow rate recovery of a return of and on these generation assets, as well as all operating expenses, PSNH again meets the criteria for the application of SFAS No. 71 for the generation portion of its business. Accordingly, costs related to the generation assets, to the extent not currently recovered in rates, are deferred as Part 3 stranded costs under the "Agreement to Settle PSNH Restructuring" (Restructuring Settlement). Part 3 stranded costs are nonsecuritized regulatory assets which must be recovered by a recovery end date determined in accordance with the Restructuring Settlement or be written off.

In January 2002, PSNH issued an additional $50 million in rate reduction bonds and used the proceeds from this issuance to repay short-term debt that was incurred to buyout a purchased-power contract in December 2001. The majority of the payments to buyout or buydown these contracts were recorded as securitized regulatory assets.

PSNH, under the terms of contracts with the Yankee Companies, is responsible for its proportionate share of the remaining costs of the units, including decommissioning. These remaining amounts are recorded as unrecovered contractual obligations and recovered as stranded costs.. During 2002, PSNH was notified by the Yankee Companies that the estimated cost of decommissioning their units had increased over prior estimates due to higher anticipated costs for spent fuel storage, security and liability and property insurance. In December 2002, PSNH recorded an additional $23.6 million in deferred contractual obligations and a corresponding increase in the unrecovered contractual obligations regulatory asset as a result of these increased costs.

PSNH, under the Energy Policy Act of 1992 (Energy Act), was assessed for its proportionate share of the costs of decontaminating and decommissioning uranium enrichment plants owned by the United States Department of Energy (D&D Assessment). The Energy Act requires that regulators treat D&D Assessments as a reasonable and necessary current cost of fuel, to be fully recovered in rates like any other fuel cost. PSNH is currently recovering these costs through rates. No D&D Assessment deferrals were outstanding at December 31, 2002. At December 31, 2001, PSNH's total D&D Assessment deferrals were $0.2 million and have been recorded as recoverable energy costs, net.

In conjunction with the implementation of restructuring under the Restructuring Settlement on May 1, 2001, PSNH's fuel and purchased-power adjustment clause (FPPAC) was discontinued. At December 31, 2002 and 2001, PSNH had $179.6 million and $183.3 million, respectively, of recoverable energy costs deferred under the FPPAC, including previous deferrals of purchases from independent power producers. Under the Restructuring Settlement, the FPPAC deferrals are recovered as a Part 3 stranded cost through a stranded cost recovery charge. Also included in PSNH's recoverable energy costs are costs associated with certain contractual purchases from independent power producers that had previously been included in the FPPAC. These costs are treated as Part 3 stranded costs and amounted to $62.1 million and $68.1 million at December 31, 2002 and 2001, respectively.

H. Income Taxes

The tax effect of temporary differences (differences between the periods in which transactions affect income in the financial statements and the periods in which they affect the determination of taxable income) is accounted for in accordance with the rate-making treatment of the applicable regulatory commissions and SFAS No. 109, "Accounting for Income Taxes."

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

	At December 31,	
(Millions of Dollars)	2002	2001
Accelerated depreciation and other plant-related differences	$ 73.3	$ 85.8
Regulatory assets:		
Securitized contract termination costs and other	163.0	177.9
Income tax gross-up	36.8	37.8
Other	86.8	121.6
Totals	$359.9	$423.1

I. Other (Loss)/Income, Net

The pre-tax components of PSNH's other (loss)/income, net items are as follows:

	For the Years Ended December 31,		
(Millions of Dollars)	2002	2001	2000
Gain related to Millstone sale	$ -	$25.9	$ -
Investment income	1.2	2.3	14.9
Other, net	(2.9)	8.4	(0.5)
Totals	$(1.7)	$36.6	$14.4

2. Seabrook Power Contracts

PSNH and NAEC had entered into two power contracts that previously obligated PSNH to purchase NAEC's 35.98 percent ownership of the capacity and output of Seabrook for the term of Seabrook's operating license. NAEC's cost of service included all of its Seabrook-related costs, including operation and maintenance (O&M) expenses, fuel expense, income and property tax expense, depreciation expense, certain overhead and other costs, and a return on its allowed investment. With the implementation of the Settlement Agreement, PSNH and NAEC restructured the power contracts and bought down the value of the Seabrook plant asset, as defined within the Settlement Agreement, to $100 million. On November 1, 2002, NAEC consummated the sale of its investment in Seabrook. With the sale of NAEC's ownership interest in Seabrook, sales of capacity and output under the Seabrook Power Contracts ended.

3. Short-Term Debt

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

Credit Agreement: On November 12, 2002, PSNH, CL&P, WMECO and Yankee Gas entered into a new unsecured 364-day revolving credit facility for $300 million. This facility replaced a $350 million facility for PSNH, CL&P, WMECO and Yankee Gas, which expired on November 15, 2002. PSNH may draw up to $100 million under this facility. Unless extended, the credit facility will expire on November 11, 2003. At December 31, 2002 and 2001, there were no borrowings and $60.5 million, in borrowings, respectively, under these facilities.

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

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

Money Pool: Certain subsidiaries of NU, including PSNH, are members of the Northeast Utilities System Money Pool (Pool). The Pool provides a more efficient use of the cash resources of NU and reduces outside short-term borrowings. NUSCO administers the Pool as agent for the member companies. Short-term borrowing needs of the member companies are first met with available funds of other member companies, including funds borrowed by NU parent. NU parent may lend to the Pool but may not borrow. Funds may be withdrawn from or repaid to the Pool at any time without prior notice. Investing and borrowing subsidiaries receive or pay interest based on the average daily federal funds rate. Borrowings based on loans from NU parent, however, bear interest at NU parent's cost and must be repaid based upon the terms of NU parent's original borrowing. At December 31, 2002 and 2001, PSNH had $23 million of lendings to and $23 million of borrowings from the Pool, respectively. The interest rate on lendings to and borrowings from the Pool at December 31, 2002 and 2001 was 1.2 percent and 1.5 percent, respectively.

4. Pension Benefits and Postretirement Benefits Other Than Pensions

PSNH participates in a uniform noncontributory defined benefit retirement plan covering substantially all regular NU employees. Benefits are based on years of service and the employees' highest eligible compensation during 60 consecutive months of employment. Pre-tax pension expense/income, approximately 35 percent of which was recorded as utility plant, was $0.6 million in expense in 2002, $3.9 million in income in 2001 and $4.3 million in income in 2000. These amounts exclude pension settlements, curtailments and net special termination expenses of $1.3 million in 2001.

In conjunction with the Voluntary Separation Program (VSP) that was announced in December 2000, PSNH recorded $0.5 million in settlement income and $0.3 million in curtailment income in 2001. The VSP was intended to reduce the generation-related support staff between March 1, 2001 and February 28, 2002, and was available to non-bargaining unit employees who, by February 1, 2002, were at least age 50, with a minimum of five years of credited service, and at December 15, 2000, were assigned to certain groups and in eligible job classifications.

One component of the VSP included special pension termination benefits equal to the greater of five years added to both age and credited service of eligible participants or two weeks of pay for each year of service subject to a minimum level of 12 weeks and a maximum of 52 weeks for eligible participants. The special pension termination benefits expense associated with the VSP totaled $2.1 million in 2001. The net total of the settlement and curtailment income and the special termination benefits expense was $1.3 million of expense, of which $1.2 million was included in operating expenses and $0.1 million was deferred as a regulatory liability and returned to the customers.

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

In 2001, PSNH recorded PBOP special termination benefits expense of $0.2 million in connection with the VSP. This amount was recorded as a regulatory asset and collected through regulated utility rates in 2002.

In 2002, the PBOP plan was amended to change the claims experience basis, to increase minimum retiree contributions and to reduce the cap on the company's subsidy to the dental plan. These amendments resulted in a $4.6 million decrease in PSNH's benefit obligation under the PBOP plan at December 31, 2002.

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

	At December 31,			
	Pension Benefits		Postretirement Benefits	
(Millions of Dollars)	2002	2001	2002	2001
Change in benefit obligation				
Benefit obligation at beginning of year	$ (227.9)	$(211.1)	$ (65.4)	$ (52.9)
Service cost	(5.8)	(5.0)	(1.1)	(1.1)
Interest cost	(16.8)	(15.8)	(4.6)	(4.3)
Plan amendment	(1.8)	-	4.6	-
Transfers	(0.5)	0.1	-	-
Actuarial loss	(20.6)	(9.5)	(4.1)	(12.4)
Benefits paid - excluding lump sum payments	12.3	11.9	6.9	5.4
Benefits paid - lump sum payments	0.2	3.2	-	-
Curtailments and settlements	-	0.4	-	(0.1)
Special termination benefits	-	(2.1)	-	-
Benefit obligation at end of year	$ (260.9)	$(227.9)	$ (63.7)	$ (65.4)
Change in plan assets				
Fair value of plan assets at beginning of year	$ 196.6	$ 221.8	$ 28.4	$ 32.4
Actual return on plan assets	(21.1)	(10.0)	(2.5)	(2.9)
Employer contribution	-	-	5.4	4.3
Transfers	0.5	(0.1)	-	-
Benefits paid - excluding lump sum payments	(12.3)	(11.9)	(6.9)	(5.4)
Benefits paid - lump sum payments	(0.2)	(3.2)	-	-
Fair value of plan assets at end of year	$ 163.5	$ 196.6	$ 24.4	$ 28.4
Funded status at December 31	$ (97.4)	$ (31.3)	$ (39.3)	$ (37.0)
Unrecognized transition obligation	2.3	2.7	24.8	32.2
Unrecognized prior service cost	14.5	14.1	-	-
Unrecognized net loss/(gain)	42.7	(22.8)	14.4	4.6
Accrued benefit cost	$ (37.9)	$ (37.3)	$ (0.1)	$ (0.2)

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

	At December 31,			
	Pension Benefits		Postretirement Benefits	
	2002	2001	2002	2001
Discount rate	6.75%	7.25%	6.75%	7.25%
Compensation/progression rate	4.00%	4.25%	4.00%	4.25%
Health care cost trend rate (a)	N/A	N/A	10.00%	11.00%

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

The components of net periodic benefit (income)/expense are:

	For the Years Ended December 31,					
	Pension Benefits			Postretirement Benefits		
(Millions of Dollars)	2002	2001	2000	2002	2001	2000
Service cost	$ 5.8	$ 5.0	$ 4.8	$ 1.1	$ 1.1	$ 0.9
Interest cost	16.8	15.8	15.0	4.6	4.3	3.9
Expected return on plan assets	(20.3)	(20.9)	(19.7)	(2.9)	(2.9)	(2.6)
Amortization of unrecognized net transition obligation	0.3	0.3	0.3	2.8	2.9	2.9
Amortization of prior service cost	1.4	1.3	1.3	-	-	-
Amortization of actuarial gain	(3.4)	(5.4)	(6.0)	-	-	-
Other amortization, net	-	-	-	(0.3)	(1.1)	(0.6)
Net periodic expense/(income) – before settlements, curtailments and special termination benefits	0.6	(3.9)	(4.3)	5.3	4.3	4.5
Settlement income	-	(0.5)	-	-	-	-
Curtailment income	-	(0.3)	-	-	-	-
Special termination benefits expense	-	2.1	-	-	0.2	-
Total - settlements, curtailments and special termination benefits	-	1.3	-	-	0.2	-
Total - net periodic expense/(income)	$ 0.6	$ (2.6)	$(4.3)	$ 5.3	$ 4.5	$ 4.5

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

	For the Years Ended December 31,					
	Pension Benefits			Postretirement Benefits		
	2002	2001	2000	2002	2001	2000
Discount rate	7.25%	7.50%	7.75%	7.25%	7.50%	7.75%
Expected long-term rate of return	9.25%	9.50%	9.50%	N/A	N/A	N/A
Compensation/progression rate	4.25%	4.50%	4.75%	4.25%	4.50%	4.75%
Long-term rate of return -						
Health assets, net of tax	N/A	N/A	N/A	7.25%	7.50%	7.50%
Life assets	N/A	N/A	N/A	9.25%	9.50%	9.50%

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

(Millions of Dollars)	One Percentage Point Increase	One Percentage Point Decrease
Effect on total service and interest cost components	$ 0.1	$(0.1)
Effect on postretirement benefit obligation	$ 1.9	$(1.7)

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

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

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

5. Nuclear Generation Asset Divestitures

Seabrook: On November 1, 2002, NAEC consummated the sale of its 35.98 percent ownership interest in Seabrook to a subsidiary of FPL. CL&P, NAEC and certain other of the joint owners collectively sold 88.2 percent of Seabrook to FPL. NAEC received approximately $331 million of total cash proceeds from the sale of Seabrook. A portion of this cash was used to repay all $90 million of NAEC's outstanding debt, to return a portion of NAEC's equity to NU and will be used to pay approximately $95 million in taxes. The remaining proceeds received by NAEC were refunded to PSNH through the Seabrook Power Contracts. As part of the sale, FPL assumed responsibility for decommissioning Seabrook.

VYNPC: On July 31, 2002, VYNPC consummated the sale of its nuclear generating plant to a subsidiary of Entergy Corporation (Entergy) for approximately $180 million. As part of the sale, Entergy assumed responsibility for decommissioning VYNPC's nuclear generating unit. Under the terms of the sale, PSNH will continue to buy 4 percent of the plant's output through March 2012 at a range of fixed prices.

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

6. Commitments and Contingencies

A. Restructuring and Rate Matters

In July 2001, the NHPUC opened a docket to review the FPPAC costs incurred between August 2, 1999, and April 30, 2001. Under the Restructuring Settlement, FPPAC deferrals are recovered as a Part 3 stranded cost through the stranded cost recovery charge. On December 31, 2002, the NHPUC issued its final order allowing recovery of virtually all such costs.

On June 28, 2002, PSNH made its first stranded cost recovery charge reconciliation filing with the NHPUC for the period May 1, 2001, through December 31, 2001. This filing reconciles stranded cost revenues against actual stranded cost charges with any difference being credited against stranded costs or deferred for future recovery. Included in the stranded cost charges are the generation costs for the filing period. The generation costs included in this filing were subject to a prudence review by the NHPUC. In January 2003, PSNH entered into a settlement agreement with the Office of Consumer Advocate and the staff of the NHPUC which resolved all outstanding issues. In conjunction with the settlement agreement, the NHPUC staff recommended no disallowances resulting from their review of the outages at PSNH's generating plants. A final order approving the settlement agreement was issued by the NHPUC in February 2003. The NHPUC order approved PSNH's reconciliation of stranded costs as outlined within the settlement agreement and had no impact on PSNH's earnings.

B. Environmental Matters

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

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

Based upon currently available information for the estimated remediation costs as of December 31, 2002 and 2001, the liability recorded by PSNH for its estimated environmental remediation costs amounted to $10.8 million and $11.4 million, respectively. These amounts include $8.7 million and $9.3 million at December 31, 2002 and 2001, respectively, for remediation of former manufactured gas plants.

PSNH has a regulatory recovery mechanism for environmental costs. Accordingly, regulatory assets have been recorded for certain environmental liabilities.

C. Nuclear Insurance Contingencies

In conjunction with the divestiture of Millstone in 2001 and Seabrook in 2002, NU and PSNH terminated their nuclear insurance related to these plants, and PSNH has no further exposure for potential assessments related to Millstone and Seabrook. However, through its continuing association with Nuclear Electric Insurance Limited (NEIL) and CYAPC and VYNPC, NU is subject to potential retrospective assessments totaling $0.8 million under its respective NEIL insurance policies.

D. Long-Term Contractual Arrangements

VYNPC: Previously, under the terms of their agreements, PSNH paid its ownership (or entitlement) shares of costs, which included depreciation, O&M expenses, taxes, the estimated cost of decommissioning, and a return on invested capital to VYNPC and recorded these costs as purchased-power expenses. On July 31, 2002, VYNPC consummated the sale of its nuclear generating unit to a subsidiary of Entergy for approximately $180 million. Under the terms of the sale, PSNH will continue to buy approximately 4 percent of the plant's output through March 2012 at a range of fixed prices. PSNH's cost of purchases under contracts with VYNPC amounted to $6.9 million in 2002, $6.5 million in 2001, and $6.4 million in 2000.

Electricity Procurement Obligations: PSNH has entered into various arrangements for the purchase of electricity. The total cost of purchases under these arrangements amounted to $121.2 million in 2002, $144.4 million in 2001, and $144.9 million in 2000. These amounts are for independent power producer contracts and do not include PSNH's short-term power supply management.

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

Estimated Future Annual Costs: The estimated future annual costs of PSNH's significant long-term contractual arrangements are as follows:

(Millions of Dollars)	2003	2004	2005	2006	2007
VYNPC	$ 7.7	$ 7.3	$ 6.8	$ 7.1	$ 6.8
Electricity Procurement Obligations	138.7	142.3	143.8	140.2	63.7
Hydro-Quebec	8.2	8.0	7.8	7.0	6.7
Totals	$154.6	$157.6	$158.4	$154.3	$77.2

E. Nuclear Decommissioning and Plant Closure Costs

In conjunction with the Millstone, Seabrook and VYNPC nuclear generation asset divestitures, the applicable liabilities and nuclear decommissioning trusts were transferred to the purchasers and the purchasers agreed to assume responsibility for decommissioning their respective units.

During 2002, NU, along with the other joint owners, were notified by the Yankee Companies that the estimated cost of decommissioning the units owned by CYAPC, YAEC and MYAPC increased in total by approximately $380 million over prior estimates due to higher anticipated costs for spent fuel storage, security and liability and property insurance. PSNH's share of this increase would total $23.6 million. Following rate cases to be filed by the Yankee Companies with the FERC, NU will seek recovery of the higher decommissioning costs from retail customers through the appropriate state regulatory agency. At December 31, 2002 and 2001, PSNH's remaining estimated obligations, for decommissioning for the units owned by CYAPC, YAEC and MYAPC, which have been shut down were $56.2 million and $37.7 million, respectively.

7. Fair Value of Financial Instruments

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

Long-Term Debt and Rate Reduction Bonds: The fair value of PSNH's fixed-rate securities is based upon the quoted market price for those issues or similar issues. Adjustable rate securities are assumed to have a fair value equal to their carrying value. The carrying amounts of PSNH's financial instruments and the estimated fair values are as follows:

	At December 31, 2002	
(Millions of Dollars)	Carrying Amount	Fair Value
Long-term debt -		
Other long-term debt	$407.3	$421.6
Rate reduction bonds	510.8	565.4

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

Other Financial Instruments: The carrying value of financial instruments included in current assets and current liabilities approximates their fair value.

8. Leases

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

Capital lease rental payments charged to operating expense were $0.4 million in 2002, $0.7 million in 2001, and $1 million in 2000. Interest included in capital lease rental payments was $0.3 million in 2002, 2001 and 2000. Operating lease rental payments charged to expense were $2.6 million in 2002, $3.9 million in 2001, and $3.5 million in 2000.

Future minimum rental payments, excluding executory costs, such as property taxes, state use taxes, insurance, and maintenance, under long-term noncancelable leases, as of December 31, 2002, are as follows:

(Millions of Dollars) Year	Capital Leases	Operating Leases
2003	$0.5	$ 4.6
2004	0.4	4.1
2005	0.4	3.4
2006	0.3	3.1
2007	0.2	1.7
After 2007	0.2	3.4
Future minimum lease payments	$2.0	$20.3
Less amount representing interest	0.8	
Present value of future minimum lease payments	$1.2	

9. Accumulated Other Comprehensive Income/(Loss)

The accumulated balance for each other comprehensive income/(loss) item is as follows:

(Millions of Dollars)	December 31, 2001	Current Period Change	December 31, 2002
Unrealized gains/(losses) on securities	$0.6	$(0.6)	$ -
Minimum pension liability adjustments	(0.2)	0.1	(0.1)
Accumulated other comprehensive income/(loss)	$0.4	$(0.5)	$(0.1)

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

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

(Millions of Dollars)	2002	2001	2000
Unrealized gains/(losses) on securities	$0.3	$0.4	$ -
Minimum pension liability adjustments	-	-	-
Accumulated other comprehensive income/(loss)	$0.3	$0.4	$ -

10. Long-Term Debt

Details of long-term debt outstanding are as follows:

At December 31,	2002	2001
	(Millions of Dollars)	
Pollution Control Revenue Bonds:		
6.00% Tax-Exempt, Series D, due 2021	$ 75.0	$ 75.0
6.00% Tax-Exempt, Series E, due 2021	44.8	44.8
Adjustable Rate, Series A, due 2021	89.3	89.3
Adjustable Rate, Series B, due 2021	89.3	89.3
5.45% Tax-Exempt, Series C, due 2021	108.9	108.9
Long-term debt	$407.3	$407.3

There are no cash sinking fund requirements or debt maturities for the years 2003 through 2007. There are annual renewal and replacement fund requirements equal to 2.25 percent of the average of net depreciable utility property owned by PSNH in 1992, plus cumulative gross property additions thereafter. PSNH expects to meet these future fund requirements by certifying property additions. Any deficiency would need to be satisfied by the deposit of cash or bonds.

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

PSNH entered into financing arrangements with the Business Finance Authority (BFA) of the state of New Hampshire, pursuant to which, the BFA issued five series of Pollution Control Revenue Bonds (PCRBs) as described above and loaned the proceeds to PSNH. PSNH's obligation to repay each series of PCRBs is secured by bond insurance and the first mortgage bonds. Each such series of first mortgage bonds contains similar terms and provisions as the applicable series of PCRBs. For financial reporting purposes, these first mortgage bonds would not be considered outstanding unless PSNH failed to meet its obligations under the PCRBs.

The average effective interest rates on the variable-rate pollution control notes was 1.6 percent in 2002 and 2001.

11. Income Tax Expense

The components of the federal and state income tax provisions are as follows:

For the Years Ended December 31,	2002	2001	2000
	(Millions of Dollars)		
Current income taxes:			
Federal	$101.1	$(143.5)	$41.8
State	19.0	(13.4)	4.0
Total current	120.1	(156.9)	45.8
Deferred income taxes, net:			
Federal	(65.0)	197.3	6.7
State	(5.5)	13.5	0.8
Total deferred	(70.5)	210.8	7.5
Investment tax credits, net	(9.3)	(15.3)	(8.0)
Total income tax expense	$ 40.3	$ 38.6	$45.3

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

For the Years Ended December 31,	2002	2001	2000
	(Millions of Dollars)		
Depreciation	$ 7.7	$ 1.9	$(1.0)
Regulatory deferral	(65.3)	13.3	6.9
Regulatory disallowance	-	2.3	-
Contractual settlements	-	6.7	-
Securitized contract termination costs and other	(13.5)	177.9	-
Other	0.6	8.7	1.6
Deferred income taxes, net	$(70.5)	$210.8	$ 7.5

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

For the Years Ended December 31,	2002	2001	2000
	(Millions of Dollars)		
Expected federal income tax	$ 36.1	$ 42.1	$ 39.4
Tax effect of differences:			
Depreciation	1.9	0.7	0.3
Amortization of regulatory assets	1.2	6.3	9.9
Investment tax credit amortization	(9.3)	(15.3)	(8.0)
State income taxes, net of federal benefit	8.8	0.1	2.9
Other, net	1.6	4.7	0.8
Total income tax expense	$ 40.3	$ 38.6	$ 45.3

12. Segment Information

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

Selected Consolidated Financial Data

(Thousands of Dollars)	2002	2001	2000	1999	1998
Operating Revenues	$1,046,738	$1,171,686	$1,291,332	$1,160,589	$1,087,247
Net Income/(Loss)	62,897	81,776	(146,666)	84,209	91,686
Cash Dividends on Common Stock	45,000	27,000	50,000	-	-
Total Assets	1,922,275	2,094,514	2,082,296	2,622,433	2,681,595
Rate Reduction Bonds	510,841	507,381	-	-	-
Long-Term Debt (a)	407,285	407,285	407,285	516,485	516,485
Preferred Stock Subject to Mandatory Redemption (a)	-	-	24,268	50,000	75,000
Obligations Under Seabrook Power Contracts and Other Capital Leases (a)	1,192	110,275	629,230	726,153	842,223

Consolidated Quarterly Financial Data (Unaudited)

(Thousands of Dollars)	Quarter Ended			
2002	March 31	June 30	September 30	December 31
Operating Revenues	$242,381	$248,914	$324,818	$ 230,625
Operating Income	$ 30,750	$ 37,004	$ 40,929	$ 45,289
Net Income	$ 11,729	$ 15,231	$ 19,482	$ 16,455
2001				
Operating Revenues	$340,835	$286,799	$299,711	$ 244,341
Operating Income	$ 23,222	$ 31,008	$ 45,564	$ 34,854
Net Income	$ 28,362	$ 15,517	$ 21,630	$ 16,267

(a) Includes portions due within one year.

Consolidated Statistics (Unaudited)

	Gross Electric Utility Plant December 31, *(Thousands of Dollars)* (a)	kWh Sales (Millions)	Average Annual Use Per Residential Customer (kWh)	Electric Customers (Average)	Employees December 31,
2002	$ 1,488,452	14,123	7,208	447,614	1,243
2001	1,499,137	14,953	6,868	439,750	1,241
2000	1,535,343	17,143	6,644	433,937	1,227
1999	2,283,187	12,827	6,665	427,694	1,258
1998	2,302,254	12,576	6,347	421,602	1,265

(a) Amount includes construction work in progress.

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Public Service Company of New Hampshire

Pollution Control Revenue Bonds
Trustee and Interest Paying Agent
Wachovia Bank, N.A.
21 South Street
Morristown, NJ 07960

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

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

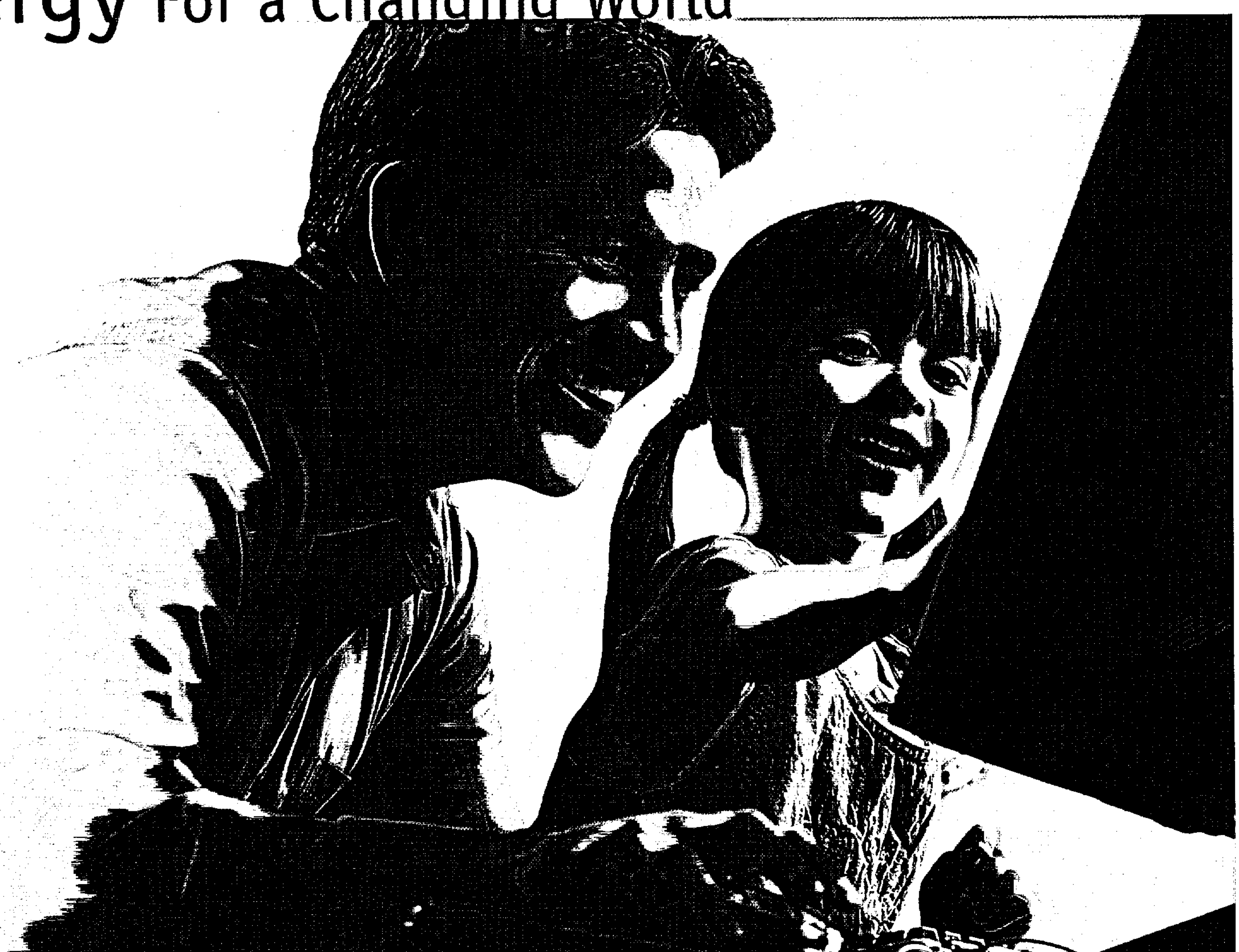
Public Service of New Hampshire

The Northeast Utilities System

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

Western Massachusetts Electric Company
2002 Annual Report

Energy For a Changing World



Directors

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

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

Cheryl W. Grisé
President – Utility Group
Northeast Utilities

Kerry J. Kuhlman
President and Chief Operating Officer
Western Massachusetts Electric Company

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

Officers

Michael G. Morris
Chairman

Cheryl W. Grisé
Chief Executive Officer

Kerry J. Kuhlman
President and Chief Operating Officer
Western Massachusetts Electric Company

John H. Forsgren
Executive Vice President and Chief Financial Officer

David H. Boguslawski
Vice President – Transmission Business

David R. McHale
Vice President and Treasurer

John P. Stack
Vice President – Accounting and Controller

Roger C. Zaklukiewicz
Vice President – Transmission Engineering and Operations

Patricia A. Wood
Clerk

O. Kay Comendul
Assistant Clerk

Daniel P. Venora
Assistant Clerk

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

Timothy J. Griffin
Assistant Controller – Corporate Accounting

Lori A. Mahler
Assistant Controller – Accounting Services

William J. Starr
Assistant Controller – Taxes

Randy A. Shoop
Assistant Treasurer – Finance

2002 Annual Report

Western Massachusetts Electric Company and Subsidiary

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Management's Discussion and Analysis

Financial Condition

Overview
Western Massachusetts Electric Company (WMECO or the company), a wholly owned subsidiary of Northeast Utilities (NU), earned $37.7 million in 2002 compared with $15 million in 2001. The improved 2002 results were largely due to the recognition of $13 million in investment tax credits and the elimination of $9 million of reserves, both in 2002, as a result of regulatory decisions. NU's other subsidiaries include The Connecticut Light and Power Company (CL&P), Public Service Company of New Hampshire (PSNH), Yankee Energy System, Inc., North Atlantic Energy Corporation, Select Energy, Inc. (Select Energy), Northeast Generation Company, Northeast Generation Services Company, and Select Energy Services, Inc.

WMECO's revenues during 2002 decreased to $369.5 million from $478.9 million during 2001 primarily due to lower retail revenues and lower wholesale and other revenues. Retail revenues were lower primarily due to a decrease in the standard offer service rate partially offset by higher distribution revenues from higher retail sales. This decrease in revenues is offset by a corresponding decrease in fuel, purchased and net interchange power expense. Wholesale revenues were lower primarily due to the inclusion in 2001 of revenue from the output of the Millstone nuclear units (Millstone) and the lower sales of energy and capacity due to the buydown and buyout of various cogenerator contracts.

Future Outlook
WMECO is expected to have reduced earnings in 2003 compared to 2002. The primary reason for the earnings decrease at WMECO is that the positive results from 2002 regulatory decisions are not expected in 2003. Another reason for the earnings reduction at WMECO is a significant reduction in the projected level of pension income in 2003 and forward.

WMECO recorded $12.1 million of pre-tax pension income in 2002, approximately 30 percent of which was capitalized and reflected as a reduction to the cost of capital expenditures with the remainder being recognized in the consolidated statements of income as reductions to operating expenses. In 2003, as a result of continued poor performance in the equity markets, WMECO is projecting the total level of pre-tax pension income to decline to approximately $7 million, with a similar percent being reflected as a reduction to the cost of capital expenditures. Pension income is annually adjusted during the second quarter based upon updated actuarial valuations, and the 2003 estimate may be modified.

Liquidity
In November 2002, WMECO, along with NU's other regulated utilities, renewed their $300 million credit line, under terms similar to the arrangement that expired in November 2002. A previous credit line had provided up to $350 million for the regulated companies. WMECO had $7 million in borrowings on this credit line at December 31, 2002.

Rate reduction bonds are included on the consolidated balance sheets of WMECO, even though the debt is nonrecourse to WMECO. At December 31, 2002, WMECO had a total of $142.7 million in rate reduction bonds outstanding, compared with $152.3 million outstanding at December 31, 2001. All outstanding rate reduction bonds of WMECO are scheduled to be fully amortized by June 1, 2013. Interest on the rate reduction bonds totaled $9.6 million in 2002, compared with $6.3 million in 2001. Amortization of the rate reduction bonds totaled $9.6 million in 2002, compared with $2.7 million in 2001. WMECO fully recovered the amortization and interest payments from customers in 2002 and the bonds had no impact on net income. Moreover, because the debt is nonrecourse to WMECO, the three rating agencies that rate WMECO's debt do not include the revenues, expenses, or outstanding securities related to the rate reduction bonds in establishing the credit ratings of WMECO.

WMECO has applied to the Massachusetts Department of Telecommunications and Energy (DTE) to refinance approximately $100 million of short-term and spent nuclear fuel obligations. A decision is expected in the first half of 2003.

WMECO's net cash flows provided by operating activities decreased to $27.9 million in 2002, compared with $57.5 million in 2001. Cash flows provided by operating activities decreased primarily due to changes in working capital items, primarily receivables and unbilled revenues and accounts payable, partially offset by the increase in net income in 2002.

There was a lower level of investing and financing activities in 2002 as compared to 2001, primarily due to the retirement of long-term debt, issuance of rate reduction bonds and buyout of independent power producer contracts in 2001. The level of common dividends totaled $16 million in 2002, as compared to $22 million in 2001.

Business Development and Capital Expenditures
As a result of a lower than projected growth rate and an adequately sized transmission system to meet near term needs, WMECO does not forecast significant changes in its construction program. WMECO's capital expenditures, excluding nuclear fuel, totaled $23.4 million in 2002, compared with $30.9 million in 2001. WMECO's capital expenditures are expected to total $28.1 million in 2003.

Regional Transmission Organization
The Federal Energy Regulatory Commission (FERC) has required all transmission owning utilities, including WMECO, to voluntarily start forming regional transmission organizations (RTO) or to state why this process has not begun.

WMECO has been discussing with the other transmission owners in New England the potential to form an Independent Transmission Company (ITC). If formed, the ITC would be a for-profit entity and would perform certain transmission functions required by the FERC including tariff control, system planning and system operations. The remaining functions required by the FERC would be performed by the Independent System Operator (ISO) regarding the energy market and short-term reliability. Together, the ITC, if formed, and ISO would form the FERC-desired RTO.

In January 2002, the New York and New England ISOs announced their intention to form an RTO. On November 22, 2002, the two ISOs withdrew their joint petition to FERC. The New England ISO intends to make an RTO filing with the transmission owners in New England in 2003. The agreements needed to create the RTO and to define the working relationships among the ISO and the transmission owners should be created in 2003, and will allow the RTO to begin operation shortly thereafter. The agreements are expected to include provisions for the future creation of one or more ITCs within the RTO. The creation of the RTO will require a FERC rate case, and the impact on WMECO's return on equity as a result of this rate case cannot be estimated at this time. At December 31, 2002, WMECO capitalized $0.2 million related to RTO formation activities.

Restructuring and Rate Matters

In December 2001, the DTE approved approximately a 14 percent reduction in WMECO's overall rates for standard offer service, primarily reflecting a reduction in WMECO's standard offer service supply costs in 2002 to approximately $0.048 per kilowatt-hour (kWh) from approximately $0.073 per kWh. In December 2002, the DTE approved an overall increase of approximately 1.8 percent in WMECO's non-contract standard offer rates, primarily reflecting slightly increased standard offer and default service costs as well as other inflationary factors. Select Energy, an NU affiliate, won the bid to supply WMECO with standard offer service in 2003 at an average rate of approximately $0.050 per kWh. An unaffiliated company won a bid to serve WMECO with default service for the period of January 1, 2003 through June 30, 2003, at an average price of $0.051 per kWh.

On June 7, 2002, the DTE issued its decision on WMECO's 1998 through 1999 stranded cost reconciliation. The decision included, among other things, a conclusion that investment tax credits associated with generation assets that have been divested should not be returned to ratepayers. As a result, WMECO recognized approximately $13 million in tax credits during the second quarter of 2002.

On March 30, 2001, WMECO filed its second annual stranded cost reconciliation with the DTE for calendar year 2000. On March 29, 2002, WMECO filed its 2001 annual transition cost reconciliation with the DTE. This filing reconciled the recovery of stranded generation costs for calendar year 2001 and includes sales proceeds from WMECO's portion of the Millstone units, the impact of securitization and approximately a $13 million benefit to ratepayers from WMECO's nuclear performance-based ratemaking process.

Subsequently, WMECO and the office of the Massachusetts Attorney General reached a settlement resolving all transition charge issues for the 1998 through 2001 reconciliations. This settlement was filed for DTE review on December 3, 2002 and approved on December 27, 2002. The settlement had a positive impact of $9 million on WMECO 2002 pre-tax earnings.

For further information regarding commitments and contingencies related to restructuring, see Note 5A, "Commitments and Contingencies – Restructuring and Rate Matters," to the consolidated financial statements.

Nuclear Generation Asset Divestitures

VYNPC: On July 31, 2002, Vermont Yankee Nuclear Power Corporation (VYNPC) consummated the sale of its nuclear generating unit. WMECO owns 2.6 percent of VYNPC.

Millstone: On March 31, 2001, WMECO and CL&P consummated the sale of Millstone 1 and 2, and WMECO, CL&P and PSNH sold their ownership interests in Millstone 3.

Under the terms of these asset divestitures, the purchasers agreed to assume responsibility for decommissioning their respective units. For further information regarding nuclear decommissioning, see Note 4, "Nuclear Generation Asset Divestitures," Note 5F, "Commitments and Contingencies - Nuclear Decommissioning and Plant Closure Costs" to the consolidated financial statements. For further information regarding spent nuclear fuel disposal costs, see Note 5C, "Commitments and Contingencies – Spent Nuclear Fuel Disposal Costs," to the consolidated financial statements.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates, assumptions and at times difficult, subjective or complex judgments. Changes in these estimates, assumptions and judgments, in and of themselves, could materially impact the financial condition of WMECO. The following describes accounting policies and estimates that management believes are the most critical in nature:

Presentation: In accordance with current accounting pronouncements, WMECO's consolidated financial statements include all subsidiaries upon which significant control is maintained and all intercompany transactions between these subsidiaries are eliminated as part of the consolidation process. WMECO has less than 50 percent ownership interests in the Connecticut Yankee Atomic Power Company, Yankee Atomic Electric Company, Maine Yankee Atomic Power Company, and VYNPC, which are classified as variable interest entities under Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities," and for which WMECO was not classified as the primary beneficiary. As a result, management does not expect the adoption of Interpretation No. 46 to result in the consolidation of any currently unconsolidated entities or to have any other material impacts on WMECO's consolidated financial statements.

Revenue Recognition: WMECO revenues are based on rates approved by the DTE. These regulated rates are applied to customers' accounts based on their use of energy. In general, rates can only be changed through formal proceedings with the DTE.

The determination of the energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on generation volumes, estimated customer usage by class, line losses, and applicable customer rates.

Regulatory Accounting and Assets: The accounting policies of WMECO historically reflect the effects of the rate-making process in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." WMECO's transmission and distribution businesses continue to be cost-of-service rate regulated, and management believes the application of SFAS No. 71 continues to be appropriate. Management must reaffirm this conclusion at each balance sheet date. If, as a result of a change in circumstances, it is determined that any portion of the transmission and distribution businesses no longer meets the criteria of regulatory accounting under SFAS No. 71, that portion of the business would have to discontinue regulatory accounting and write-off regulatory assets. Such a write-off could have a material impact on WMECO's consolidated financial statements.

The application of SFAS No. 71 results in the deferral of costs as regulatory assets that, in some cases, have not yet been approved for recovery by the applicable regulatory commission. Management must conclude that any costs deferred as regulatory assets are probable of future recovery in rates. However, the regulatory commission can reach different conclusions about the recovery of costs, which can have a material impact on WMECO's consolidated financial statements. Management believes that it is probable that WMECO will recover its investments in long-lived assets, including regulatory assets.

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

WMECO's pre-tax periodic pension income for the Plan, excluding settlements, curtailments, and special termination benefits, totaled $12.1 million and $13.7 million for the years ended December 31, 2002 and 2001, respectively. Pension income is calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on Plan assets of 9.25 percent for 2002 and 9.5 percent for 2001. WMECO expects to use a long-term rate of return assumption of 8.75 percent for 2003. The pension income amounts exclude one-time items recorded under SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," associated with early termination programs and the sale of the Millstone nuclear units. Net SFAS No. 88 items totaled $1.2 million of income and $0.3 million in expense for the years ended December 31, 2002 and 2001, respectively. Approximately 30 percent of net pension income is capitalized as a reduction to capital additions to utility plant.

In developing the expected long-term rate of return assumption, WMECO evaluated input from actuaries, consultants and economists as well as long-term inflation assumptions and NU's historical 20-year compounded return of 10.7 percent. NU's expected long-term rate of return on Plan assets is based on target asset allocation assumptions of 45 percent in United States equities and 14 percent in non-United States equities, both with expected long-term rates of return of 9.25 percent, 3 percent in emerging market equities with an expected long-term return of 10.25 percent, 20 percent in fixed income securities with an expected long-term rate of return of 5.5 percent, 5 percent in high yield fixed income securities with expected long-term rates of return of 7.5 percent, 8 percent in private equities with expected long-term rates of return of 14.25 percent, and 5 percent in real estate with expected long-term rates of return of 7.5 percent. The combination of these target allocations and expected returns results in the overall assumed long-term rate of return of 8.75 percent for 2003. The actual asset allocation at December 31, 2002, was close to these target asset allocations, and WMECO regularly reviews the actual asset allocations and periodically rebalances the investments to the targeted allocation when appropriate. WMECO reduced the long-term rate of return assumption by 0.5 percent and 0.25 percent, respectively, each of the last two years due to lower rate of return assumptions for most asset classes. WMECO believes that 8.75 percent is a reasonable long-term rate of return on Plan assets for 2003. WMECO will continue to evaluate the actuarial assumptions, including the expected rate of return, at least annually, and will adjust the appropriate assumptions as necessary.

WMECO bases the actuarial determination of Plan pension income/expense on a market-related valuation of assets, which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a four-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the fair value of assets. Since the market-related value of assets recognizes gains or losses over a four-year period, the future value of the market-related assets will be impacted as previously deferred gains or losses are recognized. There will be no impact on the fair value of Plan assets. At December 31, 2002, WMECO's portion of the Plan had cumulative unrecognized investment losses of $50.5 million, which will increase Plan expense over the next four years by reducing the expected return on Plan assets. At December 31, 2002, WMECO's portion of the Plan also had cumulative unrecognized actuarial gains of $17.7 million, which will reduce Plan expenses over the expected future working lifetime of active Plan participants, or approximately 13 years. The combined total of unrecognized investment losses and actuarial gains at December 31, 2002 is $32.8 million. This amount impacts the actuarially determined prepaid pension amount recorded on the consolidated balance sheet but has no impact on expected Plan funding.

The discount rate that is utilized in determining future pension obligations is based on a basket of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. To compensate for the Plan's longer duration 0.25 percent was added to this rating. The discount rate determined on this basis has decreased from 7.25 percent at December 31, 2001 to 6.75 percent at December 31, 2002.

Due to the effect of the unrecognized actuarial losses and based on an expected rate of return on Plan assets of 8.75 percent, a discount rate of 6.75 percent and various other assumptions, WMECO estimates that pension income/expense for the Plan will be approximately $7 million in income, approximately $3 million in income and approximately $0.1 million in expense in 2003, 2004 and 2005, respectively. Future actual pension income/expense will depend on future investment performance, changes in future discount rates and various other factors related to the populations participating in the plan.

The value of WMECO's portion of the Plan assets has decreased from $191.2 million at December 31, 2001 to $162.4 million at December 31, 2002. The investment performance returns and declining discount rates have reduced the funded status of WMECO's portion of the Plan, on a projected benefit obligation (PBO) basis, from an overfunded position of $69.9 million at December 31, 2001 to $28.8 million at December 31, 2002. The PBO includes expectations of future employee service and compensation increases. The significant deterioration in the funded position of the Plan will likely result in Plan contributions sooner than previously expected. WMECO has not made contributions since 1991. This deterioration could also lead to the requirement under defined benefit plan accounting to record an additional minimum liability. The total accumulated benefit obligation (ABO) of the entire Plan was $78 million less than Plan assets at December 31, 2002. The ABO is the obligation for employee service provided through December 31, 2002. If the ABO exceeds Plan assets, WMECO may need to record an additional minimum liability in 2003.

Income Taxes: Income tax expense is calculated for each period for which a statement of income is presented. This process involves estimating WMECO's actual current tax exposures as well as assessing temporary differences resulting from differing treatment of items, such as timing of the deduction of expenses for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheets. WMECO must also assess the likelihood that the deferred tax assets will be recovered from future taxable income, and to the extent that recovery is not likely, a valuation allowance must be established. Significant management judgment is required in determining income tax expense, deferred tax assets and liabilities and valuation allowances. WMECO accounts for deferred taxes under SFAS No. 109 "Accounting for Income Taxes." For temporary differences recorded as deferred tax liabilities that will be recovered in rates in the future, WMECO has established a regulatory asset. This asset amounted to $54.2 million and $57.3 million at December 31, 2002 and 2001, respectively.

Depreciation: Depreciation expense is calculated based on an asset's useful life, and judgment is involved when estimating the useful lives of certain assets. A change in the estimated useful lives of these assets could have a material impact on WMECO's consolidated financial statements.

Environmental Matters: At December 31, 2002, WMECO has recorded a reserve for various environmental liabilities. WMECO's environmental liabilities are based on the best estimate of the amounts to be incurred for the investigation, remediation and monitoring of the remediation sites. It is possible that future cost estimates will either increase or decrease as additional information becomes known.

Special Purpose Entity: WMECO has one special purpose entity, which is currently consolidated in the financial statements. During 2001, to facilitate the issuance of rate reduction certificates intended to finance certain stranded costs, WMECO established WMECO Funding LLC. The funding company was created as part of state sponsored securitization programs. WMECO Funding LLC is restricted from engaging in non-related activities and is required to operate in a manner intended to reduce the likelihood that it would be included in WMECO's bankruptcy estate if they ever become involved in such bankruptcy proceedings.

For further information regarding these types of activities, see Note 1, "Summary of Significant Accounting Policies," Note 3, "Pension Benefits and Postretirement Benefits Other Than Pensions," Note 5B, "Commitments and Contingencies - Environmental Matters," and Note 10, "Income Tax Expense," to the consolidated financial statements.

Other Matters

Other Commitments and Contingencies: For further information regarding other commitments and contingencies, see Note 5, "Commitments and Contingencies," to the consolidated financial statements.

Contractual Obligations and Commercial Commitments: Information regarding WMECO's contractual obligations and commercial commitments as of December 31, 2002, is summarized through 2007 as follows:

(Millions of Dollars)	2003	2004	2005	2006	2007
Notes payable to banks	$ 7.0	$ -	$ -	$ -	$ -
Operating leases	3.5	3.4	3.2	2.9	2.3
Long-term contractual arrangements	10.6	10.3	9.9	9.8	9.6
Totals	$21.1	$13.7	$13.1	$12.7	$11.9

Rate reduction bond amounts are not included in this table. For further information regarding WMECO's contractual obligations and commercial commitments, see Note 2, "Short-Term Debt," and Note 5E, "Commitments and Contingencies - Long-Term Contractual Arrangements," to the consolidated financial statements.

Forward Looking Statements: This discussion and analysis includes forward looking statements, which are statements of future expectations and not facts including, but not limited to, statements regarding future earnings, refinancings, the use of proceeds from restructuring, and the recovery of operating costs. Words such as *estimates, expects, anticipates, intends, plans,* and similar expressions identify forward looking statements. Actual results or outcomes could differ materially as a result of further actions by state and federal regulatory bodies, competition and industry restructuring, changes in economic conditions, changes in weather patterns, changes in laws, developments in legal or public policy doctrines, technological developments, and other presently unknown or unforeseen factors.

Results of Operations

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

Income Statement Variances *(Millions of Dollars)*	2002 over/(under) 2001 Amount	2002 over/(under) 2001 Percent	2001 over/(under) 2000 Amount	2001 over/(under) 2000 Percent
Operating Revenues	$(109)	(23)%	$ (35)	(7)%
Operating Expenses:				
Fuel, purchased and net interchange power	(135)	(43)	70	28
Other operation	(18)	(26)	(9)	(12)
Maintenance	(5)	(26)	(13)	(41)
Depreciation	1	4	(4)	(22)
Amortization of regulatory assets, net	(92)	(70)	84	(a)
Taxes other than income taxes	(2)	(18)	(6)	(26)
Gain on sale of utility plant	120	(a)	(120)	(a)
Total operating expenses	(131)	(30)	2	1
Operating income	22	58	(37)	(50)
Interest expense, net	(1)	(6)	(10)	(40)
Other income/(loss), net	-	-	(2)	(a)
Income before income tax expense	23	(a)	(29)	(57)
Income tax expense	-	-	(9)	(57)
Net income/(loss)	$ 23	(a)%	$ (20)	(58)%

(a) Percent greater than 100.

Operating Revenues

Operating revenues decreased $109 million or 23 percent in 2002, primarily due to lower retail revenues ($71 million) and lower wholesale and other revenue ($38 million). Retail revenues were lower primarily due to a decrease in the standard offer service rate resulting from a competitive bid process required by the DTE ($109 million) partially offset by an increase in the transition charge rate ($32 million) and higher distribution revenues from higher retail sales ($11 million). Retail sales increased by 1.9 percent. The decrease in revenues related to the standard offer service rate is offset by a corresponding decrease in fuel, purchased and net interchange power expense. Wholesale revenues were lower primarily due to the inclusion in 2001 of revenue from the output of the Millstone nuclear units ($14 million) and the lower sales of energy and capacity due to the buydown and buyout of various cogenerator contracts ($12 million). The buydown and buyout of cogeneration contracts has a corresponding decrease in fuel, purchased and net interchange power expense.

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

Fuel, Purchased and Net Interchange Power

Fuel, purchased and net interchange power expense decreased $135 million in 2002, primarily due to the lower supply price for standard offer service ($109 million), the buydown and buyout of various cogeneration contracts ($12 million) and lower nuclear fuel expense ($9 million).

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

Other Operation and Maintenance

Other operation and maintenance (O&M) expenses decreased $23 million in 2002, primarily due to the lack of nuclear expenses in 2002 as a result of the sale of Millstone units at the end of the first quarter in 2001 ($12 million) and lower administrative and general expenses ($9 million).

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

Depreciation

Depreciation increased $1 million in 2002, primarily due to an increase in utility plant balances.

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

Amortization of Regulatory Assets, Net

Amortization of regulatory assets, net decreased $92 million in 2002 primarily due to the amortization in 2001 related to the sale of the Millstone units ($120 million) and lower amortization related to the recovery of the Millstone investment ($9 million), partially offset by higher amortizations in 2002 related to the recovery of stranded costs ($37 million).

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

Taxes Other Than Income Taxes

Taxes other than income taxes decreased $2 million in 2002 and $6 million in 2001, primarily due to decreases in local property taxes.

Gain on Sale of Utility Plant

WMECO recorded a $120 million gain in 2001 on the sale of its ownership interest in Millstone. A corresponding amount of amortization expense was recorded.

Interest Expense, Net

Interest expense, net decreased $1 million in 2002 and $10 million in 2001, primarily due to retirement of long-term debt in 2001.

Other Income/(Loss), Net

Other income/(loss), net was unchanged due to lower environmental costs recorded in 2002 ($3 million) offset by the DTE's order in 2002 resulting in an adjustment to the gain from the sale of the fossil units ($3 million).

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

Income Tax Expense

Income tax expense remained unchanged in 2002 as a result of higher book income offset by the recognition in 2002 of investment tax credits as a result of a regulatory decision ($13 million).

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

Independent Auditors' Report

To the Board of Directors
of Western Massachusetts Electric Company:

We have audited the accompanying consolidated balance sheet of Western Massachusetts Electric Company and subsidiary (a Massachusetts corporation and a wholly owned subsidiary of Northeast Utilities) (the "Company") as of December 31, 2002, and the related consolidated statements of income, comprehensive income, common stockholder's equity, and cash flows for the year then ended. The consolidated financial statements of the Company as of December 31, 2001 and 2000, and for the years then ended, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated January 22, 2002. 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.

We conducted our audit 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 consolidated financial statements present fairly, in all material respects, the financial position of Western Massachusetts Electric Company and subsidiary as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Hartford, Connecticut
January 28, 2003

Report of Independent Public Accountants

To the Board of Directors
of Western Massachusetts Electric Company:

We have audited the accompanying consolidated balance sheets of Western Massachusetts Electric Company (a Massachusetts corporation and a wholly owned subsidiary of Northeast Utilities) and subsidiary as of December 31, 2001 and 2000, and the related consolidated statements of income, comprehensive income, common stockholder's equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Massachusetts Electric Company and subsidiary as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Hartford, Connecticut
January 22, 2002

Readers of these consolidated financial statements should be aware that this report is a copy of a previously issued Arthur Andersen LLP report and that this report has not been reissued by Arthur Andersen LLP. Furthermore, this report has not been updated since January 22, 2002, and Arthur Andersen LLP completed its last post-audit review of December 31, 2001, consolidated financial information on May 13, 2002.

WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

At December 31,	2002	2001
	(Thousands of Dollars)	
ASSETS		
Current Assets:		
Cash	$ 123	$ 599
Receivables, less provision for uncollectible accounts of $1,958 in 2002 and $2,028 in 2001	42,203	43,761
Accounts receivable from affiliated companies	6,369	2,208
Unbilled revenues	8,944	12,746
Fuel, materials and supplies, at average cost	1,821	1,457
Prepayments and other	1,470	1,544
	60,930	62,315
Property, Plant and Equipment:		
Electric utility	590,153	564,857
Less: Accumulated depreciation	195,804	186,784
	394,349	378,073
Construction work in progress	11,860	18,326
	406,209	396,399
Deferred Debits and Other Assets:		
Regulatory assets	283,702	320,222
Prepaid pension	67,516	54,226
Other	18,304	19,500
	369,522	393,948
Total Assets	$ 836,661	$ 852,662

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

WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

At December 31,	2002	2001
	(Thousands of Dollars)	
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes payable to banks	$ 7,000	$ 50,000
Notes payable to affiliated companies	85,900	9,200
Accounts payable	17,730	34,970
Accounts payable to affiliated companies	6,233	2,982
Accrued taxes	4,334	3,691
Accrued interest	2,059	2,201
Other	8,005	10,127
	131,261	113,171
Rate Reduction Bonds	142,742	152,317
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	222,065	229,893
Accumulated deferred investment tax credits	3,662	3,998
Deferred contractual obligations	63,767	37,357
Other	13,213	64,309
	302,707	335,557
Capitalization:		
Long-Term Debt	101,991	101,170
Common Stockholder's Equity:		
Common stock, $25 par value - authorized 1,072,471 shares; 434,653 shares outstanding in 2002 and 509,696 shares outstanding in 2001	10,866	12,742
Capital surplus, paid in	69,712	82,224
Retained earnings	77,476	55,422
Accumulated other comprehensive (loss)/income	(94)	59
Common Stockholder's Equity	157,960	150,447
Total Capitalization	259,951	251,617
Commitments and Contingencies (Note 5)		
Total Liabilities and Capitalization	$ 836,661	$ 852,662

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

WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31,	2002	2001	2000
	(Thousands of Dollars)		
Operating Revenues	$ 369,487	$ 478,869	$ 513,678
Operating Expenses:			
Operation -			
Fuel, purchased and net interchange power	181,485	315,903	246,130
Other	49,039	66,458	75,940
Maintenance	14,499	19,635	33,111
Depreciation	14,381	13,818	17,693
Amortization of regulatory assets, net	39,712	131,876	47,775
Taxes other than income taxes	10,688	13,065	17,759
Gain on sale of utility plant	-	(119,775)	-
Total operating expenses	309,804	440,980	438,408
Operating Income	59,683	37,889	75,270
Interest Expense:			
Interest on long-term debt	2,942	4,940	13,754
Interest on rate reduction bonds	9,587	6,251	-
Other interest	1,857	4,120	11,788
Interest expense, net	14,386	15,311	25,542
Other (Loss)/Income, Net	(850)	(1,050)	685
Income Before Income Tax Expense	44,447	21,528	50,413
Income Tax Expense	6,765	6,560	15,145
Net Income	$ 37,682	$ 14,968	$ 35,268

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2002	2001	2000
Net Income	$ 37,682	$ 14,968	$ 35,268
Other comprehensive (loss)/income, net of tax:			
Unrealized (losses)/gains on securities	(110)	(123)	22
Minimum pension liability adjustments	(43)	-	-
Comprehensive Income	$ 37,529	$ 14,845	$ 35,290

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

WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

	Common Stock	Capital Surplus, Paid In	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total (a)
	(Thousands of Dollars)				
Balance at January 1, 2000	$ 26,812	$ 171,691	$ 38,712	$ 160	$ 237,375
Net income for 2000			35,268		35,268
Cash dividends on preferred stock			(2,798)		(2,798)
Cash dividends on common stock			(12,002)		(12,002)
Repurchase of common stock	(12,060)	(77,940)			(90,000)
Capital stock expenses, net		259			259
Allocation of benefits - ESOP (b)			3,772		3,772
Other comprehensive income				22	22
Balance at December 31, 2000	14,752	94,010	62,952	182	171,896
Net income for 2001			14,968		14,968
Cash dividends on preferred stock			(404)		(404)
Cash dividends on common stock			(22,000)		(22,000)
Repurchase of common stock	(2,010)	(12,990)			(15,000)
Capital stock expenses, net		1,204			1,204
Allocation of benefits - ESOP			(94)		(94)
Other comprehensive loss				(123)	(123)
Balance at December 31, 2001	12,742	82,224	55,422	59	150,447
Net income for 2002			37,682		37,682
Cash dividends on common stock			(16,009)		(16,009)
Repurchase of common stock	(1,876)	(12,123)			(13,999)
Capital stock expenses, net		131			131
Allocation of benefits - ESOP		(520)	381		(139)
Other comprehensive loss				(153)	(153)
Balance at December 31, 2002	$ 10,866	$ 69,712	$ 77,476	$ (94)	$ 157,960

(a) The company has no dividend restrictions. However, the company has two tests it must meet before it can pay out any dividends. The most restrictive of which limits the company to paying out no greater than $77.5 million of equity at December 31, 2002.

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

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

WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2002	2001	2000
	(Thousands of Dollars)		
Operating Activities:			
Net income	$ 37,682	$ 14,968	$ 35,268
Adjustments to reconcile to net cash flows provided by operating activities:			
Depreciation	14,381	13,818	17,693
Deferred income taxes and investment tax credits, net	(26,952)	5,281	(11,549)
Net (deferral)/amortization of recoverable energy costs	(529)	3,179	9,386
Amortization of regulatory assets, net	39,712	131,876	47,775
Gain on sale of utility plant	-	(119,775)	-
Prepaid pension	(13,290)	(8,453)	(45,773)
Net other (uses)/sources of cash	(8,221)	(988)	26,570
Changes in working capital:			
Receivables and unbilled revenues, net	1,199	15,017	(24,637)
Fuel, materials and supplies	(365)	149	1,491
Accounts payable	(13,989)	4,043	17,727
Accrued taxes	643	(4,780)	7,882
Other working capital (excludes cash)	(2,351)	3,204	(7,321)
Net cash flows provided by operating activities	27,920	57,539	74,512
Investing Activities:			
Investments in plant:			
Electric utility plant	(23,428)	(30,921)	(27,267)
Nuclear fuel	-	(140)	(7,848)
Cash flows used for investments in plant	(23,428)	(31,061)	(35,115)
NU system Money Pool borrowing/(lending)	76,700	8,600	(8,800)
Investments in nuclear decommissioning trusts	-	(23,037)	(3,437)
Net proceeds from the sale of utility plant	-	175,154	185,787
Buyout of IPP contract	-	(80,000)	-
Other investment activities, net	937	817	3,589
Net cash flows provided by investing activities	54,209	50,473	142,024
Financing Activities:			
Repurchase of common stock	(13,999)	(15,000)	(90,000)
Issuance of rate reduction bonds	-	155,000	-
Retirement of rate reduction bonds	(9,575)	(2,683)	-
Net decrease in short-term debt	(43,000)	(60,000)	(13,000)
Reacquisitions and retirements of long-term debt	-	(100,000)	(94,150)
Reacquisitions and retirements of preferred stock	-	(36,500)	(1,500)
Retirement of capital lease obligation	-	(34,200)	-
Cash dividends on preferred stock	-	(404)	(2,798)
Cash dividends on common stock	(16,009)	(22,000)	(12,002)
Other financing activities, net	(22)	7,389	(3,051)
Net cash flows used in financing activities	(82,605)	(108,398)	(216,501)
Net (decrease)/increase in cash	(476)	(386)	35
Cash - beginning of year	599	985	950
Cash - end of year	$ 123	$ 599	$ 985
Supplemental Cash Flow Information:			
Cash paid during the year for:			
Interest, net of amounts capitalized	$ 14,934	$ 17,939	$ 26,055
Income taxes	$ 32,522	$ 6,314	$ 18,554

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

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

A. About Western Massachusetts Electric Company

Western Massachusetts Electric Company (WMECO or the company) along with The Connecticut Light and Power Company (CL&P), and Public Service Company of New Hampshire (PSNH), North Atlantic Energy Corporation (NAEC), Holyoke Water Power Company (HWP) and Yankee Energy System, Inc. (Yankee) are the operating companies comprising the Northeast Utilities system and are wholly owned by Northeast Utilities (NU). WMECO furnishes franchised retail electric service in western Massachusetts, while CL&P and PSNH furnish franchised retail electric service in Connecticut and New Hampshire. NAEC previously sold all of its entitlement to the capacity and output of the Seabrook Station nuclear unit (Seabrook) to PSNH under the terms of two life-of-unit, full cost recovery contracts (Seabrook Power Contracts). Seabrook was sold on November 1, 2002. NU's other subsidiaries include HWP, a company engaged in the production of electric power, Yankee, the parent company of Yankee Gas Services Company (Yankee Gas), Connecticut's largest natural gas distribution system, and several other competitive subsidiaries including Select Energy, Inc., Northeast Generation Company, Northeast Generation Services Company, and Select Energy Services, Inc.

WMECO is registered with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934. NU is registered with the SEC as a holding company under the Public Utility Holding Company Act of 1935 (1935 Act) and NU, including WMECO, is subject to the provisions of the 1935 Act. Arrangements among WMECO, other NU companies, outside agencies, and other utilities covering interconnections, interchange of electric power and sales of utility property are subject to regulation by the Federal Energy Regulatory Commission (FERC) and/or the SEC. WMECO is subject to further regulation for rates, accounting and other matters by the FERC and the Massachusetts Department of Telecommunications and Energy (DTE).

Several wholly owned subsidiaries of NU provide support services for NU's companies, including WMECO, and in some cases, for other New England utilities. Northeast Utilities Service Company (NUSCO) provides centralized accounting, administrative, engineering, financial, information resources, legal, operational, planning, purchasing, and other services to NU's companies. Until the sale of Seabrook on November 1, 2002, North Atlantic Energy Service Corporation had operational responsibility for Seabrook. Three other subsidiaries construct, acquire or lease some of the property and facilities used by NU's companies.

B. Presentation

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

C. New Accounting Standards

Asset Retirement Obligations: In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations." This statement requires that legal obligations associated with the retirement of property, plant and equipment be recognized as a liability at fair value when incurred and when a reasonable estimate of the fair value of the liability can be made. SFAS No. 143 is effective on January 1, 2003, for WMECO. Management has completed its review process for potential asset retirement obligations (AROs) and has not identified any material AROs which have been incurred. However, management has identified certain removal obligations which arise in the ordinary course of business that either have a low probability of occurring or are not material in nature. These types of obligations primarily relate to transmission and distribution lines and poles, telecommunication towers, transmission cables and certain FERC or state regulatory agency re-licensing issues.

A portion of WMECO's rates is intended to recover the cost of removal of certain utility assets. The amounts recovered do not represent AROs. At December 31, 2002, WMECO maintained approximately $16.6 million in total cost of removal regulatory liabilities, which are included in the accumulated provision for depreciation.

Guarantees: In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45 requires that disclosures be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued and clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. Interpretation No. 45 does not apply to certain guarantee contracts, such as residual value guarantees provided by lessees in capital leases, guarantees that are accounted for as derivatives, guarantees that represent contingent consideration in a business combination, guarantees issued between either parents and their subsidiaries or corporations under common control, a parent's guarantee of a subsidiary's debt to a third party, and a subsidiary's guarantee of the debt owed to a third party by either its parent or another subsidiary of that parent. The initial recognition and initial measurement provisions of Interpretation No. 45 are applicable to WMECO on a prospective basis to guarantees issued or modified after January 1, 2003. Currently, management does not expect the adoption of the initial recognition and initial measurement provisions of Interpretation No. 45 to have a material impact on WMECO's consolidated financial statements.

Consolidation of Variable Interest Entities: In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." Interpretation No. 46 addresses the consolidation and disclosure requirements for companies that hold an equity interest in a variable interest entity (VIE), regardless of the date on which the VIE was created. Interpretation No. 46 requires consolidation of a VIE's assets, liabilities and noncontrolling interests at fair value when a company is the primary beneficiary, which is defined as a company that absorbs a majority of the expected losses, risks and revenues from the VIE as a result of holding a contractual or other financial interest in the VIE. Consolidation is not required under Interpretation No. 46 for those companies that hold a significant equity interest in a VIE but are not the primary beneficiary. Interpretation No. 46 is effective for WMECO beginning in the third quarter of 2003. At December 31, 2002, WMECO held equity interests in various VIEs, for which WMECO was not the primary beneficiary, as WMECO does not absorb a majority of the expected losses, risks and revenues from the VIEs or provide a substantial portion of financial support. As a result, management does not expect the adoption of Interpretation No. 46 to have a material impact on WMECO's consolidated financial statements. For further information regarding WMECO's investments in its VIEs, see Note 1D, "Equity Investments and Jointly Owned Electric Utility Plant" to the consolidated financial statements.

D. Equity Investments and Jointly Owned Electric Utility Plant

Regional Nuclear Generating Companies: WMECO owns common stock in four regional nuclear companies (Yankee Companies). WMECO's ownership interests in the Yankee Companies at December 31, 2002 and 2001, which are accounted for on the equity method are 9.5 percent of the Connecticut Yankee Atomic Power Company (CYAPC), 7 percent of the Yankee Atomic Electric Company (YAEC), 3 percent of the Maine Yankee Atomic Power Company (MYAPC), and 2.6 percent of the Vermont Yankee Nuclear Power Corporation (VYNPC). WMECO's total equity investment in the Yankee Companies and its exposure to loss as a result of these investments at December 31, 2002 and 2001, is $8.6 million and $9.3 million, respectively. These investments are VIEs under FASB Interpretation No. 46. Excluding VYNPC, which sold its nuclear generating plant, each Yankee Company owns a single decommissioned nuclear generating plant. On July 31, 2002, VYNPC consummated the sale of its nuclear generating plant to a subsidiary of Entergy Corporation for approximately $180 million.

E. Depreciation

The provision for depreciation is calculated using the straight-line method based on estimated remaining useful lives of depreciable utility plant-in-service, which range primarily from 15 years to 60 years, adjusted for salvage value and removal costs, as approved by the appropriate regulatory agency where applicable. Depreciation rates are applied to the average plant-in-service from the time they are placed in service. When plant is retired from service, the original cost of the plant, including costs of removal less salvage, is charged to the accumulated provision for depreciation. The depreciation rates for the several classes of electric plant-in-service are equivalent to a composite rate of 2.3 percent in 2002 and 2001 and 2.2 percent in 2000.

F. Revenues

Revenues are based on rates approved by the DTE. These regulated rates are applied to customer's accounts based on their use of energy. In general, rates can only be changed through formal proceedings with the DTE.

The determination of the energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on generation volumes, estimated customer usage by class, line losses, and applicable customer rates.

G. Regulatory Accounting and Assets

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

WMECO's transmission and distribution businesses continue to be cost-of-service rate regulated, and management believes the application of SFAS No. 71 to that portion of those businesses continues to be appropriate. Management also believes it is probable that WMECO will recover its investments in long-lived assets, including regulatory assets. In addition, all material regulatory assets are earning a return, except for securitized regulatory assets. The components of WMECO's regulatory assets are as follows:

	At December 31,	
(Millions of Dollars)	2002	2001
Recoverable nuclear costs	$ 38.0	$ 38.5
Securitized regulatory assets	141.9	149.6
Income taxes, net	54.2	57.3
Unrecovered contractual obligations	63.8	37.4
Recoverable energy costs, net	4.3	3.8
Other	(18.5)	33.6
Totals	$283.7	$320.2

At December 31, 2002, other regulatory assets included a regulatory liability in the amount of $29.8 million, related to the WMECO rate cap deferral.

In March 2001, WMECO sold its ownership interest in the Millstone units. The gain on this sale of approximately $119.8 million was used to offset recoverable nuclear costs, resulting in a total unamortized balance of $7.1 million and $3.2 million at December 31, 2002 and 2001, respectively. Also included in recoverable nuclear costs for 2002 and 2001 are $30.9 million and $35.3 million, respectively, primarily related to Millstone 1 recoverable nuclear costs associated with the recoverable portion of the undepreciated plant and related assets.

In May 2001, WMECO issued $155 million in rate reduction certificates and used $80 million of those proceeds to buyout an independent power producer contract. The majority of the payment to buyout this contract was recorded as a securitized regulatory asset.

WMECO, under the terms of contracts with the Yankee Companies, is responsible for its proportionate share of the remaining costs of the units, including decommissioning. These amounts are recorded as unrecovered contractual obligations. A portion of these obligations was securitized in 2001 and is included in securitized regulatory assets. During 2002, WMECO was notified by the Yankee Companies that the estimated cost of decommissioning their units had increased over prior estimates due to higher anticipated costs for spent fuel storage, security and liability and property insurance. In December 2002, WMECO recorded an additional $32.4 million in deferred contractual obligations and a corresponding increase in the unrecovered contractual obligations regulatory asset as a result of these increased costs.

WMECO, under the Energy Policy Act of 1992 (Energy Act), was assessed for its proportionate share of the costs of decontaminating and decommissioning uranium enrichment plants owned by the United States Department of Energy (DOE) (D&D Assessment) when they owned nuclear generating plants. The Energy Act requires that regulators treat D&D Assessments as a reasonable and necessary current cost of fuel, to be fully recovered in rates like any other fuel cost. WMECO is currently recovering these costs through rates. At December 31, 2002 and 2001, WMECO's total D&D Assessment deferrals were $4.3 million and $3.8 million, respectively, and have been recorded as recoverable energy costs, net.

H. Income Taxes

The tax effect of temporary differences (differences between the periods in which transactions affect income in the financial statements and the periods in which they affect the determination of taxable income) is accounted for in accordance with the rate-making treatment of the applicable regulatory commissions and SFAS No. 109, "Accounting for Income Taxes."

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

	At December 31,	
(Millions of Dollars)	2002	2001
Accelerated depreciation and other plant-related differences	$ 66.6	$107.5
Regulatory assets:		
Nuclear stranded investment and other asset divestitures	57.3	52.3
Securitized contract termination costs and other	34.8	38.4
Income tax gross-up	21.1	19.0
Other	42.3	12.7
Totals	$222.1	$229.9

I. Other Income/(Loss), Net

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

	For the Years Ended December 31,		
(Millions of Dollars)	2002	2001	2000
Investment income	$ 1.6	$ 0.9	$ 3.6
Other, net	(2.5)	(2.0)	(2.9)
Totals	$ (0.9)	$(1.1)	$ 0.7

2. Short-Term Debt

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

Credit Agreement: On November 12, 2002, WMECO, CL&P, PSNH, and Yankee Gas entered into a 364-day unsecured revolving credit facility for $300 million. This facility replaced a $350 million facility for WMECO, CL&P, PSNH and Yankee Gas, which expired on November 15, 2002. WMECO may draw up to $100 million under this facility. Unless extended, the credit facility will expire on November 11, 2003. At December 31, 2002 and 2001, there were $7 million and $50 million in borrowings, respectively, under these facilities.

Under the aforementioned credit agreement, WMECO may borrow at fixed or variable rates plus an applicable margin based upon certain debt ratings, as rated by the lower of Standard and Poor's or Moody's Investors Service. The weighted average interest rates on WMECO's notes payable to banks outstanding on December 31, 2002 and 2001, were 4.25 percent and 2.98 percent, respectively.

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

Money Pool: Certain subsidiaries of NU, including WMECO, are members of the Northeast Utilities System Money Pool (Pool). The Pool provides a more efficient use of the cash resources of NU and reduces outside short-term borrowings. NUSCO administers the Pool as agent for the member companies. Short-term borrowing needs of the member companies are first met with available funds of other member companies, including funds borrowed by NU parent. NU parent may lend to the Pool but may not borrow. Funds may be withdrawn from or repaid to the Pool at any time without prior notice. Investing and borrowing subsidiaries receive or pay interest based on the average daily federal funds rate. Borrowings based on loans from NU parent, however, bear interest at NU parent's cost and must be repaid based upon the terms of NU parent's original borrowing. At December 31, 2002 and 2001, WMECO had $85.9 million and $9.2 million, respectively, of borrowings from the Pool. The interest rate on borrowings from the Pool at December 31, 2002 and 2001, was 1.2 percent and 1.5 percent, respectively.

3. Pension Benefits and Postretirement Benefits Other Than Pensions

Pension Benefits: WMECO participates in a uniform noncontributory defined benefit retirement plan (Plan) covering substantially all regular NU employees. Benefits are based on years of service and the employees' highest eligible compensation during 60 consecutive months of employment. Pre-tax pension income, approximately 30 percent of which was credited to utility plant, was $12.1 million in 2002, $13.7 million in 2001 and $12.4 million in 2000. These amounts exclude pension settlements, curtailments and net special termination expenses of $1.2 million in income in 2002, $0.3 million in expense in 2001 and $6.6 million in income in 2000. Pension income attributable to earnings is as follows:

(Millions of Dollars)	For Years Ended December 31 2002	2001	2000
Pension income before settlements, curtailments and special termination benefits	$ (12.1)	$(13.7)	$ (12.4)
Net pension income capitalized as utility plant (a)	3.6	4.1	3.7
Net pension income before settlements, curtailments and special termination benefits	(8.5)	(9.6)	(8.7)
Settlements, curtailments and special termination benefits reflected in earnings	-	0.7	-
Total pension income included in earnings	$ (8.5)	$ (8.9)	$ (8.7)

(a) Net pension income capitalized as utility plant was calculated utilizing an average of 30 percent.

In conjunction with the Voluntary Separation Program (VSP) that was announced in December 2000, WMECO recorded $0.2 million in settlement income. The VSP was intended to reduce the generation-related support staff between March 1, 2001 and February 28, 2002, and was available to non-bargaining unit employees who, by February 1, 2002, were at least age 50, with a minimum of five years of credited service, and at December 15, 2000, were assigned to certain groups and in eligible job classifications.

One component of the VSP included special pension termination benefits equal to the greater of five years added to both age and credited service of eligible participants or two weeks of pay for each year of service subject to a minimum level of 12 weeks and a maximum of 52 weeks for eligible participants. The special pension termination benefits expense associated with the VSP totaled $0.5 million in 2001. The net total of the settlement and curtailment income and the special termination benefits expense was $0.3 million, of which $0.7 million of costs were included in operating expenses and $0.4 million was deferred as a regulatory liability and has been returned to customers.

Additionally, in conjunction with the divestiture of its generation assets, WMECO recorded $1.2 million in curtailment income in 2002 and $6.6 million of curtailment income in 2000.

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

In 2001, WMECO recorded PBOP special termination benefits expense of $0.1 million in connection with the VSP. This amount was recorded as a regulatory asset and collected through regulated utility rates in 2002.

Additionally, in conjunction with the divestiture of its generation assets, WMECO recorded $0.4 million in special termination benefits income in 2000.

In 2002, the PBOP plan was amended to change the claims experience basis, to increase minimum retiree contributions and to reduce the cap on the company's subsidy to the dental plan. These amendments resulted in a $2.8 million decrease in WMECO's benefit obligation under the PBOP plan at December 31, 2002.

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

	At December 31,			
	Pension Benefits		Postretirement Benefits	
(Millions of Dollars)	2002	2001	2002	2001
Change in benefit obligation				
Benefit obligation at beginning of year	$(121.3)	$(121.1)	$(35.5)	$(29.3)
Service cost	(2.2)	(1.9)	(0.4)	(0.4)
Interest cost	(8.7)	(8.5)	(2.9)	(2.4)
Plan amendment	(1.1)	-	2.8	-
Transfers	(0.2)	4.9	(4.8)	-
Actuarial loss	(8.2)	(3.0)	(4.2)	(7.0)
Benefits paid - excluding lump sum payments	8.1	8.0	3.6	3.6
Benefits paid - lump sum payments	-	0.7	-	-
Curtailments and settlements	-	0.1	-	-
Special termination benefits	-	(0.5)	-	-
Benefit obligation at end of year	$(133.6)	$(121.3)	$(41.4)	$(35.5)
Change in plan assets				
Fair value of plan assets at beginning of year	$ 191.2	$ 214.3	$ 14.7	$ 17.3
Actual return on plan assets	(20.9)	(9.5)	(1.5)	(1.6)
Employer contribution	-	-	3.6	2.6
Benefits paid - excluding lump sum payments	(8.1)	(8.0)	(3.6)	(3.6)
Benefits paid - lump sum payments	-	(0.7)	-	-
Transfers	0.2	(4.9)	2.2	-
Fair value of plan assets at end of year	$ 162.4	$ 191.2	$ 15.4	$ 14.7
Funded status at December 31	$ 28.8	$ 69.9	$(26.0)	$(20.8)
Unrecognized transition (asset)/obligation	(0.5)	(0.7)	13.8	17.4
Unrecognized prior service cost	6.4	6.0	(0.7)	-
Unrecognized net loss/(gain)	32.8	(21.0)	11.7	3.8
Prepaid/(accrued) benefit cost	$ 67.5	$ 54.2	$ (1.2)	$ 0.4

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

	At December 31,			
	Pension Benefits		Postretirement Benefits	
	2002	2001	2002	2001
Discount rate	6.75%	7.25%	6.75%	7.25%
Compensation/progression rate	4.00%	4.25%	4.00%	4.25%
Health care cost trend rate (a)	N/A	N/A	10.00%	11.00%

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

The components of net periodic benefit (income)/expense are:

	For the Years Ended December 31,					
	Pension Benefits			Postretirement Benefits		
(Millions of Dollars)	2002	2001	2000	2002	2001	2000
Service cost	$ 2.2	$ 1.9	$ 2.2	$ 0.4	$ 0.4	$ 0.4
Interest cost	8.7	8.5	8.9	2.9	2.3	2.2
Expected return on plan assets	(19.9)	(20.0)	(19.0)	(1.5)	(1.4)	(1.3)
Amortization of unrecognized net transition (asset)/obligation	(0.2)	(0.2)	(0.2)	1.5	1.6	1.6
Amortization of prior service cost	0.7	0.6	0.6	-	-	-
Amortization of actuarial gain	(3.6)	(4.5)	(4.9)	-	-	-
Other amortization, net	-	-	-	0.2	(0.4)	(0.4)
Net periodic (income)/expense - before settlements, curtailments and special termination benefits	(12.1)	(13.7)	(12.4)	3.5	2.5	2.5
Settlement income	-	(0.2)	-	-	-	-
Curtailment income	(1.2)	-	(6.6)	-	-	-
Special termination benefits expense/(income)	-	0.5	-	-	0.1	(0.4)
Total - settlements, curtailments and special termination benefits	(1.2)	0.3	(6.6)	-	0.1	(0.4)
Total - net periodic (income)/expense	$(13.3)	$(13.4)	$(19.0)	$ 3.5	$ 2.6	$ 2.1

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

	For the Years Ended December 31,					
	Pension Benefits			Postretirement Benefits		
	2002	2001	2000	2002	2001	2000
Discount rate	7.25%	7.50%	7.75%	7.25%	7.50%	7.75%
Expected long-term rate of return	9.25%	9.50%	9.50%	N/A	N/A	N/A
Compensation/progression rate	4.25%	4.50%	4.75%	4.25%	4.50%	4.75%
Long-term rate of return -						
Health assets, net of tax	N/A	N/A	N/A	7.25%	7.50%	7.50%
Life assets	N/A	N/A	N/A	9.25%	9.50%	9.50%

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

(Millions of Dollars)	One Percentage Point Increase	One Percentage Point Decrease
Effect on total service and interest cost components	$0.1	$(0.1)
Effect on postretirement benefit obligation	$1.3	$(1.1)

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

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

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

4. Nuclear Generation Asset Divestitures

VYNPC: On July 31, 2002, VYNPC consummated the sale of its nuclear generating plant to a subsidiary of Entergy Corporation (Entergy) for approximately $180 million. As part of the sale, Entergy assumed responsibility for decommissioning VYNPC's nuclear generating unit. Under the terms of the sale, WMECO will continue to buy 2.5 percent of the plant's output through March 2012 at a range of fixed prices.

Millstone: On March 31, 2001, WMECO and CL&P consummated the sale of Millstone 1 and 2 to a subsidiary of Dominion Resources, Inc. (Dominion). WMECO, CL&P and PSNH sold their ownership interests in Millstone 3 to Dominion along with all of the unaffiliated joint ownership interests in Millstone 3. WMECO received approximately $175 million of cash proceeds from the sale and applied the proceeds to taxes and reductions of debt and equity. As part of the sale, Dominion assumed responsibility for decommissioning the three Millstone units. In connection with the sale, WMECO recorded a gain in the amount of approximately $119.8 million, which was used to offset stranded costs.

5. Commitments and Contingencies

A. Restructuring and Rate Matters

On March 30, 2001, WMECO filed its second annual stranded cost reconciliation with the DTE for calendar year 2000. On March 29, 2002, WMECO filed its 2001 annual transition cost reconciliation with the DTE. This filing reconciled the recovery of stranded generation costs for calendar year 2001 and includes sales proceeds from WMECO's portion of the Millstone units, the impact of securitization and approximately a $13 million benefit to ratepayers from WMECO's nuclear performance-based ratemaking process.

WMECO and the office of the Massachusetts Attorney General reached a settlement resolving all transition charge issues for the 1998 through 2001 reconciliations. The DTE approved this settlement on December 27, 2002. The settlement had a positive impact of $9 million on WMECO 2002 pre-tax earnings.

B. Environmental Matters

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

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

Based upon currently available information for the estimated remediation costs as of December 31, 2002 and 2001, the liability recorded by WMECO for its estimated environmental remediation costs amounted to $0.8 million and $5.3 million, respectively.

C. Spent Nuclear Fuel Disposal Costs

Under the Nuclear Waste Policy Act of 1982, WMECO must pay the DOE for the disposal of spent nuclear fuel and high-level radioactive waste. The DOE is responsible for the selection and development of repositories for, and the disposal of, spent nuclear fuel and high-level radioactive waste. For nuclear fuel used to generate electricity prior to April 7, 1983 (Prior Period Fuel), an accrual has been recorded for the full liability and payment must be made prior to the first delivery of spent fuel to the DOE. Until such payment is made, the outstanding balance will continue to accrue interest at the 3-month treasury bill yield rate. As of December 31, 2002 and 2001, fees due to the DOE for the disposal of Prior Period Fuel were $48.2 million and $47.4 million, respectively, including interest costs of $32.6 million and $31.8 million, respectively.

Fees for nuclear fuel burned on or after April 7, 1983, were billed currently to customers and paid to the DOE on a quarterly basis. At December 31, 2002, as WMECO's ownership share of Millstone has been sold, WMECO is no longer responsible for fees relating to current fuel burned at this facility.

D. Nuclear Insurance Contingencies

In conjunction with the divestiture of Millstone in 2001, NU and WMECO terminated their nuclear insurance related to these plants, and WMECO has no further exposure for potential assessments related to Millstone. However, through its continuing association with Nuclear Electric Insurance Limited (NEIL) and CYAPC and VYNPC, NU is subject to potential retrospective assessments totaling $0.8 million under its respective NEIL insurance policies.

E. Long-Term Contractual Arrangements

VYNPC: Previously, under the terms of its agreement, WMECO paid its ownership (or entitlement) shares of costs, which included depreciation, operation and maintenance (O&M) expenses, taxes, the estimated cost of decommissioning, and a return on invested capital to VYNPC and recorded these costs as purchased-power expenses. On July 31, 2002, VYNPC consummated the sale of its nuclear generating unit to a subsidiary of Entergy for approximately $180 million. Under the terms of the sale, WMECO will continue to buy approximately 2.5 percent of the plant's output through March 2012 at a range of fixed prices. The total cost of purchases under contracts with VYNPC amounted to $4.3 million in 2002, $4.1 million in 2001 and $4 million in 2000.

Electricity Procurement Contract: WMECO entered into an arrangement for the purchase of electricity. The total cost of purchases under this arrangement amounted to $2.5 million in 2002, $14.5 million in 2001 and $28.5 million in 2000. These amounts are for independent power producer contracts and do not include contractual commitments related to WMECO's standard offer and default service.

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

Estimated Future Annual Costs: The estimated future annual costs of WMECO's significant long-term contractual arrangements are as follows:

(Millions of Dollars)	2003	2004	2005	2006	2007
VYNPC	$ 4.8	$ 4.6	$4.2	$4.4	$4.3
Electricity Procurement Contract	2.8	2.8	2.8	2.8	2.8
Hydro-Quebec	3.0	2.9	2.9	2.6	2.5
Totals	$10.6	$10.3	$9.9	$9.8	$9.6

F. Nuclear Decommissioning and Plant Closure Costs

In conjunction with the Millstone and VYNPC nuclear generation asset divestitures, the applicable liabilities and nuclear decommissioning trusts were transferred to the purchasers and the purchasers agreed to assume responsibility for decommissioning their respective units.

During 2002, NU, along with the other joint owners, were notified by the Yankee Companies that the estimated cost of decommissioning the units owned by CYAPC, YAEC and MYAPC increased in total by approximately $380 million over prior estimates due to higher anticipated costs for spent fuel storage, security and liability and property insurance. WMECO's share of this increase totals $32.4 million. Following rate cases to be filed by the Yankee Companies with the FERC, NU will seek recovery of the higher decommissioning costs from retail customers through the appropriate state regulatory agency. At December 31, 2002 and 2001, WMECO's remaining estimated obligations, for decommissioning for the units owned by CYAPC, YAEC and MYAPC, which have been shut down, were $63.8 million and $37.4 million, respectively.

6. Fair Value of Financial Instruments

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

Long-Term Debt and Rate Reduction Bonds: The fair value of WMECO's fixed-rate securities is based upon the quoted market price for those issues or similar issues. Adjustable rate securities are assumed to have a fair value equal to their carrying value. The carrying amounts of WMECO's financial instruments and the estimated fair values are as follows:

	At December 31, 2002	
(Millions of Dollars)	Carrying Amount	Fair Value
Long-term debt -		
Other long-term debt	$102.0	$104.3
Rate reduction bonds	142.7	159.2

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

Other Financial Instruments: The carrying value of financial instruments included in current assets and current liabilities, approximates their fair value.

7. Leases

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

Capital lease rental payments charged to operating expense were $1.9 million and $9.6 million for 2001 and 2000, respectively. Interest included in capital lease rental payments was $0.7 million in 2001 and $2.8 million in 2000. Operating lease rental payments charged to expense were $2.3 million in 2002, $2.5 million in 2001, and $3.2 million in 2000.

Future minimum rental payments, excluding executory costs such as property taxes, state use taxes, insurance, and maintenance, under long-term noncancelable operating leases, as of December 31, 2002, are as follows:

Year	
	(Millions of Dollars)
2003	$ 3.5
2004	3.4
2005	3.2
2006	2.9
2007	2.3
After 2007	10.5
Future minimum lease payments	$25.8

8. Accumulated Other Comprehensive Income/(Loss)

The accumulated balance for each other comprehensive income/(loss) item is as follows:

(Millions of Dollars)	December 31, 2001	Current Period Change	December 31, 2002
Unrealized gains/(losses) on securities	$0.1	$(0.1)	$ -
Minimum pension liability adjustments	-	(0.1)	(0.1)
Accumulated other comprehensive income/(loss)	$0.1	$(0.2)	$(0.1)

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

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

(Millions of Dollars)	2002	2001	2000
Unrealized gains/(losses) on securities	$0.1	$0.1	$ -
Minimum pension liability adjustments	-	-	-
Accumulated other comprehensive income/(loss)	$0.1	$0.1	$ -

9. Long-Term Debt

Details of long-term debt outstanding are as follows:

At December 31,	2002	2001
	(Millions of Dollars)	
Pollution Control Notes:		
Tax Exempt 1993 Series A, 5.85% due 2028	$ 53.8	$ 53.8
Fees and interest due for spent nuclear fuel disposal costs	48.2	47.4
Less amounts due within one year	-	-
Long-term debt	$102.0	$101.2

WMECO has secured $53.8 million of pollution control notes with second mortgage liens on transmission assets.

10. Income Tax Expense

The components of the federal and state income tax provisions are as follows:

For the Years Ended December 31,	2002	2001	2000
	(Millions of Dollars)		
Current income taxes:			
Federal	$27.9	$ 0.3	$15.8
State	5.8	1.0	10.9
Total current	33.7	1.3	26.7
Deferred income taxes, net:			
Federal	(13.5)	5.3	(0.8)
State	0.1	0.6	(8.6)
Total deferred	(13.4)	5.9	(9.4)
Investment tax credits, net	(13.5)	(0.6)	(2.1)
Total income tax expense	$ 6.8	$ 6.6	$15.2

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

For the Years Ended December 31,	2002	2001	2000
	(Millions of Dollars)		
Depreciation, leased nuclear fuel, settlement credits and disposal costs	$ 1.5	$ (0.6)	$ 0.9
Regulatory deferral	(6.0)	(3.7)	(16.4)
Sale of generation assets	(2.0)	(30.5)	-
Pension accruals	2.6	1.0	5.9
Securitized contract termination costs and other	(3.6)	38.4	-
Other	(5.9)	1.3	0.2
Deferred income taxes, net	$(13.4)	$ 5.9	$ (9.4)

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

For the Years Ended December 31,	2002	2001	2000
	(Millions of Dollars)		
Expected federal income tax	$15.5	$ 7.5	$17.6
Tax effect of differences:			
Depreciation	0.5	-	(1.2)
Amortization of regulatory assets	-	1.2	1.3
Investment tax credit amortization	(13.5)	(0.6)	(2.1)
State income taxes, net of federal benefit	3.8	1.1	1.5
Other, net	0.5	(2.6)	(1.9)
Total income tax expense	$ 6.8	$ 6.6	$15.2

11. Segment Information

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

Selected Consolidated Financial Data

(Thousands of Dollars)	2002	2001	2000	1999	1998
Operating Revenues	$369,487	$478,869	$ 513,678	$ 414,231	$ 393,322
Net Income/(Loss)	37,682	14,968	35,268	2,887	(9,579)
Cash Dividends on Common Stock	16,009	22,000	12,002	-	-
Total Assets	836,661	852,662	1,047,818	1,253,604	1,287,682
Rate Reduction Bonds	142,742	152,317	-	-	-
Long-Term Debt (a)	101,991	101,170	199,425	290,279	389,314
Preferred Stock Not Subject to Mandatory Redemption	-	-	20,000	20,000	20,000
Preferred Stock Subject to Mandatory Redemption (a)	-	-	16,500	18,000	19,500
Obligations Under Capital Leases (a)	87	110	26,921	29,972	34,093

Consolidated Quarterly Financial Data (Unaudited)

(Thousands of Dollars)	Quarter Ended			
2002	March 31	June 30	September 30	December 31
Operating Revenues	$ 96,005	$ 87,191	$ 95,684	$ 90,607
Operating Income	$ 15,695	$ 10,678	$ 12,524	$ 20,786
Net Income	$ 6,890	$ 15,322	$ 4,730	$ 10,740
2001				
Operating Revenues	$143,300	$106,866	$120,679	$108,024
Operating Income	$ 11,876	$ 6,406	$ 14,821	$ 4,786
Net Income	$ 3,319	$ 1,518	$ 3,880	$ 6,251

(a) Includes portions due within one year.

Consolidated Statistics (Unaudited)

	Gross Electric Utility Plant December 31, *(Thousands of Dollars)* (a)	kWh Sales (Millions)	Average Annual Use Per Residential Customer (kWh)	Electric Customers (Average)	Employees December 31,
2002	$ 602,013	4,102	7,921	203,760	400
2001	583,183	4,712	7,476	200,166	405
2000	1,153,514	7,278	7,371	198,372	406
1999	1,216,015	4,654	7,423	198,012	482
1998	1,256,046	4,009	6,979	196,339	533

(a) Amount includes construction work in progress.

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Western Massachusetts Electric Company

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

Western Massachusetts
Electric

The Northeast Utilities System

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