NORTHEAST UTILITIES
Form 10-Q
November 08, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2007

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________ to ____________

Commission File Number	Registrant; State of Incorporation; Address; and Telephone Number	I.R.S. Employer Identification No.
1-5324	**NORTHEAST UTILITIES** (a Massachusetts voluntary association) One Federal Street Building 111-4 Springfield, Massachusetts 01105 Telephone: (413) 785-5871	04-2147929
0-00404	**THE CONNECTICUT LIGHT AND POWER COMPANY** (a Connecticut corporation) 107 Selden Street Berlin, Connecticut 06037-1616 Telephone: (860) 665-5000	06-0303850
1-6392	**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE** (a New Hampshire corporation)	02-0181050

Energy Park
780 North Commercial Street
Manchester, New Hampshire 03101-1134
Telephone: (603) 669-4000

0-7624	**WESTERN MASSACHUSETTS ELECTRIC COMPANY** (a Massachusetts corporation) One Federal Street Building 111-4 Springfield, Massachusetts 01105 Telephone: (413) 785-5871	04-1961130

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days:

Yes	No
Ö	

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer
Northeast Utilities	Ö		
The Connecticut Light and Power Company			Ö
Public Service Company of New Hampshire			Ö
Western Massachusetts Electric Company			Ö

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act):

	Yes	No
Northeast Utilities		Ö
The Connecticut Light and Power Company		Ö
Public Service Company of New Hampshire		Ö
Western Massachusetts Electric Company		Ö

Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date:

Company - Class of Stock	Outstanding at October 31, 2007
Northeast Utilities Common stock, $5.00 par value	155,002,850 shares
The Connecticut Light and Power Company	

Common stock, $10.00 par value	6,035,205 shares
Public Service Company of New Hampshire Common stock, $1.00 par value	301 shares
Western Massachusetts Electric Company Common stock, $25.00 par value	434,653 shares

Northeast Utilities holds all of the 6,035,205 shares, 301 shares, and 434,653 shares of the outstanding common stock of The Connecticut Light and Power Company, Public Service Company of New Hampshire and Western Massachusetts Electric Company, respectively.

Public Service Company of New Hampshire and Western Massachusetts Electric Company meet the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and therefore filed their 2006 Form 10-K with the reduced disclosure format specified in General Instruction I(2) to Form 10-K.

GLOSSARY OF TERMS

The following is a glossary of frequently used abbreviations or acronyms that are found in this report.

NU COMPANIES, SEGMENTS OR INVESTMENTS:

CL&P	The Connecticut Light and Power Company
CRC	CL&P Receivables Corporation
HWP	Holyoke Water Power Company
Mt. Tom	Mt. Tom generating plant
NGC	Northeast Generation Company
NGS	Northeast Generation Services Company and Subsidiaries
NU or the company	Northeast Utilities
NU Enterprises	At September 30, 2007, NU Enterprises, Inc., is comprised of Select Energy, NGS, E.S. Boulos Company (Boulos), the Connecticut division of SECI (SECI-CT) and NU Enterprises parent. For further information, see Note 10, "Segment Information," to the condensed consolidated financial statements.
Parent and affiliates	Parent and affiliates is comprised of NU parent, NU's service companies, HWP (since January 1, 2007) and other subsidiaries, including Rocky River Realty Company and the Quinnehtuk Company (both real estate subsidiaries), Mode 1 Communications, Inc. (telecommunications) and the non-energy-related subsidiaries of Yankee (Yankee Energy Services Company, Yankee Energy Financial Services Company, and NorConn Properties, Inc.).
PSNH	Public Service Company of New Hampshire
Regulated companies	NU's regulated companies, comprised of the electric distribution and transmission segments of CL&P, PSNH, WMECO, the generation segment of PSNH and Yankee Gas, which is a natural gas local distribution company. For further information, see Note 10 "Segment Information," to the condensed consolidated financial statements.
SECI	Select Energy Contracting, Inc.
Select Energy	Select Energy, Inc.
SESI	Select Energy Services, Inc.
WMECO	Western Massachusetts Electric Company
Yankee	Yankee Energy System, Inc.
Yankee Gas	Yankee Gas Services Company
Woods Electrical	Woods Electrical Co., Inc. a portion of which was sold in April of 2006 and the remainder of which was wound down in the second quarter of 2007.

REGULATORS:

DPU	Massachusetts Department of Public Utilities (formerly the Massachusetts Department of Telecommunications and Energy (DTE))
DPUC	Connecticut Department of Public Utility Control
FERC	Federal Energy Regulatory Commission
NHPUC	New Hampshire Public Utilities Commission
SEC	Securities and Exchange Commission

OTHER:

AFUDC	Allowance For Funds Used During Construction
CFD	Contract for Differences
CTA	Competitive Transition Assessment
COLA	Cost of Living Adjustment
EPS	Earnings Per Share
ES	Default Energy Service
FASB	Financial Accounting Standards Board
FMCC	Federally Mandated Congestion Cost
GSC	Generation Service Charge
GWH	Gigawatt Hours
ISO-NE	New England Independent System Operator
KWH	Kilowatt-Hour
KV	Kilovolt
LOCs	Letters of Credit
MMCF	Million Cubic Feet
MW	Megawatt/Megawatts
NU 2006 Form 10-K	The Northeast Utilities and Subsidiaries combined 2006 Form 10-K as filed with the SEC
NYMEX	New York Mercantile Exchange
OCC	Connecticut Office of Consumer Counsel
Regulatory ROE	The average cost of capital method for calculating the return on equity related to the distribution and generation segments excluding the wholesale transmission segment.
RMR	Reliability Must Run
ROE	Return on Equity
SBC	System Benefits Charge
SCRC	Stranded Cost Recovery Charge
SFAS	Statement of Financial Accounting Standards
TCAM	Transmission Cost Adjustment Mechanism
TSO	Transitional Standard Offer
UI	United Illuminating Corporation

NORTHEAST UTILITIES AND SUBSIDIARIES
THE CONNECTICUT LIGHT AND POWER COMPANY AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES
WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

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NORTHEAST UTILITIES AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2007	December 31, 2006
	(Thousands of Dollars)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 207,653	$ 481,911
Special deposits	31,919	48,524
Investments in securitizable assets	339,309	375,655
Receivables, less provision for uncollectible accounts of $18,924 in 2007 and $22,369 in 2006	326,900	361,201
Unbilled revenues	70,515	88,170
Fuel, materials and supplies	231,163	173,882
Marketable securities - current	67,781	67,546
Derivative assets - current	93,118	88,857
Prepayments and other	47,273	45,305
	1,415,631	1,731,051
Property, Plant and Equipment:		
Electric utility	7,312,198	7,129,526
Gas utility	968,235	858,961
Other	307,835	299,389
	8,588,268	8,287,876
Less: Accumulated depreciation: $2,466,190 for electric and gas utility and $176,395 for other in 2007; $2,440,544 for electric and gas utility and $174,562 for other in 2006	2,642,585	2,615,106
	5,945,683	5,672,770
Construction work in progress	931,358	569,416

	6,877,041	6,242,186
Deferred Debits and Other Assets:		
Regulatory assets	2,101,115	2,449,132
Goodwill	287,591	287,591
Prepaid pension	108,988	21,647
Marketable securities - long-term	56,733	50,843
Derivative assets - long-term	264,723	271,755
Other	227,162	249,031
	3,046,312	3,329,999
Total Assets	$ 11,338,984	$ 11,303,236

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

NORTHEAST UTILITIES AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2007	December 31, 2006
	(Thousands of Dollars)	
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Long-term debt - current portion	$ 154,286	$ 4,877
Accounts payable	506,990	569,940
Accrued taxes	21,150	364,659
Accrued interest	73,709	53,782
Derivative liabilities - current	90,921	125,843
Other	201,400	244,734
	1,048,456	1,363,835
Rate Reduction Bonds	1,015,232	1,177,158
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	1,029,796	1,099,433
Accumulated deferred investment tax credits	29,740	32,427
Deferred contractual obligations	238,768	271,528
Regulatory liabilities	857,048	809,324
Derivative liabilities - long-term	104,619	148,557
Accrued postretirement benefits	172,423	203,320
Other	379,156	322,840
	2,811,550	2,887,429
Capitalization:		
Long-Term Debt	3,473,523	2,960,435
Preferred Stock of Subsidiary - Non-Redeemable	116,200	116,200

Common Shareholders' Equity:		
Common shares, $5 par value - authorized 225,000,000 shares; 175,920,879 shares issued and 154,983,295 shares outstanding in 2007 and 175,420,239 shares issued and 154,233,141 shares outstanding in 2006	879,604	877,101
Capital surplus, paid in	1,463,520	1,449,586
Deferred contribution plan - employee stock ownership plan	(28,501)	(34,766)
Retained earnings	914,622	862,660
Accumulated other comprehensive income	6,305	4,498
Treasury stock, 19,705,353 shares in 2007 and 19,684,249 shares in 2006	(361,527)	(360,900)
Common Shareholders' Equity	2,874,023	2,798,179
Total Capitalization	6,463,746	5,874,814
Total Liabilities and Capitalization	$ 11,338,984	$ 11,303,236

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

NORTHEAST UTILITIES AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Thousands of Dollars, except share information)			
Operating Revenues	$ 1,451,080	$ 1,592,784	$ 4,547,426	$ 5,401,233
Operating Expenses:				
Operation -				
Fuel, purchased and net interchange power	881,234	1,046,184	2,756,522	3,699,885
Other	195,237	248,956	679,015	827,278
Restructuring and impairment charges	-	1,287	193	9,712
Maintenance	53,858	55,918	159,703	143,539
Depreciation	64,522	61,355	191,393	179,840
Amortization	17,007	(8,639)	19,795	48,755
Amortization of rate reduction bonds	52,403	49,161	151,316	141,836
Taxes other than income taxes	63,485	62,179	193,435	193,046
Total operating expenses	1,327,746	1,516,401	4,151,372	5,243,891
Operating Income	123,334	76,383	396,054	157,342
Interest Expense:				
Interest on long-term debt	41,706	37,448	118,153	105,269
Interest on rate reduction bonds	15,111	18,197	47,300	57,060
Other interest	4,907	4,479	15,061	18,105
Interest expense, net	61,724	60,124	180,514	180,434
Other Income, Net	10,734	12,081	36,676	38,451
Income from Continuing Operations Before Income Tax Expense/(Benefit)	72,344	28,340	252,216	15,359
Income Tax Expense/(Benefit)	20,778	(75,702)	75,442	(85,087)

Income from Continuing Operations Before Preferred Dividends of Subsidiary	51,566	104,042	176,774	100,446
Preferred Dividends of Subsidiary	1,390	1,390	4,169	4,169
Income from Continuing Operations	50,176	102,652	172,605	96,277
Discontinued Operations:				
Income from Discontinued Operations	-	15,945	-	54,792
(Losses)/Gains from Sale/Disposition of Discontinued Operations	(90)	(1,605)	1,927	(8,083)
Income Tax (Benefit)/Expense	(38)	5,543	761	19,401
(Loss)/Income from Discontinued Operations	(52)	8,797	1,166	27,308
Net Income	$ 50,124	$ 111,449	$ 173,771	$ 123,585
Basic and Fully Diluted Earnings Per Common Share:				
Income from Continuing Operations	$ 0.32	$ 0.67	$ 1.12	$ 0.63
Income from Discontinued Operations	-	0.05	-	0.17
Basic and Fully Diluted Earnings Per Common Share	$ 0.32	$ 0.72	$ 1.12	$ 0.80
Basic Common Shares Outstanding (weighted average)	154,930,930	153,883,480	154,672,270	153,651,610
Fully Diluted Common Shares Outstanding (weighted average)	155,420,239	154,320,675	155,210,704	154,036,770

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

NORTHEAST UTILITIES AND
SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
	(Thousands of Dollars)	
Operating Activities:		
Net income	$ 173,771	$ 123,585
Adjustments to reconcile to net cash flows provided by operating activities:		
Bad debt expense	19,983	25,665
Depreciation	191,393	182,752
Deferred income taxes	(41,144)	130,432
Amortization	19,795	48,755
Amortization of rate reduction bonds	151,316	141,836
Amortization of recoverable energy costs	1,494	6,481
Pension expense, net of capitalized portion	13,776	20,626
Regulatory overrecoveries/(refunds)	95,766	(150,541)
Derivative assets and liabilities	(31,641)	(78,422)
Deferred contractual obligations	(32,760)	(72,255)
Other non-cash adjustments	(2,561)	940
Other sources of cash	-	9,375
Other uses of cash	(33,101)	(17,398)
Changes in current assets and liabilities:		
Receivables and unbilled revenues, net	43,511	658,768
Fuel, materials and supplies	(57,281)	14,831
Investments in securitizable assets	18,137	(20,284)
Other current assets	(6,483)	23,533
Accounts payable	(91,473)	(461,183)
Counterparty deposits and margin special deposits	20,858	38,842
Taxes receivable and accrued taxes	(350,529)	(245,009)
Other current liabilities	(34,676)	(1,063)
Net cash flows provided by operating activities	68,151	380,266

Investing Activities:		
Investments in property and plant	(750,231)	(600,302)
Cash payments related to the sale of competitive businesses	(1,908)	(19,429)
Proceeds from sales of investment securities	196,083	127,010
Purchases of investment securities	(199,964)	(123,319)
Rate reduction bond escrow	3,372	(54,357)
Other investing activities	7,968	3,874
Net cash flows used in investing activities	(744,680)	(666,523)
Financing Activities:		
Issuance of common shares	8,988	6,310
Issuance of long-term debt	655,000	250,000
Retirement of rate reduction bonds	(161,926)	(117,947)
Increase in short-term debt	-	246,000
Reacquisitions and retirements of long-term debt	(4,877)	(11,053)
Cash dividends on common shares	(89,745)	(83,560)
Other financing activities	(5,169)	1,180
Net cash flows provided by financing activities	402,271	290,930
Net (decrease)/increase in cash and cash equivalents	(274,258)	4,673
Cash and cash equivalents - beginning of period	481,911	45,782
Cash and cash equivalents - end of period	$ 207,653	$ 50,455

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

NORTHEAST UTILITIES AND SUBSIDIARIES

THE CONNECTICUT LIGHT AND POWER COMPANY AND SUBSIDIARIES

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE AND SUBSIDIARIES

WESTERN MASSACHUSETTS ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (All Companies)

A.

Presentation

Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the entirety of this Form 10-Q, the first and second quarter 2007 reports on Form 10-Q and the Annual Reports of Northeast Utilities (NU or the company), The Connecticut Light and Power Company (CL&P), Public Service Company of New Hampshire (PSNH), and Western Massachusetts Electric Company (WMECO), which were filed with the SEC as part of the Northeast Utilities and subsidiaries combined 2006 Form 10-K (NU 2006 Form 10-K). The accompanying condensed consolidated financial statements contain, in the opinion of management, all adjustments (including normal, recurring adjustments) necessary to present fairly NU's and the above companies' financial position at September 30, 2007, the results of operations for the three and nine months ended September 30, 2007 and 2006 and cash flows for the nine months ended September 30, 2007 and 2006. The results of operations and statements of cash flows for the nine months ended September 30, 2007 and 2006 are not necessarily indicative of the results expected for a full year.

The condensed consolidated financial statements of NU and its subsidiaries, as applicable, include the accounts of all their respective subsidiaries. Intercompany transactions have been eliminated in consolidation.

The preparation of condensed consolidated 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 condensed consolidated 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 period data included in the accompanying condensed consolidated financial statements have been made to conform with the current period presentation. For the three and nine months ended September 30, 2006, wholesale contract market changes, net were separately stated on the condensed consolidated statements of income to increase the transparency of the mark-to-market related to Select Energy Inc.'s (Select Energy) wholesale marketing portfolio. As the disclosure of this amount is currently not as meaningful as it was in prior periods, a benefit of $4.8 million and a loss of $14.9 million have been reclassified to fuel, purchased and net interchange power on the accompanying condensed consolidated statements of income for the three and nine months ended September 30, 2006, respectively. For further information regarding Select Energy's derivatives, see Note 4, "Derivative Instruments," to the condensed consolidated financial statements.

In NU's, CL&P's, PSNH's and WMECO's condensed consolidated statements of income for the three and nine months ended September 30, 2006, the classification of certain cost and income items previously included in other income, net and interest expense was changed to operating expenses. In addition, certain revenues were reclassified to operating expenses as a result of the change in classification of certain revenues and associated expenses from a gross presentation to a net presentation. These changes for NU, CL&P, PSNH and WMECO for the three and nine months ended September 30, 2006 are as follows:

	Three Months Ended September 30, 2006				**Nine Months Ended September 30, 2006**			
(Millions of Dollars)	**NU**	**CL&P**	**PSNH**	**WMECO**	**NU**	**CL&P**	**PSNH**	**WMECO**
Decrease in operating revenues	$ (1.3)	$ -	$ (1.3)	$ -	$ (1.3)	$ -	$ (1.3)	$ -
Decrease/(increase) in operating expenses	$ 0.4	$ (1.0)	$ 1.0	$ -	$ (2.5)	$ (3.3)	$ 0.2	$ 0.3
Decrease in interest expense	$ 2.7	$ 2.7	$ -	$ -	$ 7.4	$ 7.4	$ -	$ -
(Decrease)/increase in other income	$ (1.8)	$ (1.7)	$ 0.3	$ -	$ (3.5)	$ (4.1)	$ 1.1	$ (0.3)

These reclassifications had no impact on the companies' results of operations, financial condition or cash flows.

NU's condensed consolidated statements of income for the three and nine months ended September 30, 2006 classifies the past operations for the following as discontinued operations:

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Northeast Generation Company (NGC), including certain components of Northeast Generation Services Company (NGS),

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The Mt. Tom generating plant (Mt. Tom) previously owned by Holyoke Water Power Company (HWP),

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Select Energy Services, Inc. (SESI) and its wholly owned subsidiaries HEC/Tobyhanna Energy Project, Inc. and HEC/CJTS Energy Center LLC, and

.

A portion of the former Woods Electrical Co., Inc. (Woods Electrical).

For further information regarding these companies, see Note 3, "Assets Held for Sale and Discontinued Operations," to the condensed consolidated financial statements.

B.

Accounting Standards Issued But Not Yet Adopted

Fair Value Measurements: On September 15, 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements," which establishes a framework for identifying and measuring fair value and is required to be implemented in the first quarter of 2008. SFAS No. 157 provides a fair value hierarchy, giving the highest priority to quoted prices in active markets, and is expected to be applied to fair value measurements of derivative contracts that are subject to mark-to-market accounting and to other assets and liabilities that are reported at fair value or subject to fair value measurements. SFAS No. 157 is expected to be implemented prospectively with any adjustments to fair value reflected in earnings on January 1, 2008, similar to a change in estimate. The company is evaluating the impact SFAS No. 157 will have on its financial statements.

The Fair Value Option: On February 15, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FAS 115." SFAS No. 159 is effective in the first quarter of 2008. SFAS No. 159 allows entities to choose, at specified election dates, to measure at fair value eligible financial assets and liabilities that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in earnings. The company does not currently plan to elect the fair value option on existing financial instruments as of January 1, 2008.

C.

Regulatory Accounting

The accounting policies of the regulated companies 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."

The transmission and distribution segments of CL&P, PSNH and WMECO, along with PSNH's generation segment and Yankee Gas Services Company's (Yankee Gas) gas distribution segment, continue to be cost-of-service rate regulated. Management believes that the application of SFAS No. 71 to those segments continues to be appropriate. Management also believes it is probable that the regulated companies will recover their investments in long-lived assets, including regulatory assets. All material net regulatory assets are earning returns at either a market rate, or at a stipulated equity rate, except for securitized regulatory assets, which are not supported by equity. Amortization and deferrals of regulatory assets are included on a net basis in amortization expense on the accompanying condensed consolidated statements of income.

Regulatory Assets: The components of regulatory assets are as follows:

	At September 30, 2007				
(Millions of Dollars)	**NU Consolidated**	**CL&P**	**PSNH**	**WMECO**	**Yankee Gas and Other**
Securitized assets	$ 962.3	$ 586.9	$ 286.6	$ 88.8	$ -
Deferred benefit costs	287.6	93.1	71.8	12.7	110.0
Income taxes, net	299.0	271.1	-	27.6	0.3
Unrecovered contractual obligations	198.9	154.1	-	44.8	-
CTA and SBC undercollections	77.4	77.4	-	-	-
Regulatory assets offsetting regulated company derivative liabilities	47.0	34.2	12.8	-	-

Other regulatory assets		228.9		62.4		77.6		29.9		59.0
Totals	$	2,101.1	$	1,279.2	$	448.8	$	203.8	$	169.3

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	At December 31, 2006				
(Millions of Dollars)	NU Consolidated	CL&P	PSNH	WMECO	Yankee Gas and Other
Securitized assets	$ 1,131.1	$ 707.2	$ 325.6	$ 98.3	$ -
Deferred benefit costs	407.4	155.8	90.4	25.8	135.4
Income taxes, net	308.0	266.6	5.5	41.3	(5.4)
Unrecovered contractual obligations	214.4	163.7	-	50.7	-
CTA and SBC undercollections	100.5	100.5	-	-	-
Regulatory assets offsetting regulated company derivative liabilities	75.4	36.0	39.2	-	0.2
Other regulatory assets	212.3	47.6	63.8	36.2	64.7
Totals	$ 2,449.1	$ 1,477.4	$ 524.5	$ 252.3	$ 194.9

Included in NU's other regulatory assets are the regulatory assets associated with the implementation of FASB Interpretation (FIN) 47, "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143," totaling $51.9 million at September 30, 2007 and $46.4 million at December 31, 2006. Of these amounts, $14 million and $13.7 million, respectively, have been approved for future recovery. At this time, management believes that the remaining regulatory assets are also probable of recovery.

The regulatory assets related to deferred benefit costs totaled $287.6 million at September 30, 2007, as compared to $407.4 million at December 31, 2006. The $119.8 million decrease primarily relates to a pension plan remeasurement adjustment recorded in the second quarter of 2007 related to cost a of living adjustment (COLA) as well as changes in estimate recorded for both the Pension and PBOP Plans in the second and third quarters of 2007, respectively. For additional information, see Note 9, "Pension Benefits and Postretirement Benefits Other Than Pensions," to the condensed consolidated financial statements.

The companies above had $13.2 million and $11.2 million of costs at September 30, 2007 and December 31, 2006, respectively, that are included in deferred debits and other assets - other on the accompanying condensed consolidated balance sheets. These amounts represent costs that have not yet been approved by the applicable regulatory agency. Management believes these assets are recoverable in future cost of service regulated rates.

Regulatory Liabilities: The components of regulatory liabilities are as follows:

	At September 30, 2007				
(Millions of Dollars)	NU Consolidated	CL&P	PSNH	WMECO	Yankee Gas and Other
Cost of removal	$ 275.0	$ 124.1	$ 74.8	$ 24.2	$ 51.9
Regulatory liabilities offsetting regulated company derivative assets	307.2	306.1	0.7	-	0.4
Generation service charge/FMCC overcollections	146.2	146.2	-	-	-
Other regulatory liabilities	128.6	51.1	35.1	15.6	26.8
Totals	$ 857.0	$ 627.5	$ 110.6	$ 39.8	$ 79.1

	At December 31, 2006				
(Millions of Dollars)	NU Consolidated	CL&P	PSNH	WMECO	Yankee Gas and Other
Cost of removal	$ 290.8	$ 134.4	$ 79.2	$ 23.6	$ 53.6
Regulatory liabilities offsetting regulated company derivative assets	294.5	294.5	-	-	-
Generation service charge/FMCC overcollections	108.2	108.2	-	-	-
Other regulatory liabilities	115.8	45.7	36.5	3.2	30.4
Totals	$ 809.3	$ 582.8	$ 115.7	$ 26.8	$ 84.0

For information regarding derivative assets, see Note 4, "Derivative Instruments," to the condensed consolidated financial statements.

D.

Allowance for Funds Used During Construction

The allowance for funds used during construction (AFUDC) is included in the cost of the regulated companies' utility plant and represents the cost of borrowed and equity funds used to finance construction. The portion of AFUDC attributable to borrowed funds is recorded as a reduction of other interest expense, and the cost of equity funds is recorded as other income on the accompanying condensed consolidated statements of income, as follows:

	For the Three Months Ended		For the Nine Months Ended	
(Millions of Dollars, except percentages)	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Borrowed funds	$ 4.3	$ 3.3	$ 12.9	$ 9.4
Equity funds	4.8	4.2	11.1	10.5
Totals	$ 9.1	$ 7.5	$ 24.0	$ 19.9
Average AFUDC rates	7.6%	7.9%	7.3%	7.4%

The regulated companies' average AFUDC rate is based on a Federal Energy Regulatory Commission (FERC) prescribed formula that develops an average rate using the cost of a company's short-term financings as well as a company's capitalization (preferred stock, long-term debt and common equity). The average rate is applied to eligible construction work in progress (CWIP) amounts to calculate AFUDC. Although AFUDC is recorded on 100 percent of CL&P's CWIP for its major transmission projects in southwest Connecticut, 50 percent of this AFUDC is being reserved as a regulatory liability to reflect current rate base recovery for 50 percent of the CWIP as a result of FERC transmission incentives.

E.

Income Taxes

Effective on January 1, 2007, NU implemented FIN 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109." FIN 48 applies to all tax positions previously filed in a tax return and tax positions expected to be taken in a future tax return that have been reflected on the balance sheets. FIN 48 addresses the methodology to be used prospectively in recognizing, measuring and classifying the amounts associated with tax positions that are deemed to be uncertain, including related interest and penalties. Previously, NU recorded estimates for uncertain tax positions in accordance with SFAS No. 5, "Accounting for Contingencies."

As a result of implementing FIN 48, NU recognized a cumulative effect of a change in accounting principle of $32.5 million as a reduction to the January 1, 2007 balance of retained earnings. The CL&P, PSNH and WMECO reductions/(benefits) to the January 1, 2007 balances of retained earnings were $15.6 million, $(1.6) million and $(0.4) million, respectively.

Interest and Penalties: Effective on January 1, 2007, NU s accounting policy for the classification of interest and penalties related to FIN 48 is as follows:

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Interest on uncertain tax positions is recorded and classified as a component of other interest expense. NU recorded accrued interest expense of $17.4 million, which is included in the cumulative effect of a change in accounting principle as of January 1, 2007. NU recorded accrued interest expense of $1.3 million and $5.1 million for the three and nine months ended September 30, 2007, respectively.

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No penalties have been recorded under FIN 48. If penalties are recorded in the future, then the estimated penalties would be classified as a component of other income, net.

Unrecognized Tax Benefits: Upon adoption of FIN 48 on January 1, 2007, NU recorded a liability for unrecognized tax benefits totaling $73.5 million, of which $56.9 million would impact the effective tax rate, if recognized. As of September 30, 2007, NU's liability for unrecognized tax liabilities totaled $91 million, of which $69.2 million would impact the effective tax rate, if recognized.

Tax Positions: NU is currently undergoing tax audits, and it is reasonably possible as these audits progress that the liability for unrecognized tax benefits could change significantly in the next 12 months; however, management cannot estimate the amount of change at this time.

Tax Years: The following table summarizes NU's tax years that remain subject to examination by major tax jurisdictions at January 1, 2007 and September 30, 2007:

Description	**Tax Years**
Federal	2002 - 2006
Connecticut	1997 - 2006
New Hampshire	2003 - 2006
Massachusetts	2003 - 2006

F.

Sale of Customer Receivables

CL&P Receivables Corporation (CRC), a consolidated, wholly-owned subsidiary of CL&P, can sell up to $100 million of an undivided interest in its accounts receivable and unbilled revenues to a financial institution. At September 30, 2007 and December 31, 2006, there were no such sales.

At September 30, 2007 and December 31, 2006, amounts sold to CRC by CL&P but not sold to the financial institution totaling $339.3 million and $375.7 million, respectively, are included in investments in securitizable assets on the accompanying condensed consolidated balance sheets. These amounts would be excluded from CL&P's assets in the event of CL&P's bankruptcy.

On July 3, 2007, CL&P extended the bank commitment under the Receivables Purchase and Sale Agreement with CRC and the financial institution through June 30, 2008 and extended the facility termination date to June 21, 2012. CL&P's continuing involvement with the receivables that are sold to CRC and the financial institution is limited to servicing those receivables.

The transfer of receivables to the financial institution under this arrangement qualifies for sale treatment under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities - A Replacement of SFAS No. 125."

G.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and short-term cash investments that are highly liquid in nature and have original maturities of three months or less. At the end of each reporting period, any overdraft amounts are reclassified from cash and cash equivalents to accounts payable.

H.

Special Deposits and Counterparty Deposits

To the extent Select Energy requires collateral from counterparties, or the counterparties require collateral from Select Energy, cash is paid to or by Select Energy as a part of the total collateral required based on Select Energy s position in the transaction. Select Energy's right to use cash collateral is determined by the terms of the related agreements. Key factors affecting the unrestricted status of a portion of this cash collateral include the financial standing of Select Energy and of NU as its credit supporter.

Special deposits paid to unaffiliated counterparties and brokerage firms totaled $27.9 million and $48.5 million at September 30, 2007 and December 31, 2006, respectively. In addition, at September 30, 2007, PSNH also had $4 million on deposit with an unaffiliated counterparty related to an energy contract. These amounts are recorded as current assets and are included as special deposits on the accompanying condensed consolidated balance sheets.

Balances collected from counterparties resulting from Select Energy s credit management activities totaled $0.4 million and $0.1 million at September 30, 2007 and December 31, 2006, respectively. These amounts are recorded as current liabilities and are included as current liabilities - other on the accompanying condensed consolidated balance sheets.

NU also had amounts on deposit related to four special purpose entities used to facilitate the issuance of rate reduction bonds and certificates. These amounts totaled $99.2 million and $102.5 million at September 30, 2007 and December 31, 2006, respectively. In addition, the company had $6.1 million and $11.2 million in other cash deposits held with unaffiliated parties at September 30, 2007 and December 31, 2006, respectively, primarily related to CL&P's transmission projects. These amounts are included in deferred debits and other assets - other on the accompanying condensed consolidated balance sheets.

I.

Other Income, Net

The pre-tax components of other income/(loss) items are as follows:

NU **(Millions of Dollars)**	**For the Three Months Ended** **September 30, 2007**	**For the Three Months Ended** **September 30, 2006**	**For the Nine Months Ended** **September 30, 2007**	**For the Nine Months Ended** **September 30, 2006**
Other Income:				
Investment income	$ 4.2	$ 3.9	$ 18.6	$ 11.9
Gain on sale of investment in Globix	-	-	-	3.1
CL&P procurement fee	-	3.0	-	8.5
AFUDC - equity funds	4.8	4.2	11.1	10.5
Energy Independence Act incentives	0.1	1.0	5.0	3.5
Conservation and load management incentives	1.4	0.5	1.8	1.3
Other	0.2	0.3	0.8	0.6
Total Other Income	$ 10.7	$ 12.9	$ 37.3	$ 39.4
Other Loss:				
Investment write-downs	-	(0.7)	(0.5)	(0.7)
Other	-	(0.1)	(0.1)	(0.2)
Total Other Loss	$ -	$ (0.8)	$ (0.6)	$ (0.9)
Total Other Income, Net	$ 10.7	$ 12.1	$ 36.7	$ 38.5

CL&P **(Millions of Dollars)**	**For the Three Months Ended** **September 30, 2007**	**For the Three Months Ended** **September 30, 2006**	**For the Nine Months Ended** **September 30, 2007**	**For the Nine Months Ended** **September 30, 2006**
Other Income:				
Investment income	$ 1.3	$ 1.4	$ 4.3	$ 4.4
CL&P procurement fee	-	3.0	-	8.5
AFUDC - equity funds	4.7	2.6	9.0	6.1
Energy Independence Act incentives	0.1	1.0	5.0	3.5
Conservation and load management incentives	1.3	0.3	1.4	0.5
Other	0.1	0.2	0.6	0.6

Total Other Income	$	7.5	$	8.5	$	20.3	$	23.6
Other Loss	$	-	$	-	$	-	$	(0.1)
Total Other Income, Net	$	7.5	$	8.5	$	20.3	$	23.5

PSNH	**For the Three Months Ended**				**For the Nine Months Ended**			
(Millions of Dollars)	**September 30, 2007**		**September 30, 2006**		**September 30, 2007**		**September 30, 2006**	
Other Income:								
Investment income	$	0.2	$	0.1	$	0.6	$	0.6
AFUDC - equity funds		-		1.1		0.9		3.4
Other		-		-		0.1		-
Total Other Income	$	0.2	$	1.2	$	1.6	$	4.0

WMECO	**For the Three Months Ended**				**For the Nine Months Ended**			
(Millions of Dollars)	**September 30, 2007**		**September 30, 2006**		**September 30, 2007**		**September 30, 2006**	
Other Income:								
Investment income	$	0.2	$	0.3	$	0.8	$	0.4
Conservation and load management incentives		0.1		0.2		0.4		0.8
AFUDC - equity funds		-		0.1		-		0.1
Total Other Income	$	0.3	$	0.6	$	1.2	$	1.3

Investment income for NU includes equity in earnings/(losses) of regional nuclear generating and transmission companies of $0.4 million and $0.8 million for the three months ended September 30, 2007 and 2006, respectively, and $1.5 million and $(0.4) million for the nine months ended September 30, 2007 and 2006, respectively. Equity in earnings relates to the company's investment in the Connecticut Yankee Atomic Power Company (CYAPC), Maine Yankee Atomic Power Company, Yankee Atomic Electric Company and the Hydro-Quebec transmission system.

Based on developments in July of 2006, CYAPC management concluded that $10 million of CYAPC's regulatory assets were no longer probable of recovery and should be written off. Because the contingency surrounding these regulatory assets existed at June 30, 2006, the write-off was recorded in the second quarter of 2006. NU recorded a total after-tax write-off of $3 million ($2.1 million, $0.3 million and $0.6 million after-tax for CL&P, PSNH and WMECO, respectively) for its ownership share of this charge, which is included in investment income in the tables above.

J.

Other Taxes

Certain excise taxes levied by state or local governments are collected by NU from its customers. These excise taxes are accounted for on a gross basis with collections in revenues and payments in expenses. For the three and nine months ended September 30, 2007 and 2006, gross receipts taxes, franchise taxes and other excise taxes of $27 million and $84.9 million, respectively, for 2007 and $29.1 million and $86.9 million, respectively, for 2006, are included in operating revenues and taxes other than income taxes on the accompanying condensed consolidated statements of income. Certain sales taxes are also collected by the regulated companies from their customers as agent for state and local governments and are recorded on a net basis with no impact on the accompanying condensed consolidated statements of income.

2.

RESTRUCTURING AND IMPAIRMENT CHARGES (NU, NU Enterprises)

NU Enterprises recorded $0.2 million of pre-tax restructuring and impairment charges for the nine months ended September 30, 2007, relating to the decision to exit the competitive businesses. The charges for the three and nine months ended September 30, 2006 were $10.4 million and $26 million, respectively. The amounts related to continuing operations are included as restructuring and impairment charges on the condensed consolidated statements of income with the remainder included in discontinued operations. These charges are included as part of the NU Enterprises reportable segment in Note 10, "Segment Information." A summary of these pre-tax restructuring and impairment charges is as follows:

	For the Three Months Ended		For the Nine Months Ended	
(Millions of Dollars)	**September 30, 2007**	**September 30, 2006**	**September 30, 2007**	**September 30, 2006**
Wholesale Marketing:				
Restructuring charges	$ -	$ 0.1	$ -	$ 0.3
Retail Marketing:				
Restructuring charges	-	0.6	-	6.4
Competitive Generation:				
Impairment charges	-	-	-	0.3
Restructuring charges	-	6.8	-	9.5
Subtotal	$ -	$ 6.8	$ -	$ 9.8
Energy Services and Other:				
Impairment charges	$ -	$ -	$ -	$ 0.1

Restructuring charges		-		2.9		0.2		9.4
Subtotal	$	-	$	2.9	$	0.2	$	9.5
Total restructuring and impairment charges	$	-	$	10.4	$	0.2	$	26.0
Restructuring and impairment charges included in discontinued operations	$	-	$	9.1	$	-	$	16.3
Total restructuring and impairment charges included in continuing operations	$	-	$	1.3	$	0.2	$	9.7

Restructuring charges totaling $0.2 million for nine months ended September 30, 2007, were recorded for energy services and other related to consulting fees, legal fees, employee-related and other costs incurred.

For the three and nine months ended September 30, 2006, $0.1 million and $0.3 million, respectively, of restructuring charges were recorded for wholesale marketing for consulting, legal fees, employee-related and other costs.

On June 1, 2006, NU Enterprises completed the sale of Select Energy New York, Inc. (SENY). In connection with this transaction, NU Enterprises recorded restructuring charges of $0.3 million for retail marketing, which is included in restructuring and impairment charges on the accompanying condensed consolidated statements of income for the nine months ended September 30, 2006. In addition to the $0.3 million charge, restructuring charges of $0.6 million and $6.1 million were recorded for the three and nine months ended September 30, 2006, respectively, for consulting fees, legal fees, employee-related and other costs.

For the nine months ended September 30, 2006, $0.3 million of impairments were recorded for competitive generation related to certain long-lived assets of NGS that were no longer recoverable and were written off. In addition, restructuring charges of $6.8 million and $9.5 million, respectively, were recorded for the three and nine months ended September 30, 2006, respectively, for consulting fees, legal fees, sale-related environmental fees, employee-related and other costs.

In the first quarter of 2006, $0.1 million of impairment charges were recorded in connection with the sale of a portion of Woods Electrical.

On May 5, 2006, NU Enterprises completed the sale of SESI. In connection with this transaction, NU Enterprises recorded a pre-tax restructuring charge of $6.5 million. In the third quarter of 2006, an additional restructuring charge of $1.6 million was recorded related to additional charges incurred for the sale of SESI. These charges are included in loss from sale of discontinued operations on the accompanying condensed consolidated financial statements of income. In addition to these charges, restructuring charges of $0.3 million and $2 million were recorded for the three and nine months ended September 30, 2006, respectively, for consulting fees, legal fees, employee-related costs and other costs and a $1 million charge was recorded in the third quarter of 2006 related to NU s guarantee of SESI s performance under government contracts. Offsetting the charges for the first nine months of 2006 is a restructuring benefit of $1.7 million from the gain on the sale of Massachusetts service location of Select Energy Contracting, Inc. - Connecticut (SECI-CT).

The following table summarizes the liabilities related to restructuring costs which are recorded in accounts payable and other current liabilities on the accompanying condensed consolidated balance sheets at September 30, 2007 and December 31, 2006:

(Millions of Dollars)	**Employee-Related Costs**	**Professional and Other Fees**	**Total**
Restructuring liability as of January 1, 2005	$ -	$ -	$ -
Costs incurred	2.3	7.4	9.7
Cash payments and other deductions/reversals	(0.5)	(3.2)	(3.7)
Restructuring liability as of December 31, 2005	1.8	4.2	6.0
Costs incurred	3.3	24.0	27.3
Cash payments and other deductions/reversals	(3.7)	(25.9)	(29.6)
Restructuring liability as of December 31, 2006	1.4	2.3	3.7
Costs incurred	-	0.2	0.2
Cash payments and other deductions/reversals	(1.0)	(1.2)	(2.2)
Restructuring liability as of March 31, 2007	0.4	1.3	1.7
Costs incurred	-	-	-
Cash payments and other deductions/reversals	(0.2)	-	(0.2)
Restructuring liability as of June 30, 2007	0.2	1.3	1.5
Costs incurred	-	-	-
Cash payments and other deductions/reversals	(0.2)	(1.0)	(1.2)
Restructuring liability as of September 30, 2007	$ -	$ 0.3	$ 0.3

3.

ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (NU, NU Enterprises)

Assets Held for Sale: In the first quarter of 2006, management determined that the retail marketing and competitive generation businesses met the held for sale criteria under applicable accounting guidance, and should be recorded at the lower of their carrying amount or fair value less cost to sell. The retail marketing business was reduced to its fair value less cost to sell through an approximately $53 million pre-tax charge included in other operating expenses for the nine months ended September 30, 2006.

At September 30, 2007, management continues to believe that the remaining wholesale marketing business, NGS, Boulos, and SECI-CT do not meet the held for sale criteria under applicable accounting guidance and therefore continue to be held and used and included in continuing operations.

Discontinued Operations: NU's condensed consolidated statements of income present NGC, Mt. Tom, SESI, and a portion of Woods Electrical as discontinued operations for all periods presented. These businesses were sold in 2006. Under discontinued operations presentation, revenues and expenses of the businesses classified as discontinued operations are classified net of tax in income from discontinued operations on the condensed consolidated statements of income and all prior periods are reclassified. Summarized financial information for the discontinued operations is as follows:

(Millions of Dollars)	For the Three Months Ended September 30, 2007	For the Three Months Ended September 30, 2006	For the Nine Months Ended September 30, 2007	For the Nine Months Ended September 30, 2006
Operating revenue	$ -	$ 46.4	$ -	$ 157.6
Income before income tax expense	-	15.9	-	54.8
(Losses)/gains on sale/disposition of discontinued operations	(0.1)	(1.6)	1.9	(8.1)
Income tax (benefit)/expense	(0.1)	5.5	0.7	19.4
Net income	-	8.8	1.2	27.3

The gain on sale/disposition of discontinued operations of $1.9 million for the nine months ended September 30, 2007 primarily relates to the favorable resolution of contingencies from the completion of a cogeneration plant by SESI, partially offset by charges related to the sale of the competitive generation business, including a $1.9 million charge resulting from a purchase price adjustment from the sale of the competitive generation business recorded in the first quarter of 2007.

No intercompany revenues were included in discontinued operations for the three and nine months ended September 30, 2007. Included in discontinued operations are $46.3 million and $144.6 million for the three and nine months ended September 30, 2006 of intercompany revenues that are not eliminated in consolidation due to the separate presentation of discontinued operations. Of the 2006 amounts, $46.3 million and $144.4 million, respectively, represent revenues on intercompany contracts between the generation operations of NGC and Mt. Tom and Select Energy. NGC's and Mt. Tom's revenues and earnings related to these contracts are included in discontinued operations while Select Energy's related and offsetting expenses and losses are included in continuing operations.

Select Energy's obligation to NGC and Mt. Tom ended at the time of the sale of the competitive generation business. See Note 6F, "Commitments and Contingencies - Guarantees and Indemnifications," for information related to a HWP coal purchase contract with a supplier and a related back-to-back agreement with the purchaser of the competitive generation business. At September 30, 2007, NU does not have or expect to have significant ongoing involvement or continuing cash flows with the entities presented in discontinued operations.

The retail marketing business is not presented as discontinued operations because separate financial information is not available for this business.

In the second quarter of 2007, the remaining contracts of Woods Electrical were completed. The results of these contracts were not material to any of the periods presented, and discontinued operations presentation was not required.

4.

DERIVATIVE INSTRUMENTS (NU, Select Energy, CL&P, PSNH, Yankee Gas)

Contracts that are derivatives and do not meet the requirements to be treated as a cash flow hedge or normal purchase or normal sale are recorded at fair value with changes in fair value included in earnings. For those contracts that meet the definition of a derivative and meet the cash flow hedge requirements, including those related to initial and ongoing documentation, the changes in the fair value of the effective portion of those contracts are recognized in accumulated other comprehensive income. Cash flow hedges impact net income when the forecasted transaction being hedged occurs, when hedge ineffectiveness is measured and recorded, when the forecasted transaction being hedged is no longer probable of occurring, or when there is accumulated other comprehensive loss and the hedge and the forecasted transaction being hedged are in a loss position on a combined basis. The ineffective portion of contracts that meet the cash flow hedge requirements is recognized currently in earnings. Derivative contracts designated as fair value hedges and the items they are hedging are both recorded at fair value with changes in fair value of both items recognized currently in earnings. Derivative contracts that meet the requirements of a normal purchase or sale, and are so designated, are recognized in revenues or expenses, as applicable, when the quantity of the contract is delivered. The change in fair value of a normal purchase or sale contract is not included in earnings.

The tables below summarize current and long-term derivative assets and liabilities at September 30, 2007 and December 31, 2006. The fair value of these contracts may not represent amounts that will be realized. On the accompanying condensed consolidated balance sheets at September 30, 2007 and December 31, 2006, these amounts are recorded as current or long-term derivative assets or liabilities and are summarized as follows:

	At September 30, 2007				
	Assets		Liabilities		
	Current	Long-Term	Current	Long-Term	Net Totals
(Millions of Dollars)					
NU Enterprises - Wholesale	$ 45.1	$ 5.5	$ (72.4)	$ (72.9)	$ (94.7)
Regulated Companies - Gas:					
Non-trading	0.4	-	-	-	0.4
Regulated Companies - Electric:					
Non-trading	47.6	259.2	(18.5)	(28.5)	259.8
NU Parent:					
Hedging	-	-	-	(3.2)	(3.2)
Totals	$ 93.1	$ 264.7	$ (90. 9)	$ (104.6)	$ 162.3

	At December 31, 2006				
	Assets		Liabilities		
	Current	Long-Term	Current	Long-Term	Net Totals
(Millions of Dollars)					
NU Enterprises:					
Wholesale	$ 43.6	$ 22.3	$ (82.3)	$ (110.1)	$ (126.5)
Retail	0.2	-	(0.1)	-	0.1
Regulated Companies - Gas:					
Non-trading	0.1	-	(0.2)	-	(0.1)
Regulated Companies - Electric:					
Non-trading	45.0	249.5	(43.2)	(32.0)	219.3
NU Parent:					
Hedging	-	-	-	(6.5)	(6.5)
Totals	$ 88.9	$ 271.8	$ (125.8)	$ (148.6)	$ 86.3

For the regulated companies, offsetting regulatory assets or liabilities are recorded for the changes in fair value of their contracts, as these contracts are part of stranded costs or current regulated operating costs, and management believes that these costs will continue to be recovered or refunded in cost-of-service, regulated rates.

NU Enterprises - Wholesale: Certain electric derivative contracts are part of the remaining wholesale marketing business. These contracts include wholesale short-term and long-term electricity supply and sales contracts, which include a contract to sell electricity to a utility under full requirements contracts (four other similar contracts expired on May 31, 2007), a contract to sell electricity to the New York Municipal Power Authority (NYMPA) (an agency that is comprised of municipalities) with a term of approximately six remaining years, and a contract to purchase the output of a generating plant which expired in May of 2007. The fair value of the underlying electricity contracts was determined by prices from external sources for years through 2011 and generally by models based on natural gas prices and a heat-rate conversion factor to electricity for subsequent periods. At September 30, 2007 and December 31, 2006, the net fair value of these wholesale contracts was a liability of $94.7 million and $126.5 million, respectively.

For the three months ended September 30, 2007 and 2006, NU recorded a pre-tax charge of $2.5 million and a pre-tax benefit of $4.6 million, respectively, in fuel, purchased and net interchange power related to the wholesale contracts. Similar amounts were recorded as charges of $4.6 million and $14.1 million for the nine months ended September 30, 2007 and 2006, respectively. These amounts are associated with the mark-to-market on, and changes in, the fair value of certain long-dated wholesale electricity contracts in New England, New York and PJM and a contract to purchase generation products in New York. A benefit of $0.2 million and a charge of $0.8 million was also recorded in fuel, purchased and net interchange power for the three and nine months ended September 30, 2006 related to the mark-to-market of certain asset specific sales and forward sales of electricity at hub points for generation contracts.

Regulated Companies - Gas - Non-Trading: Yankee Gas' non-trading derivatives consist of peaking supply arrangements to serve winter load obligations and firm retail sales contracts with options to curtail delivery. These contracts are subject to fair value accounting as these contracts are derivatives that cannot be designated as normal purchases and sales because of the optionality in the contract terms. These non-trading derivatives at September 30, 2007 included current assets of $0.4 million. At December 31, 2006, these non-trading derivatives included current assets of $50 thousand and current liabilities of $0.2 million. An offsetting regulatory liability and an offsetting regulatory asset were recorded for these amounts as management believes that these costs will be refunded/recovered in rates.

Regulated Companies - Electric - Non-Trading: CL&P has contracts with two independent power producers (IPP) to purchase power that contain pricing provisions that are not clearly and closely related to the price of power and therefore do not qualify for the normal purchases and sales exception. The fair values of these IPP non-trading derivatives at September 30, 2007 include a derivative asset with a fair value of $306.1 million and a derivative liability with a fair value of $30.6 million. An offsetting regulatory liability and an offsetting regulatory asset were recorded, as these contracts are part of stranded costs, and management believes that these costs will continue to be recovered or refunded in cost-of-service, regulated rates. At December 31, 2006, the fair values of these IPP non-trading derivatives included a derivative asset with a fair value of $289.6 million and a derivative liability with a fair value of $35.6 million.

CL&P has entered into Financial Transmission Rights contracts and bilateral basis swaps to limit the congestion costs associated with its standard offer contracts. An offsetting regulatory asset or liability has been recorded as management believes that these costs will be recovered or refunded in rates. At September 30, 2007, the fair value of these contracts is recorded as a derivative liability of $3.6 million on the accompanying condensed consolidated balance sheets. At December 31, 2006, the fair value of those contracts was recorded as a derivative asset of $4.9 million and a derivative liability of $0.4 million on the accompanying condensed consolidated balance sheets.

Pursuant to Public Act 05-01, "An Act Concerning Energy Independence," in August of 2007 the Department of Public Utility Control (DPUC) approved two CL&P contracts associated with the capacity of two generating projects to be built or modified. The DPUC also approved two capacity-related contracts entered into by United Illuminating Corporation (UI), one with a generating project to be built and one with a new demand response project. The total capacity of these four projects is expected to be 787 megawatts (MW). The contracts, referred to as contracts for differences (CFDs), obligate the utilities to pay the difference between a set capacity price and the value that the projects receive in the New England Independent System Operator (ISO-NE) capacity markets for periods of up to 15 years beginning in 2009. CL&P has an agreement with UI under which it will share the costs and benefits of these four CFDs, with 80 percent to CL&P and 20 percent to UI. The ultimate cost to CL&P under the contracts will depend on the capacity prices that the projects receive in the ISO-NE capacity markets. Due to the significance of the non-observable inputs associated with modeling the fair values of these derivative contracts, their fair values are not reflected in the accompanying condensed consolidated financial statements in accordance with Emerging Issues Task Force (EITF) No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities."

PSNH has electricity procurement contracts that are non-trading derivatives at September 30, 2007. The fair value of these contracts is calculated based on market prices and is recorded as a derivative asset of $0.6 million and a derivative liability of $12.8 million at September 30, 2007. At December 31, 2006, the fair value was recorded as a derivative liability of $28.4 million. An offsetting regulatory liability/asset was recorded as management believes that these costs will be refunded/recovered in rates as the energy is delivered.

In 2007, PSNH entered into a contract to assign transmission rights of a Hydro-Quebec direct current line in exchange for two energy call options. These energy call options are derivatives that do not qualify for the normal purchases and sales exception and are accounted for at fair value calculated based on market prices. At September 30, 2007, the options are recorded as a derivative asset of $0.1 million. An offsetting regulatory liability was recorded, as the benefit of this arrangement will be refunded to customers in rates.

At December 31, 2006, PSNH had a contract to purchase oil that was a non-trading derivative, the fair value of which was recorded as a derivative liability of $10.8 million. An offsetting regulatory asset was recorded as management believes that this cost will be recovered in rates through a deferral mechanism that tracks generation revenues and costs. As of September 30, 2007, this contract has expired.

NU Parent - Hedging: In March of 2003, to manage the interest rate characteristics of the company's long-term debt, NU parent entered into a fixed to floating interest rate swap on its $263 million, 7.25 percent fixed rate note that matures on April 1, 2012. Under fair value hedge accounting, the changes in fair value of the swap and the hedged long-term debt instrument are recorded in interest expense. The cumulative changes in the fair value of the swap and the long-term debt are recorded as derivative liabilities and decreases to long-term debt of $3.2 million at September 30, 2007 and $6.5 million at December 31, 2006.

5.

GOODWILL (Yankee Gas)

SFAS No. 142, "Goodwill and Other Intangible Assets," requires that goodwill and intangible assets deemed to have indefinite useful lives be reviewed for impairment at least annually by applying a fair value-based test. NU uses October 1st as the annual goodwill impairment testing date. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value and if the implied fair value of goodwill based on the estimated fair value of the reporting unit is less than the carrying amount.

The only NU reporting unit that currently maintains goodwill is the Yankee Gas reporting unit, which is classified under the regulated companies - gas reportable segment. The goodwill recorded related to the acquisition of Yankee Gas is not being recovered from the customers of Yankee Gas. The goodwill balance was $287.6 million at both September 30, 2007 and December 31, 2006. The company is currently in the process of completing the annual impairment test of the Yankee Gas goodwill as of October 1, 2007.

For information regarding NU's reportable segments, see Note 10, "Segment Information," to the condensed consolidated financial statements.

6.

COMMITMENTS AND CONTINGENCIES

A.

Regulatory Developments and Rate Matters (CL&P, WMECO, Yankee Gas)

Connecticut:

CTA and SBC Reconciliation: The Competitive Transition Assessment (CTA) allows CL&P to recover stranded costs, such as securitization costs associated with its rate reduction bonds, amortization of regulatory assets, and independent power producer over-market costs, while the System Benefits Charge (SBC) allows CL&P to recover certain regulatory and energy public policy costs, such as public education outreach costs, hardship protection costs, transition period property taxes, and displaced worker protection costs.

On March 30, 2007, CL&P filed its 2006 CTA and SBC reconciliation, which compared CTA and SBC revenues to revenue requirements, with the DPUC. For the year ended December 31, 2006, total CTA cost of service exceeded CTA revenues by $5.6 million. This amount was recorded as a regulatory asset on the accompanying condensed consolidated balance sheets. In addition, CTA refunds for the period January 2006 through August 2006 totaled $99.8 million and resulted in an additional increase to CL&P s CTA regulatory asset. For the year ended December 31, 2006, the SBC cost of service exceeded SBC revenues by $24.3 million.

The DPUC issued a final decision in this docket on October 10, 2007. That decision approved the CTA reconciliation with minor modifications. The SBC reconciliation was approved with an adjustment to the timing of the recovery of a regulatory asset associated with a reserve for hardship customers accounts receivable greater than 90 days old totaling $17.2 million. In its decision, the DPUC determined that CL&P should amortize and recover the $17.2 million regulatory asset over five years, or approximately $3.4 million per year. The DPUC's decision also ordered CL&P to set the SBC rate to collect revenues at an annual level of $21 million, effective on January 1, 2008.

Procurement Fee Rate Proceedings: By law, CL&P was allowed to collect a fixed procurement fee of 0.50 mills per kilowatt-hour (KWH) from customers who purchased transitional standard offer (TSO) service from 2004 through the end of 2006. On December 8, 2005, a draft decision was issued by the DPUC, which accepted the methodology proposed by CL&P to calculate the variable portion (incentive portion) of the procurement fee and authorized payment of $5.8 million for its 2004 incentive fee. A final decision, which had been scheduled for December of 2005, was delayed by the DPUC, and the DPUC re-opened the docket to review additional testimony.

On April 17, 2007, CL&P filed an application with the DPUC for approval of incentive payments for the years 2005 and 2006. The incentive portion of the procurement fee earned for 2005 was $6 million and for 2006 was $5.5 million. The DPUC rejected this application and directed CL&P to refile after a DPUC decision on the 2004 case. On October 19, 2007, the DPUC released a recommendation prepared by its consultant relative to statistical adjustments to the incentive calculations. The DPUC has set a new schedule allowing for rebuttal of the consultant s report. The new schedule calls for a final decision in this docket in February of 2008.

Management continues to believe that recovery of the $5.8 million asset related to CL&P's 2004 incentive payment, which was reflected in 2005 earnings, is probable. No amounts have been recorded for the 2005 or 2006 incentive portions of CL&P's procurement fee. The procurement fee expired at the end of 2006.

Purchased Gas Adjustment: On September 9, 2005, the DPUC issued a draft decision regarding Yankee Gas Purchased Gas Adjustment (PGA) clause charges for the period of September 1, 2003 through August 31, 2004. The draft decision disallowed approximately $9 million in previously recovered PGA revenues associated with two separate Yankee Gas unbilled sales and revenue adjustments. At the request of Yankee Gas, the DPUC reopened the PGA hearings on September 20, 2005 and requested that Yankee Gas file supplemental information regarding the two adjustments. Yankee Gas complied with this request. The DPUC issued a new decision on April 20, 2006 requiring an audit of Yankee Gas' previously recovered PGA costs and deferred any conclusion on the $9 million of previously recovered revenues until the completion of the audit. In a subsequent draft decision regarding Yankee Gas PGA charges for the period September 1, 2004 through August 31, 2005, an additional $2 million related to previously recovered revenues was also identified, bringing the total maximum amount at issue with regard to PGA clause charges under audit to approximately $11 million.

The DPUC hired a consulting firm which has concluded an audit of Yankee Gas' previously recovered PGA costs and has submitted its final report. A DPUC hearing was held on October 9, 2007. Management believes the unbilled sales and revenue adjustments and resulting charges to customers through the PGA clause for both periods were appropriate. Based on the facts of the case, the supplemental information provided to the DPUC and the consultant s final report, management believes the appropriateness of the PGA charges to customers for the time period under review will be approved, and has not reserved for any loss.

Massachusetts:

Transition Cost Reconciliations: WMECO filed its 2005 transition cost reconciliation with the Massachusetts Department of Public Utilities (DPU) on March 31, 2006 and filed its 2006 transition cost reconciliation with the DPU on March 31, 2007. The DPU opened a proceeding for these filings and evidentiary hearings were held on August 29, 2007. The briefing process was completed during October of 2007. The timing of the decision in this docket is uncertain. Management does not expect the outcome of the DPU's review of these filings to have a material adverse impact on WMECO's net income, financial position or cash flows.

B.

NRG Energy, Inc. Exposures (CL&P, Yankee Gas)

Certain subsidiaries of NU, including CL&P and Yankee Gas, entered into transactions with NRG Energy, Inc. (NRG) and certain of its subsidiaries. On May 14, 2003, NRG and certain subsidiaries of NRG filed voluntary bankruptcy petitions, and on December 5, 2003, NRG emerged from bankruptcy. NU's NRG-related exposures as a result of these transactions relate to 1) the refunding of approximately $28 million of congestion charges previously withheld from NRG prior to the implementation of standard market design (SMD) on March 1, 2003, 2) the recovery of approximately $29.1 million of CL&P's station service billings from NRG, which is currently the subject of an arbitration, and 3) the recovery of, among other claimed damages, approximately $17.5 million of capital costs and expenses incurred by Yankee Gas related to an NRG subsidiary's generating plant construction project that has ceased.

On July 20, 2007, the United States District Court for the District of Connecticut issued a ruling granting CL&P's motion for summary judgment against NRG in the pre-SMD congestion litigation. In this decision, the court concluded that NRG was contractually obligated to pay for congestion charges imposed during the term of the October 29, 1999 standard offer service wholesale sales agreement between CL&P and NRG and found in favor of CL&P and against NRG on each of NRG's four counterclaims. NRG did not appeal the judgment and the matter is closed.

While it is unable to determine the ultimate outcome of the two remaining issues, management does not expect their resolution will have a material adverse effect on NU's consolidated net income, financial position or cash flows.

C.

Long-Term Contractual Arrangements (CL&P, PSNH, Select Energy)

CL&P: These amounts represent commitments for various services and materials associated with the Middletown to Norwalk, Glenbrook Cables and the Norwalk to Northport-Long Island, New York transmission projects and other projects as of September 30, 2007:

(Millions of Dollars)	2007	2008	2009	2010	2011	Thereafter	Total
Transmission segment project commitments	$ 199.3	$ 399.6	$ 28.9	$ -	$ -	$ -	$ 627.8

In May of 2007, CL&P and UI entered into a 15-year agreement beginning in 2010 to purchase energy, capacity and renewable energy credits from a biomass energy plant yet to be built. The agreement has been approved by the DPUC. CL&P's payments under this agreement will depend on the quantities purchased and the price of energy, and are currently estimated to be approximately $15 million annually from 2010 to 2024 before the reduction for UI's share under a sharing agreement signed and filed with the DPUC. Under this agreement, CL&P and UI will share the costs and benefits of the contract, with 80 percent to CL&P and 20 percent to UI.

PSNH: PSNH has entered into various arrangements for the purchase of wood, coal and transportation services for fuel supply for its electric generating assets. These purchase commitments at September 30, 2007 are as follows:

(Millions of Dollars)	2007	2008	2009	2010	2011	Thereafter	Total
Wood, coal and transportation contracts	$ 29.0	$ 101.8	$ 57.0	$ 44.2	$ 31.3	$ 3.1	$ 266.4

Select Energy: Select Energy maintains long-term agreements to purchase energy as part of its portfolio of resources to meet its actual or expected sales commitments. Most purchase commitments are recorded at their mark-to-market value as derivative assets and liabilities on the condensed consolidated balance sheets with the exception of one non-derivative contract which is accounted for on the accrual basis. These purchase commitments at September 30, 2007 are as follows: