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Corporates

Global Power
U.S. and Canada
Credit Analysis

Northeast Utilities

Ratings

Security Class	Current Rating
Issue Default Rating (IDR)	BBB
Senior Unsecured Debt	BBB

Outlook

Stable

Financial Data

Northeast Utilities
($ Mil.)

	LTM Ended 9/30/09	Year Ended 2008
Revenue	5,335	5,545
Gross Margin	2,590	2,549
Cash Flow from Operations	794	443
Operating EBITDA	1,083	1,005
Total Debt	4,765	4,805
Total Capitalization	8,385	7,912
ROE (%)	9.0	8.8
Capex/ Depreciation (x)	235.4	269.9

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Related Research

- *Connecticut Light & Power Company, Dec. 17, 2009*
- *Public Service Company of New Hampshire, Dec. 17, 2009*
- *Western Massachusetts Electric Company, Dec. 17, 2009*

Rating Rationale

- Fitch affirmed the ratings of Northeast Utilities (NU) and subsidiaries on Oct. 9, 2009. NU's ratings and Stable Outlook reflect the relatively stable cash flows of its regulated utility subsidiaries, low commodity price risk, adequate liquidity, constructive regulation in its multi-jurisdictional service territory, and management's relatively low-risk business strategy of investing in transmission and distribution (T&D) infrastructure.
- Utility transmission and distribution subsidiaries Connecticut Light & Power Company (CL&P) and Western Massachusetts Electric Company (WMECO) are insulated from commodity price exposure by regulatory mechanisms that provide for the full and timely recovery of electricity supply costs. Public Service Company of New Hampshire (PSNH), which continues to own approximately 1,150 MW of generation, is also allowed to recover incremental purchased power and fuel costs through its stranded cost recovery charge, which is reset annually, which results in moderate exposure to recovery lags from swings in commodity costs.
- The ratings also consider the moderate level of parent debt and consolidated credit ratios that are expected to remain stable and supportive of the current ratings. Interest coverage, as measured by adjusted EBITDA to interest, is forecast to range between 4.1x–4.4x through 2013 (compared with 4.6x as of the LTM ended Sept. 30, 2009) and leverage, as measured by debt-to-adjusted EBITDA, is expected to range between 4.2x–4.6x (compared with 4.4x as of the LTM ended Sept. 30, 2009) over the same time period.
- NU's sizeable capital expenditure program will require state and federal support for timely cost recovery. NU's subsidiaries are planning to invest approximately $6.4 billion in predominately T&D infrastructure over the next five years, which is projected to increase the consolidated rate base of NU's subsidiaries by about 46%.
- NU's core bank facilities will mature in November 2010. Fitch Ratings' Stable Outlook anticipates the facilities will be refinanced well in advance of the maturity date.

Key Rating Drivers

- A key driver is the timely recovery of infrastructure investments, including an adequate return on equity (ROE). The majority of capital expenditures are subject to Federal Energy Regulatory Commission (FERC) regulation, which employs mechanisms that alleviate construction risk, including the ability to earn a cash return on construction work in progress, and in certain circumstances an incentive ROE.
- Effective control of rising operating costs at utility subsidiaries and continued timely recovery of power costs are important factors in maintaining the current ratings.
- NU's ability to issue adequate equity to fund a portion of the operating companies' capital expenditure plans and maintain balanced capital structures will be an important driver of credit quality.

- Maintenance of a conservative business strategy based on growth through rate base investments, particularly transmission, and maximizing returns through investing in projects eligible for FERC incentives are important drivers.
- The refinancing of bank facilities that expire in November 2010 to maintain adequate liquidity.

Recent Events

NU plans to participate in the construction of a new high-voltage direct current transmission line, which will extend from Quebec to Southern New Hampshire (terminus point to be determined). The project, which will be a joint effort between NU, NSTAR, and Hydro-Quebec (HQ), will enable HQ to deliver low-carbon, lower-cost hydroelectric power to New England through long-term power purchase agreement with NU, NSTAR, and potentially other New England entities. The estimated cost of the project to NU and NSTAR approximates $675 million and $225 million, respectively. The proposed project has been approved by FERC and will also be submitted to the Independent System Operator of New England (ISO-NE) for technical approval as appropriate. Subject to the timing of regulatory decisions and the receipt of various permits, construction is expected to begin in 2011, with the project expected to be fully functional in 2014.

PSNH was recently authorized a temporary distribution rate increase by the New Hampshire Public Service Commission (NHPUC) in the amount of $25.6 million, effective Aug. 1, 2009. PSNH filed an application in June 2009 requesting a $51 million increase as of Aug. 1, 2009 and an additional $17 million rate increase to be effective July 1, 2010. The NHPUC approved the temporary increase and PSNH expects a decision on the permanent distribution rate request in mid-2010. Any differences between temporary and permanent rates will be reconciled back to Aug. 1, 2009.

CL&P expects to file a distribution rate case in early 2010, with new rates deferred until January 2011. WMECO anticipates filing a distribution rate case in mid-2010 with new rates effective in late 2010/early 2011.

Liquidity

On a consolidated basis, NU has two syndicated five-year unsecured committed revolving credit agreements, which mature Nov. 6, 2010. The credit agreements total $900 million, of which $500 million is specifically available to NU. Subsidiary's sublimits allow CL&P to draw up to $200 million, while PSNH, WMECO and Yankee Gas Services Company (YGS) are able to draw up to $100 million each, subject to the $400 million maximum borrowing limit. The total commitment may be increased to $500 million at the request of the borrower and subject to approval by the banks. As of Sept. 30, 2009, NU had $218.6 million of outstanding borrowings under the facility. CL&P, PSNH, and WMECO had $33 million, $45.2 million and $75.1 million of outstanding borrowings under their joint credit facility, respectively. The credit facility contains a financial covenant with a 65% limit for total debt-to-total capitalization for NU and each subsidiary. NU and its subsidiaries are currently in compliance with this covenant.

NU and its subsidiaries have very limited long-debt maturities at utilities and no material parent debt maturities until 2012. Debt maturities are detailed in the chart below.

Long-Term Debt Maturity Schedule

($ Mil., As of June 30, 2009)

	2009	2010	2011	2012	2013	Total
Northeast Utilities	—	—	—	263	250	513
Connecticut Light & Power Company	—	—	—	—	—	—
Public Service Company of New Hampshire	—	—	—	—	—	—
Western Massachusetts Electric Company	—	—	—	—	55	55
Yankee Gas	54	4	4	4	—	67
Total Long-Term Debt Maturities	**54**	**4**	**4**	**267**	**305**	**635**

Source: Northeast Utilities.

Capital Spending

Capital expenditures at NU's regulated utilities for upgrading and expanding T&D systems are expected to total approximately $6.4 billion from 2009 through 2013, of which an estimated $2.5 billion (or 38.5%) is at CL&P, $2.5 billion is at PSNH (38.5%), $1 billion is at WMECO (15.5%), and $500 million is at Yankee Gas (7.5%). The high rate of new investment in electric transmission facilities entails some execution risk and results in external funding needs, but over the longer term it is expected to result in a higher proportion of operating cash flows from FERC jurisdiction, which generally allows higher investment returns and is considered by Fitch to be constructive.

NU and its subsidiaries are projected to issue $2.5 billion of consolidated debt through 2013 to fund the capital expenditure program, with the majority of the debt to be issued at the operating companies. Total adjusted debt to FFO is expected to range between 6.4x–7.1x, while interest coverage, as measured by the ratio of FFO to interest, is expected be in a 3.6x–4.1x range.

Company Profile

Northeast Utilities is utility holding company, providing through its regulated subsidiaries, electric and natural gas delivery services to nearly 2 million customers in the Northeastern U.S. The company's operations are 100% regulated and consist largely of four key subsidiaries: The Connecticut Light and Power Company, Public Service Company of New Hampshire, Western Massachusetts Electric Company, and Yankee Gas Services Company. NU owns 3,140 circuit miles of transmission and more than 32,800 pole miles of distribution lines. The company divested all of its competitive non-regulated businesses in 2006 and now focuses solely on the regulated businesses.

Financial Summary — Northeast Utilities[a]

($ Mil., Fiscal Years Ended Dec. 31)

	LTM Ended 9/30/09	2008	2007	2006	2005	2004
Fundamental Ratios (x)						
FFO/Interest Expense	4.5	3.6	3.9	(0.2)	2.7	3.3
CFO/Interest Expense	4.3	3.0	1.3	2.4	2.5	3.3
Debt/FFO	5.7	8.5	7.2	(14.9)	9.8	8.6
Operating EBIT/Interest Expense	2.9	2.5	2.7	0.9	(1.3)	2.0
Operating EBITDA/Interest Expense	4.6	4.6	4.4	2.5	1.1	4.4
Debt/Operating EBITDA	4.4	4.8	4.8	7.4	16.0	4.6
Common Dividend Payout (%)	68.2	49.4	—	—	—	—
Internal Cash/Capex (%)	67.6	24.5	(7.2)	12.5	23.0	38.4
Capex/Depreciation (%)	235.4	269.9	364.4	339.3	176.9	190.9
Profitability						
Adjusted Revenues	5,335	5,545	5,559	6,622	7,132	6,423
Net Revenues	2,590	2,549	2,208	1,991	2,199	2,192
Operating and Maintenance Expense	222	254	212	194	200	188
Operating EBITDA	1,083	1,005	783	406	195	678
Depreciation and Amortization Expense	398	465	306	257	438	363
Operating EBIT	685	540	477	149	(243)	315
Gross Interest Expense	238	219	178	164	181	155
Net Income for Common	318	261	246	485	(253)	117
Operating Maintenance Expense % of Net Revenues	8.6	10.0	9.6	9.7	9.1	8.6
Operating EBIT % of Net Revenues	26.4	21.2	21.6	7.5	(11.1)	14.4
Cash Flow						
Cash Flow from Operations	794	443	47	222	266	352
Change in Working Capital	(43)	(119)	(474)	423	(50)	(9)
Funds from Operations	837	562	521	(201)	316	361
Dividends	(161)	(135)	(127)	(113)	(88)	(86)
Capital Expenditures	(937)	(1,255)	(1,115)	(872)	(775)	(693)
Free Cash Flow	(304)	(947)	(1,195)	(763)	(597)	(427)
Net Other Investment Cash Flow	6	5	55	(64)	48	23
Net Change in Debt	(106)	808	469	16	(92)	249
Net Equity Proceeds	390	6	9	9	451	11
Capital Structure						
Short-Term Debt	325	619	79	—	32	180
Long-Term Debt	4,440	4,186	3,667	2,995	3,079	2,910
Total Debt	**4,765**	**4,805**	**3,746**	**2,995**	**3,111**	**3,090**
Total Hybrid Equity and Minority Interest	87	87	87	87	87	87
Common Equity	3,533	3,020	2,914	2,798	2,429	2,297
Total Capital	**8,385**	**7,912**	**6,747**	**5,880**	**5,627**	**5,474**
Total Debt/Total Capital (%)	56.8	60.7	55.5	50.9	55.3	56.4
Total Hybrid Equity and Minority Interest/Total Capital (%)	1.0	1.1	1.3	1.5	1.5	1.6
Common Equity/Total Capital (%)	42.1	38.2	43.2	47.6	43.2	42.0

[a]Numbers are adjusted to exclude interest, principal payments and amortization on utility tariff bonds. Operating EBIT – Operating income before total reported state and federal income tax expense. Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense. Note: Numbers may not add due to rounding.
Source: Company reports, Fitch Ratings.

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KNOW YOUR RISK

Corporates

Global Power
U.S. and Canada
Credit Analysis

Public Service Company of New Hampshire

Subsidiary of Northeast Utilities

Ratings

Security Class	Current Rating
Issuer Default Rating (IDR)	BBB
Senior Secured	BBB+

Outlook

Stable

Financial Data

Public Service Company of New Hampshire
($ Mil.)

	LTM Ended 9/30/09	Year Ended 2008
Revenue	1,044	1,079
Gross Margin	536	521
Cash Flow from Operations	111	117
Operating EBITDA	181	172
Total Debt	744	732
Total Capitalization	1,466	1,366
ROE (%)	8.8	9.9
Capex/ Depreciation (x)	362.7	367.7

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Related Research

- *Northeast Utilities, Dec. 17, 2009*
- *The Connecticut Light & Power Company, Dec. 17, 2009*
- *Western Massachusetts Electric Company, Dec. 17, 2009*

Rating Rationale

- Public Service Company of New Hampshire's (PSNH) ratings and Stable Outlook reflect the predictable cash flows of its electric utility operations, satisfactory financial ratios that are consistent with guidelines for the current ratings, moderate commodity price exposure, and a constructive regulatory environment in New Hampshire.
- The ratings also consider the company's sizeable capital expenditure program, which is currently estimated at $2.5 billion over the next five years and includes $2 billion to fund transmission and distribution reliability projects, $424 million on scrubbers for the company's Merrimack Station, and $170 million in maintenance related to its generation assets. As a result, PSNH will have negative free cash flow and require debt and equity financing. The Stable Outlook assumes PSNH will supplement internal cash flow with a balanced mix of debt and equity to fund the capital spending.
- Fitch Ratings expects modest deterioration in credit ratios. The pressure on credit metrics will be somewhat mitigated by the additional cash flow earned on the Federal Energy Regulatory Commission (FERC) regulated transmission projects, equity infusions by parent, Northeast Utilities (NU, IDR 'BBB'), and adequate distribution rate increases. Interest coverage, as measured by adjusted EBITDA to interest, is forecasted to range between 4.1x–5.2x through 2013 (compared with 5.3x for the LTM ended Sept. 30, 2009) and leverage, as measured by debt-to-adjusted EBITDA, is expected to range between 4.0x–4.8x (compared with 4.1x for the LTM ended Sept. 30, 2009) over the same time period.
- The reliance on short-term market purchases for 30% of the company's supply needs and a potential one-year lag in fuel cost recovery results in moderate commodity price exposure that can lead to recovery lags in a rising price environment. PSNH sources about 70% of its power supply needs from owned generation and long-term power supply contracts. Energy service rates are adjusted annually to reflect generation energy and capacity costs and the projected market cost of purchasing additional energy to serve load.
- The Stable Rating Outlook assumes that parent bank facilities that expire in November 2010 will be extended or refinanced well in advance of the maturity date.

Key Rating Drivers

- Securing timely rate recovery of planned infrastructure investments and rising operating costs from both state and/or federal regulators is a critical ratings driver.
- Obtaining adequate equity support of PSNH's large construction program from parent, NU, to maintain a balanced capital structure is also important for maintenance of current ratings.
- Continued support of timely commodity cost recovery and liquidity management in the rising cost environment is essential to the maintenance of existing ratings.
- The refinancing of November 2010 parent bank maturities.

Recent Events

PSNH was recently authorized a temporary distribution rate increase by the New Hampshire Public Service Commission (NHPUC) in the amount of $25.6 million, which was effective Aug. 1, 2009. PSNH filed an application in June 2009 requesting a $51 million increase to be effective Aug. 1, 2009 and an additional $17 million rate increase to be effective July 1, 2010. The NHPUC approved the temporary increase and PSNH expects a decision on the permanent distribution rate request in mid-2010. Any differences between temporary and permanent rates will be reconciled back to Aug. 1, 2009.

Liquidity

PSNH participates in NU's two syndicated five-year unsecured committed revolving credit agreements, which total $900 million and mature Nov. 6, 2010. PSNH's sub-borrowing limit is $100 million. Affiliates, Connecticut Light & Power (CL&P), Western Massachusetts Electric Company (WMECO), and Yankee Gas (YGS), are able to draw up to $200 million, $100 million, and $100 million, respectively. NU can borrow up to $500 million. Collectively, the four regulated subsidiaries are subject to a $400 million borrowing limit. The total commitment may be increased to $500 million at the request of the borrower and subject to approval by the banks. As of Sept. 30, 2009, NU had $218.6 million of outstanding borrowings under the facility. PSNH had $45.2 million, CL&P had $33 million, and WMECO had $75.1 million of outstanding borrowings under their joint credit facility. The credit facility contains a financial covenant with a 65% limit for total debt-to-total capitalization for NU and each subsidiary. NU and its subsidiaries are currently in compliance with this covenant.

PSNH has no long-term debt maturing prior to 2014.

Capital Spending

Capital expenditures increased to approximately $239 million in 2008, compared with $168 million in 2007 and $127 million in 2006. Over the five-year period 2009–2013, capital expenditures are forecasted to continue to grow materially, averaging approximately $530 million annually. The elevated capital spending is due largely to increased transmission and distribution (T&D) investments, which are projected to total just over $2 billion to address system reliability issues. An additional $424 million is for the installation of a scrubber at the company's Merrimack Station and $170 million for general maintenance to generation infrastructure.

PSNH's capital spending plan is projected to be funded with a relatively balanced mix of debt and equity, which should enable the company to maintain ratings despite the elevated capex.

Company Profile

PSNH is engaged in the generation, purchase, transmission, delivery, and sale of electricity to its residential, commercial, and industrial customers. PSNH provides retail franchise electric service to approximately 491,000 retail customers in 211 cities and towns in New Hampshire. PSNH also owns and operates approximately 1,200 MW of electricity generation assets. During 2008, about 70% of PSNH load was met through owned generation and long-term power supply contracts. The remaining 30% of PSNH's load was met by short-term (less than one year) purchases and spot purchases from the New England wholesale market.

Financial Summary — Public Service Company of New Hampshire[a]

($ Mil., Fiscal Years Ended Dec. 31)

	LTM Ended 9/30/09	2008	2007	2006	2005
Fundamental Ratios (x)					
FFO/Interest Expense	5.5	4.2	4.5	5.0	7.4
CFO/Interest Expense	4.3	4.4	4.4	6.0	5.9
Debt/FFO	4.8	6.8	6.2	5.5	3.7
Operating EBIT/Interest Expense	3.4	3.1	3.5	3.7	3.4
Operating EBITDA/Interest Expense	5.3	5.1	5.7	7.8	12.0
Debt/Operating EBITDA	4.1	4.3	3.8	2.8	2.0
Common Dividend Payout (%)	92.1	62.1	—	—	—
Internal Cash/Capex (%)	29.2	33.9	38.1	64.6	40.9
Capex/Depreciation (%)	362.7	367.7	275.4	123.3	83.2
Profitability					
Adjusted Revenues	1,044	1,079	1,013	1,071	1,057
Net Revenues	536	521	482	483	541
Operating and Maintenance Expense	310	307	283	250	240
Operating EBITDA	181	172	159	195	265
Depreciation and Amortization Expense	67	65	61	103	191
Operating EBIT	114	107	98	92	74
Gross Interest Expense	34	34	28	25	22
Net Income for Common	63	58	54	35	42
Operating Maintenance Expense % of Net Revenues	57.8	58.9	58.7	51.8	44.4
Operating EBIT % of Net Revenues	21.3	20.5	20.3	19.0	13.7
Cash Flow					
Cash Flow from Operations	111	117	95	124	107
Change in Working Capital	(43)	9	(2)	25	(34)
Funds from Operations	154	108	97	99	141
Dividends	(40)	(36)	(31)	(42)	(42)
Capital Expenditures	(243)	(239)	(168)	(127)	(159)
Free Cash Flow	(172)	(158)	(104)	(45)	(94)
Net Other Investment Cash Flow	8	(49)	7	3	(3)
Net Change in Debt	11	87	3	(26)	(10)
Net Equity Proceeds	98	76	44	22	53
Capital Structure					
Short-Term Debt	58	45	21	37	16
Long-Term Debt	686	687	577	508	507
Total Debt	**744**	**732**	**598**	**545**	**523**
Total Hybrid Equity and Minority Interest	—	—	—	—	—
Common Equity	722	634	538	468	453
Total Capital	**1,466**	**1,366**	**1,136**	**1,013**	**976**
Total Debt/Total Capital (%)	50.8	53.6	52.6	53.8	53.6
Total Hybrid Equity and Minority Interest/Total Capital (%)	—	—	—	—	—
Common Equity/Total Capital (%)	49.2	46.4	47.4	46.2	46.4

[a]Numbers are adjusted to exclude interest, principal payments and amortization on utility tariff bonds. Operating EBIT – Operating income before total reported state and federal income tax expense. Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense. Note: Numbers may not add due to rounding.
Source: Company reports, Fitch Ratings.

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Corporates

Global Power
U.S. and Canada
Credit Analysis

Western Massachusetts Electric Company

Subsidiary of Northeast Utilities

Ratings

Security Class	Current Rating
Issuer Default Rating (IDR)	BBB
Senior Unsecured	BBB+

Outlook

Stable

Financial Data

Western Massachusetts Electric Company
($ Mil.)

	LTM Ended 9/30/09	Year Ended 2008
Revenue	395	423
Gross Margin	184	186
Cash Flow from Operations	23	54
Operating EBITDA	52	61
Total Debt	417	365
Total Capitalization	662	546
ROE (%)	10.7	7.9
Capex/ Depreciation (x)	N.M.	410.5

N.M. – Not meaningful.

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Related Research

- *Northeast Utilities, Dec., 17, 2009*
- *The Connecticut Light & Power Company, Dec. 17, 2009*
- *Public Services Company of New Hampshire, Dec. 17, 2009*

Rating Rationale

- Western Massachusetts Electric Company's (WMECO) ratings are supported by the relatively stable cash flows and low business risk of its transmission and distribution operations, which have very limited commodity price exposure and satisfactory financial ratios that support the current ratings.
- Cash flow stability is enhanced by the power procurement process in Massachusetts that allows WMECO to obtain power supply through a competitive bidding process and to recover the market-based costs from customers on a timely basis.
- The primary credit concern is WMECO's sizeable $1 billion capital expenditure plan, which would more than double the company's rate base over the next five years and require higher rates to recover costs. The pressure on credit quality should be somewhat mitigated by the Federal Energy Regulatory Commission (FERC) policies that permit the recovery of and on transmission investments, which account for the majority of expenditures. Current ratings also assume the expenditures will be financed in a manner to support existing ratings, including equity capital from parent Northeast Utilities (NU, IDR 'BBB'). Fitch also notes that WMECO relies on NU's bank credit facilities for external liquidity and these expire in late 2010 (*see Liquidity section below*).

Key Rating Drivers

- Future credit ratings will be heavily influenced by the company's financing decisions in funding its capital investment plan.
- Maintenance of current ratings will also depend on the company's ability to secure timely recovery of planned infrastructure investments from both state and federal regulators, including a reasonable return on investment and rising operating costs.
- Continued support of timely commodity cost recovery is essential to the maintenance of existing ratings.

Liquidity

WMECO participates in NU's two syndicated five-year unsecured committed revolving credit agreements, which total $900 million and mature Nov. 6, 2010. WMECO's sub-borrowing limit is $100 million. Affiliates, Public Service Company of New Hampshire (PSNH) and Yankee Gas (YGS), are able to draw up to $100 million each; Connecticut Light & Power (CL&P) is able draw up to $200 million; and NU can draw up to $500 million.

Collectively, the four regulated subsidiaries are subject to a $400 million borrowing limit. The total commitment may be increased to $500 million at the request of the borrower and subject to approval by the banks. As of Sept. 30, 2009, NU had $218.6 million of outstanding borrowings under the facility. WMECO, CL&P, and PSNH had $75.1 million, $33 million, and $45.2 million of outstanding borrowings under their joint credit facility, respectively. The credit facility contains a financial covenant

with a 65% limit for total debt-to-total capitalization for NU and each subsidiary. NU and its subsidiaries are currently in compliance with this covenant. Fitch expects the facilities to be renewed or replaced well prior to the maturity dates.

WMECO has no long-term debt maturities prior to 2013, at which time $55 million in long-term unsecured debt matures.

Capital Spending

WMECO spent about $78.3 million on its capital programs during 2008 compared with $47.3 million in 2007 and $42.8 million in 2006. Capital expenditures for the years 2009–2013 are forecast to increase substantially to just over $1 billion, or an average of approximately $201.8 million, annually, over the five-year period. Forecasted expenditures include approximately $168 million and $855 million in transmission and distribution reliability projects, respectively.

Debt leverage at WMECO is expected to increase over the next several years as it implements its capital investment plans. While transmission-related investments are subject to favorable FERC recovery mechanisms, which should help support cash flows, the company is going to require ongoing rate support from state regulators and equity infusions from NU to maintain current credit quality.

Company Profile

WMECO is the smallest regulated electric transmission and distribution (T&D) utility subsidiary of NU. WMECO serves approximately 200,000 electric consumers in Massachusetts and is regulated principally by the Massachusetts Department of Public Utilities (MDPU) and FERC.

Financial Summary — Western Massachusetts Electric Company[a]

($ Mil., Fiscal Years Ended Dec. 31)

	9/30/09	2008	2007	2006	2005
Fundamental Ratios (x)					
FFO/Interest Expense	2.7	3.7	5.9	0.3	2.4
CFO/Interest Expense	2.8	4.6	2.8	1.4	2.9
Debt/FFO	19.0	8.9	4.6	(36.6)	19.6
Operating EBIT/Interest Expense	3.9	2.8	3.5	2.8	3.2
Operating EBITDA/Interest Expense	4.0	4.1	4.8	0.9	3.4
Debt/Operating EBITDA	8.0	6.0	4.8	26.6	8.1
Common Dividend Payout (%)	200.0	210.5	—	—	—
Internal Cash/Capex (%)	(23.9)	17.9	25.5	(7.0)	23.9
Capex/Depreciation (%)	N.M.	410.5	261.1	(195.5)	2,250.0
Profitability					
Adjusted Revenues	395	423	446	413	390
Net Revenues	184	186	209	133	144
Operating and Maintenance Expense	101	98	117	98	87
Operating EBITDA	52	61	67	11	34
Depreciation and Amortization Expense	1	19	18	(22)	2
Operating EBIT	51	42	49	33	32
Gross Interest Expense	13	15	14	12	10
Net Income for Common	26	19	24	16	15
Operating Maintenance Expense % of Net Revenues	54.9	52.7	56.0	73.7	60.4
Operating EBIT % of Net Revenues	27.7	22.6	23.4	24.8	22.2
Cash Flow					
Cash Flow from Operations	23	54	25	5	19
Change in Working Capital	1	13	(44)	13	5
Funds from Operations	22	41	69	(8)	14
Dividends	(45)	(40)	(13)	(8)	(8)
Capital Expenditures	(92)	(78)	(47)	(43)	(45)
Free Cash Flow	(114)	(64)	(35)	(46)	(35)
Net Other Investment Cash Flow	1	1	1	3	2
Net Change in Debt	66	33	11	4	13
Net Equity Proceeds	1	16	14	32	7
Capital Structure					
Short-Term Debt	111	61	15	31	15
Long-Term Debt	306	304	304	262	260
Total Debt	**417**	**365**	**319**	**293**	**275**
Total Hybrid Equity and Minority Interest	—	—	—	—	—
Common Equity	245	238	243	219	179
Total Capital	**662**	**603**	**562**	**512**	**454**
Total Debt/Total Capital (%)	63.0	60.5	56.8	57.2	60.6
Total Hybrid Equity and Minority Interest/Total Capital (%)	—	—	—	—	—
Common Equity/Total Capital (%)	37.0	39.5	43.2	42.8	39.4

[a]Numbers are adjusted to exclude interest, principal payments, and amortization on utility tariff bonds. Operating EBIT – Operating income before total reported state and federal income tax expense. Operating EBITDA – Operating income before total reported state and federal income tax expense plus depreciation and amortization expense. N.M. – Not meaningful. Note: Numbers may not add due to rounding.
Source: Company reports, Fitch Ratings.

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FITCH PLACES NORTHEAST UTILITIES' IDR ON WATCH POSITIVE FOLLOWING MERGER ANNOUNCEMENT; AFFIRMS SUBS

Fitch Ratings-New York-19 October 2010: In response to the announcement of the agreed merger between Northeast Utilities (NU) and NSTAR, Fitch Ratings has placed NU's Issuer Default Rating (IDR) on Rating Watch Positive and affirmed the IDRs of NU's subsidiaries with Stable Outlooks. A complete list of rating actions follows at the end of this release.

The transaction, a stock-for-stock exchange, is structured as an acquisition of NSTAR (IDR 'A-') by NU, which will be the surviving parent company with NSTAR initially remaining as an intermediate holding company. The merger will combine two companies of comparable size with similar strategies; both companies are owners of sound and stable electric and gas utilities in the New England region and are partners in various transmission development projects. Fitch has also placed NSTAR's IDR on Rating Watch Negative and affirmed the ratings of NSTAR's electric and gas subsidiaries. (For additional details, see Fitch's release 'Fitch Places NSTAR's IDR on Watch Negative Following Merger Announcement; Affirms Subsidiaries' dated Oct. 18, 2010.) The transaction requires various regulatory approvals, including that of the Massachusetts Department of Utilities (DPU).

Although the merger has been structured to minimize any adverse consequences for employment or economic development in the three states of Connecticut, Massachusetts, and New Hampshire, Fitch notes that many prior utility mergers have foundered during the state regulatory approval process. Management expects to close the transaction within nine to 12 months, but in Fitch's experience, mergers requiring state regulatory approval generally take at least 12 months.

The placement of NU on Rating Watch Positive Watch is driven by the improved capability of the merged entity to fund the substantial capital investments in electric transmission projects. In the absence of the merger, NU would need to raise equity capital to maintain its current capital ratios during the transmission build-out. The combined entity would have superior financial flexibility and will benefit from stronger internal operating cash flow than NU alone. The Rating Watch Positive also takes into consideration the complementary nature of the two companies' operations and business strategies.

The affirmation of NU subsidiaries' ratings with Stable Outlooks reflects that the individual subsidiary ratings currently are based on the stand-alone credit measures of each subsidiary and do not incorporate any parent support or constraint relating to the parent company. Furthermore, Fitch expects that the merger will not result in any change in the operating subsidiaries' capital structures or business.

Fitch expects to meet with management in the next several weeks to clarify the expected post-merger corporate structure and debt structure.

The combined company will own and operate six regulated electric and gas utilities in three states with nearly 3.5 million customers, approximately 4,500 miles of electric transmission lines, 72,000 miles of electric distribution lines and 6,000 miles of gas distribution lines.

Fitch has placed the following ratings on Rating Watch Postive:

Northeast Utilities
--IDR 'BBB';
--Senior unsecured debt 'BBB'.

Fitch has affirmed the following ratings:

The Connecticut Light & Power Company (CL&P)
--IDR at 'BBB';
--First and refunding mortgage debt at 'A-';
--Senior unsecured and second-mortgage pollution control bonds at 'BBB+';
--Preferred stock at 'BBB-'.

Public Service Co. of New Hampshire (PSNH)
--IDR at 'BBB';
--Senior secured debt and pollution control bonds at 'BBB+'.

Western Massachusetts Electric Company (WMECO)
--IDR at 'BBB';
--Senior unsecured and pollution control bonds at 'BBB+'.

The Rating Outlook for CL&P, PSNH, and WMECO remains Stable.

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Applicable Criteria and Related Research:
'Corporate Rating Methodology', Aug. 16, 2010
'Credit Rating Guidelines for Regulated Utility Companies' July 31, 2007
'U.S. Power and Gas Comparative Operating Risk (COR) Evaluation and Financial Guidelines' Aug. 22, 2007
'Utilities Sector Notching and Recovery Ratings', March 16, 2010

Applicable Criteria and Related Research:
Corporate Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=546646
Credit Rating Guidelines for Regulated Utility Companies
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=334652
U.S. Power and Gas Comparative Operating Risk (COR) Evaluation and Financial Guidelines
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=338030
Utilities Sector Notching and Recovery Ratings
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=504546

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